

## The Orthopaedic Implant Company: Penetrating the US Trauma Market with High Value Implants

Orthopaedic Implant Company, the leading manufacturer of high-value ortho trauma implants, shares its strategies for success in the US Trauma Market in an interview with SmartTRAK opportunity

*By Don Urbanowicz, Urbanowicz Consulting*

The Orthopaedic Implant Company (OIC) is penetrating the US Trauma market by carving out a piece of the value segment of the market with trauma implants priced well below competitors' premium-priced implants. These high-value trauma implants, combined with the company's light-touch sales model, validated delivery system, novel approach to design, and clinical and economic results are positioning the company to capture share in this highly competitive market, which is projected to reach more than \$2.3B in 2022 according to SmartTRAK estimates. (See SmartTRAK's View of the US Trauma Market.)

To find out more about the Company, its validated business model and what's behind its success, Don Urbanowicz, Principal of Urbanowicz Consulting, interviewed Peter Althausen, MD, MBA, Chairman of OIC and Clinical Professor at the University of Nevada at Reno; Itai Nemovicher, President and CEO of OIC; and Todd Martens, VP of Product Design and Customer Experience at OIC.



**Peter Althausen**



**Itai Nemovicher**



**Todd Martens**



**Don Urbanowicz**

### SmartTRAK's View of the US Trauma Market:

- The US Trauma Market (excluding Upper Extremity and Foot & Ankle) is projected to increase from ~\$1.8 billion in 2017 to over \$2.3 billion in 2022, a CAGR of 5.4%.
- With a growing US population and increasing market penetration, procedural growth is expected to drive overall revenue growth.
- New product introductions and a new marketing approach that promotes supporting clinical evidence, along with possible combination solutions, is also expected to drive revenue growth in the segment.

- Decreasing or nearly flat ASP's due to pricing pressure will temper revenue growth.
- IM Nailing and Plates & Screws were the two largest segments of the US Trauma Market in 2017, comprising 40.3% and 37.0% of revenues, respectively. External Fixation and Cannulated Screws accounted for 15.2% and 2.3% of revenues, respectively.

The Interview: Althausen's, Nemovicher's, and Martens' View of OIC, its product portfolio, and value-based healthcare.

**Don Urbanowicz:** So who is The Orthopaedic Implant Company (OIC) and how is it funded?

**Itai Nemovicher:** OIC was founded in 2010 with the belief that we, the medical device community, need to not only do what is best for patients clinically, but financially as well. OIC is the leading provider of clinically proven, high-value, trauma implants to the orthopedic community.

OIC is based in Reno, Nevada and the Company is privately held and internally funded.

**Don:** Tell us about your mission and business model?

**Itai:** We have a simply stated mission in healthcare today – provide the highest quality products at the lowest possible prices. OIC has combined the elegance of effective product design and quality with a validated delivery model. The Company's complete high-value trauma device portfolio generates dramatic cost savings for hospitals, outpatient clinics, and ASCs.

*“OIC has combined the elegance of effective product design and quality with a validated delivery model. The Company's complete high-value trauma device portfolio generates dramatic cost savings for hospitals, outpatient clinics, and ASCs.” - Itai Nemovicher*

**Don:** Can you better explain what you mean by “effective product design and quality with a validated delivery system”?

**Itai:** Yes. At OIC, effective product design and quality means that our implants meet surgeon standards and expectations. Given our low-touch sales model, we dedicate a lot of time and effort into producing elegant, easy-to-use, intuitive implants and instruments.

The quality of our implants is second only to the team we have working in the field with providers. We have veteran sales people and engineers along with some young staff members who bring fresh perspectives that spurn innovation. After all, our value proposition is a break from convention and it's crucial to have team members with ideas that create new opportunities.

All of the work we have invested so far has validated the success of our model for any type of facility in any region of the country. Our client roster is testament to the fact that we have developed a winning formula for delivering unparalleled value in this space. Plus, there have been several published studies comparing the clinical and economic outcomes of using our products.

**Don:** What is your current customer split between inpatient and outpatient facilities?

**Itai:** Seventy five percent of our roster is inpatient and 25% outpatient. One key characteristic that all of our customers share is alignment between surgeons and facilities. Alignment includes everything from bundled payment strategies to gainsharing contracts to simple “mutual understandings.” But the surgeons and the facilities are accountable for both outcomes and value.

