

Custom Procedure Kits for Competitive Advantage

**Consider Unique Offerings for
Your Customer Accounts**

by

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Procedure kits

- Kits contain all/most of the tools required to carry out a procedure
 - Medical, surgical, diagnostic, monitoring
 - Clinical lab
 - Life science research
- Standard kits are common
- Custom kits are somewhat less common but strongly favored in some accounts
 - Customized for each “custom-er” account



Some common medical kit examples

| | |
|----------------------------|-----------------------------|
| Wound care kit | Arthroscopy kit |
| Tracheostomy tray | Laparoscopy setup pack |
| Urology irrigation tray | TURP pack |
| Vascular access tray | Ophthalmic pack |
| Incision and drainage tray | Biopsy tray |
| Suture removal kit | Total knee replacement pack |
| Saline flush kit | Angiography kit |
| IV start kit | C-section setup pack |



Kit market segmentation

| Product Offering | Characteristics |
|---|---|
| OEM supplies key device(s) only; no kit | Rare |
| OEM supplies key device(s) plus one or more standard kits | Most common; widely embraced by low-volume accounts |
| OEM supplies key device(s) plus one or more standard kits; third-party "kit packer" offers complementary custom kit without key device(s) | Now common; customer need driven by convenience, time savings and waste reduction; easy path for OEM; created a "kit packer" industry |
| OEM supplies key device(s) in custom kit | New service opportunity for OEM and new value for customer; comes with new burdens |



Why offer custom kits?

- Offensive positioning
 - Gain advantage and differentiation in a crowded market
- Defensive positioning
 - Respond to an aggressive competitor encroaching on your turf
- Support your customer in enabling efficient, cost-effective procedures
- Lock in long-term contractual obligations



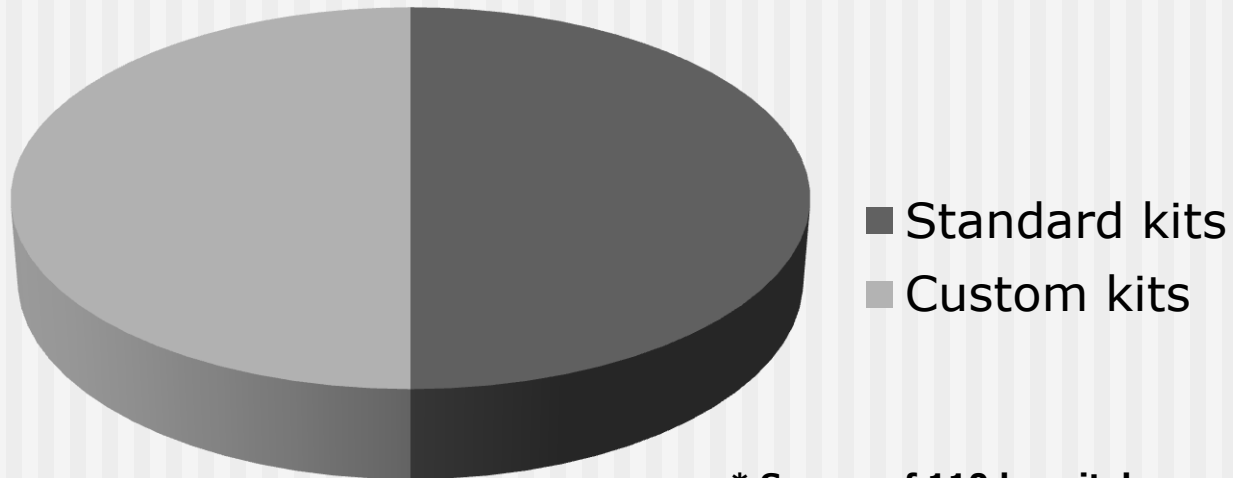
How do we know?

- In December 2009 we conducted 110 online surveys of clinicians and buyers of medical procedure kits
- In January 2010 we conducted in-depth interviews with 13 clinicians, 11 buyers and 3 suppliers of medical procedure kits
- We assessed these responses and developed these and other findings



Who uses procedure kits?