*“Seventy five percent of our roster is inpatient and 25% outpatient. One key characteristic that all of our customers share is alignment between surgeons and facilities.....But the surgeons and the facilities are accountable for both outcomes and value.” – Itai Nemovicher*

**Don:** Is this a C-Suite sale? And you mentioned something about reps, so I assume this isn’t a rep-less model?

**Itai:** It’s not necessarily a C-Suite sale, but it takes real leadership to create change. It does take buy-in from administrative and clinical leadership to make high-value implants a reality for patients. When there’s alignment between surgeons and the facility, it’s not a “sale,” but rather a logical decision made together to move forward with an evaluation.

Let me address rep-less because it’s a bit misleading. We prefer to use the term “light touch.” We have reps who do a fantastic job to onboard providers, but the ultimate goal is for our customers to be able to run efficiently and independent of reps.

**Don:** Can you provide a typical scenario about how your process works?

**Itai:** Sure, we have a validated and successful process and remain dedicated to it. There’s a lot of up-front work invested in securing an initial meeting with surgeons and administrators. We start with clarifying and quantifying the value proposition. An evaluation hinges on surgeon buy-in after critically reviewing our implant and instrument systems. Once we have approval for an evaluation, we develop a comprehensive understanding of the implant supply chain and work with staff in each department to craft a strategy that frees them from rep reliance.

**Don:** Can you also provide some color around the term “light touch”?

**Itai:** We design systems that mitigate the need for consultation in the OR. The extent of the role our reps play locally directly correlates to a hospital's ability to support our process. Many times, we simply implement the sets and get out of the way. Other times, however, we need to be with the surgical staff to provide assistance. Given the value we can create, we feel we are treated differently and have found that our relationships quickly evolve from a vendor/buyer dynamic to a partnership.

*“We design systems that mitigate the need for consultation in the OR.”  
- Itai Nemovicher*

**Don:** How did you decide on your product portfolio and what is included?

**Itai:** Our portfolio is a reflection of the most commonly used fracture implants and those implant categories that are most in need of cost savings. We have four major product categories including (1) Hip Fracture Appliances: IM hip nail, sliding hip screw, and cannulated screws; (2) Plates and Screws: For proximal humerus, distal radius, clavicle, distal tibia, proximal tibia, and distal fibula; (3) External Fixation; and (4) IM Nails: Hip nail, antegrade/retrograde femoral nails, and tibial nail. We are aiming to have about 85% of trauma indications covered by end of 2018. Figure 1 shows OIC's Hip Fracture Appliances and External Fixation System.

**Figure 1**  
**OIC's Hip Fracture Appliances and External Fixation System**



**Don:** Do you have captive manufacturing or are you outsourcing production?

**Itai:** We work very closely and strategically with a handful of contract manufacturers who believe in our mission. All OIC implants are manufactured by US-based suppliers in ISO 13485 facilities.

**Don:** How do you typically price your products?

**Itai:** OIC has carved out a piece of the value segment of the market with a product portfolio sold at prices well below those of our “premium counterparts.” Data shared with us from buying groups indicate a savings between 40% to 60%.

*“OIC has carved out a piece of the value segment of the market with a product portfolio sold at prices well below those of our “premium counterparts.” Data shared with us from buying groups indicate a savings between 40% to 60%.” - Itai Nemovicher*

**Don:** Todd, let’s move to you. I’ve heard you talk about OIC’s approach in “designing for manufacturability and concurrent engineering.” Tell us what that means.

**Todd Martens:** Orthopaedic device design is not always conducted with streamlined manufacturability and efficient operating room (OR) use in mind. Often, this leads to devices being far more expensive than their functional value would suggest. Complicating an implant system also results in requiring an abundance of support in the OR and unnecessary tools that add to the length of the procedure and subsequent tray sterilization. All of this amounts to gratuitous costs for the hospital, and more importantly, for the patient.

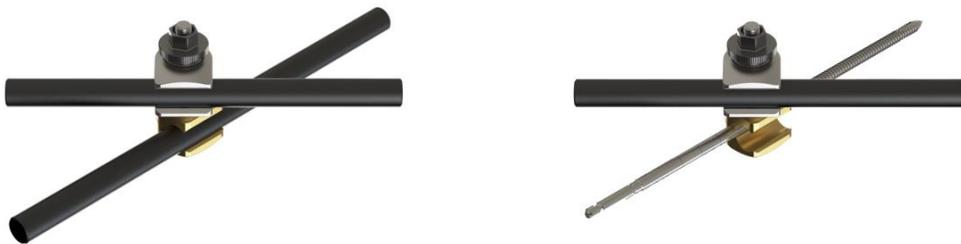
Design for manufacturability (DFM) coupled with concurrent engineering aims to streamline manufacturing and shorten the product development time. Many device manufacturers consider DFM in later stages of the design process to “check the box” and get through design review. Concurrent engineering in the medical device space requires cross-functional teams with representation from product development, marketing, manufacturing, and quality engineering. Incorporating both DFM and concurrent engineering in the initial stages of the design process, though often very challenging, can result in a product that is just as effective but exceptionally more efficient for production and use.

*“Incorporating both DFM and concurrent engineering in the initial stages of the design process, though often very challenging, can result in a product that is just as effective but exceptionally more efficient for production and use.” – Todd Martens*

**Don:** Can you provide a specific example?

**Todd:** A great example is OIC's external fixation system. Despite their temporary nature, external fixation components are known for being the most expensive constructs across orthopaedics. But we've reversed this trend. OIC used DFM and concurrent manufacturing to create a simplified multipurpose clamp that provides either a bar-to-bar or bar-to-pin construct (see Figure 2). OIC also worked with contract manufacturers to minimize assembled parts and to utilize new machining technology to increase the speed of production. These proactive design methodologies required more collaboration and dedication of time in the early stages of the process, but they have yielded a very cost effective and efficient external fixation system.

**Figure 2**  
**OIC's Multipurpose Clamp: Bar-to-Bar and Bar-to-Pin Construct**



**Don:** How else have you reduced cost based on design?

**Todd:** Well, each minute in the OR costs around \$120, and each additional person required in the OR to ensure success of a device increases that cost too. So, to lower the overall cost of use, OIC strives to optimize the layout of its sterilization trays. This intuitive organization and layout of implants and instruments, coupled with the minimization of superfluous instrumentation, increases the efficiency of their use in the OR.

**Don:** Dr. Althausen, thank you for being so patient. What does value-based healthcare mean to you and how has it impacted you?

**Dr. Peter Althausen:** Value-based care means always striving to improve and deliver high quality healthcare while continually implementing changes that will lower the cost of that delivery.

Forward thinking surgeons and healthcare systems that have embraced value-based implant use have seen massive cost savings with no effect on patient clinical outcomes. Our level II trauma system saves about \$850,000 per year using value-based implants and both the physician group and hospital have each made over \$1 million a year through successful management of the government sponsored Bundle Payments for Care Improvement (BPCI) Programs. Ask any administrator or surgeon about the success of BPCI at this facility, and without fail, you'll hear about high-value implants. However, it remains that

many large healthcare systems have not utilized value-based orthopedic products despite evidence showing no clinical difference other than cost. With rising healthcare costs and decreasing physician and hospital reimbursement, the reality is that the current approach is not sustainable.

*“Value-based care means always striving to improve and deliver high quality healthcare while continually implementing changes that will lower the cost of that delivery.....Forward thinking surgeons and healthcare systems that have embraced value-based implant use have seen massive cost savings with no effect on patient clinical outcomes.” – Dr. Althausen*

**Don:** Why did you feel that value-based care would have the greatest impact in trauma?

**Dr. Althausen:** The emergent care population has the highest percentage of unfunded or underfunded patients that do not have the luxury of researching cost when presenting with a fracture. High-value implants enable surgery centers to treat Medicaid patients, decrease the costs for self-pay patients, and decrease hospital costs for the large underfunded trauma centers. The fact that reducing the cost of an implant can change the pathway of care to make for an incredibly better clinical and financial experience for the patient speaks volumes to the impact high value implants can have.

**Don:** Itai, allow me to come back to you. Several times during this interview, references were made about the clinical and economic results demonstrated by OIC’s products. Can you provide some detail?

**Itai:** An independent study examining the clinical and economic impact of high-value orthopaedic implants was published in the December, 2016, in the Journal of Orthopaedic Trauma. It confirmed the following: “When examining the performance of a hospital’s cost containment program utilizing high-value orthopaedic trauma implants provided by OIC, including pre-contoured, anatomic and variable angle locking screws indicated for small fragment fractures of the clavicle, radius, humerus, tibia, and fibula – including 828 patients, 50% of whom received OIC implants and 50% who received “conventional” implants – clinical outcomes were comparable and savings averaged \$1,197 per case or \$458,000 collectively.”

*“When examining the performance of a hospital’s cost containment program utilizing high-value orthopaedic trauma implants provided by OIC.....including 828 patients, 50% of whom received OIC implants and 50% who received “conventional” implants.....clinical outcomes were comparable and savings averaged \$1,197 per case or \$458,000 collectively.” – Journal of Orthopaedic Trauma, December, 2016*

**Don:** And it sounds like you leveraged those impressive results to secure a signed agreement with a major healthcare system. Please share what details you can?

**Itai:** OIC's high-value solution resonated with one of the largest and leading healthcare systems in the US, culminating with a recently signed multi-year agreement to bring OIC's product portfolio into their hospitals. Aside from being awarded the contract, a big part of the success of this partnership is that our implants are being used by both independent surgeons and employee surgeons under the same roof.

*“OIC’s high-value solution resonated with one of the largest and leading healthcare systems in the US, culminating with a recently signed multi-year agreement to bring OIC’s product portfolio into their hospitals.” – Itai Nemovicher*

**Don:** Any other commercial successes you're comfortable discussing?

**Itai:** For a company our size, it's impossible to not recognize the success of winning and maintaining customers in all corners of the country and within all types of facilities, from large IDN's and academic centers to rural hospitals and ASC's. It shows how ripe the landscape is for change and that our model is sound and here to stay.

In addition, over the past eight years, we've successfully launched over 20 FDA-cleared products. We've been able to grow the company with only one round of initial funding while at the same time maintaining a positive cash flow.

**Don:** With success comes challenges. What are some you've encountered in penetrating and expanding the trauma value segment?

**Itai:** You're right. OIC is disrupting a business model that has been in place for decades. Industry has done such a good job of embedding reps in facilities, that most can't function without them. Changing the delivery model to one where facilities can run independently of sales reps can be challenging. It takes strategic forethought and buy-in from all stakeholders and early on, it was admittedly difficult. That said, cost and quality metrics are being brought to the forefront and it has certainly gotten easier for us.

**Don:** Dr. Althausen and Itai, let me ask you to jointly respond to what you feel are the most significant benefits that OIC offers to providers?

**Itai:** I'll go first. The biggest opportunity OIC offers providers is to transition them to becoming much more competitive. For the first time in modern US healthcare history, patients are starting to act like consumers. Questions are being asked about cost and patients are "shopping" hospitals for different procedures. If a facility can stand head and shoulders above its peers on value, that facility is going to win the privilege of serving a patient's needs.

Additionally, bundled payments are the new normal in reimbursement. No matter how you slice it, hospitals and surgeons are going to get better reimbursement for keeping costs down while attaining optimal outcomes. As a system, we are making accountability and transparency a priority and clinicians need the right tools at the right price to get ahead in this environment.

Similarly, we are seeing more and more cases being done in ASC's. It is well known that ASC's receive a much lower rate of reimbursement than traditional inpatient facilities. It is imperative to find the absolute best value from all the supplies required, and implants are no exception. In fact, it's US healthcare's biggest opportunity for improving value.

**Dr. Althausen:** I'll be short and sweet. OIC's business model is well aligned with current and future value-based market forces and is being embraced by not only providers, but by surgeons and payers as well. As the Company's tagline states: "OIC is here for good."

*"OIC's business model is well aligned with current and future value-based market forces and is being embraced by not only providers, but by surgeons and payers as well" – Dr. Althausen.*

Thank you Dr. Althausen, Itai and Todd. SmartTRAK wishes you continued success going forward.

*Don Urbanowicz is Principal of Urbanowicz Consulting, an advisory firm with a musculoskeletal focus seeking to enable clients to achieve strategic and transaction-related goals by capitalizing on market opportunities. UC offers a unique perspective on how large global companies approach strategy, valuation, negotiations, due diligence and integration, and a thorough understanding of achieving success throughout all phases of the transaction process.*

*Please learn more online at [www.urbanowiczconsulting.com](http://www.urbanowiczconsulting.com), and contact Don Urbanowicz at [urbanowicz@du-llc.com](mailto:urbanowicz@du-llc.com).*