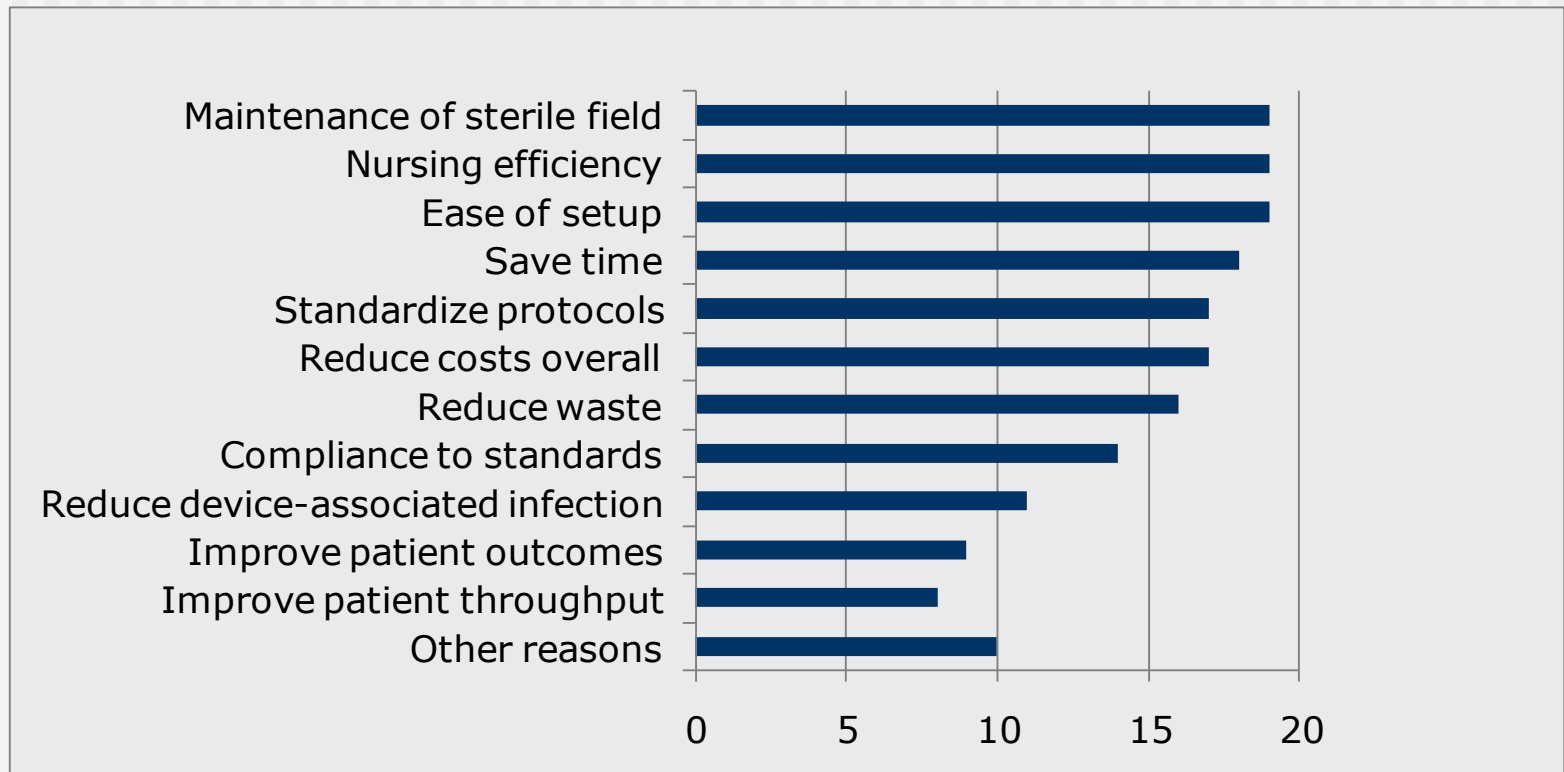
Essentially All Accounts*



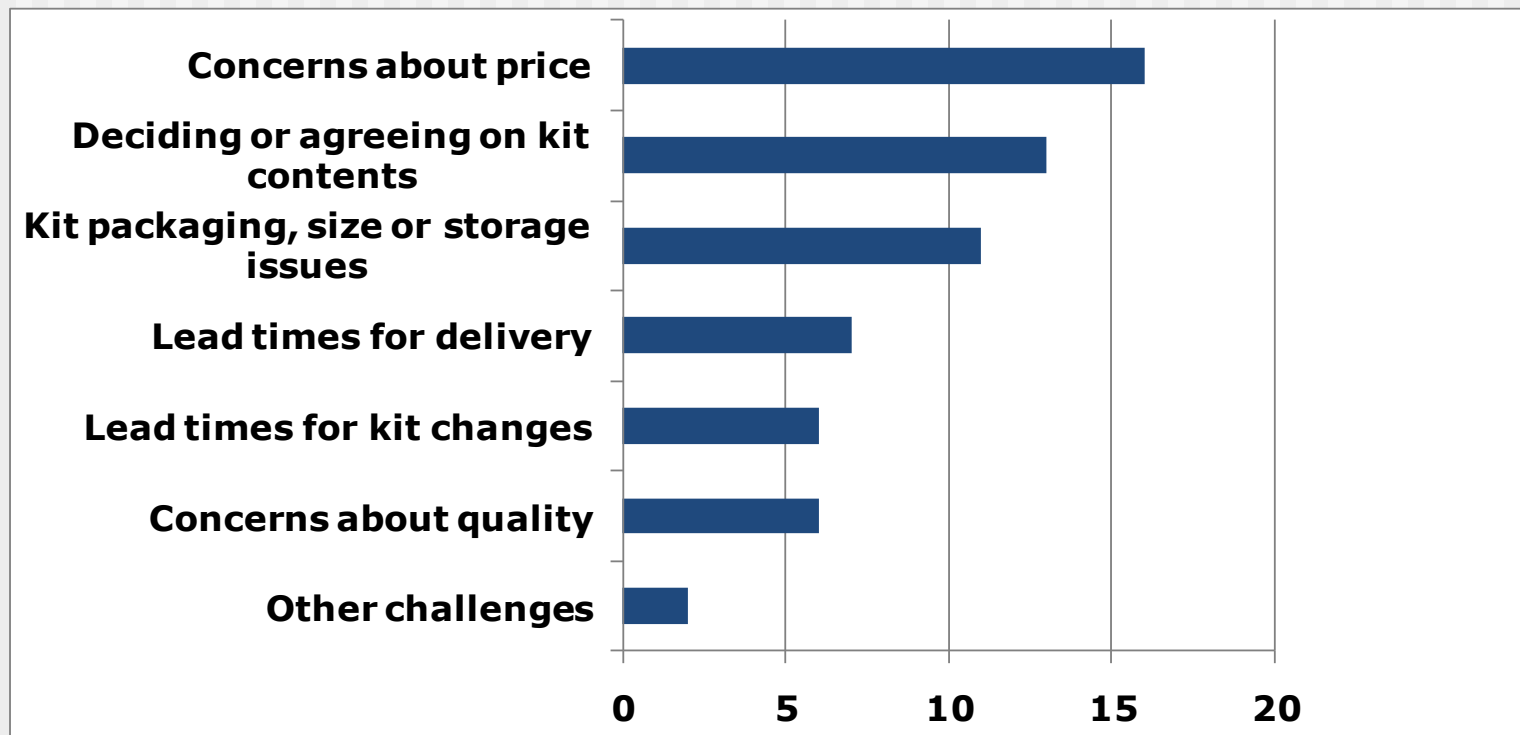
*** Survey of 110 hospital accounts using catheter kits**



Reasons for adopting custom kits



Challenges in adopting custom kits

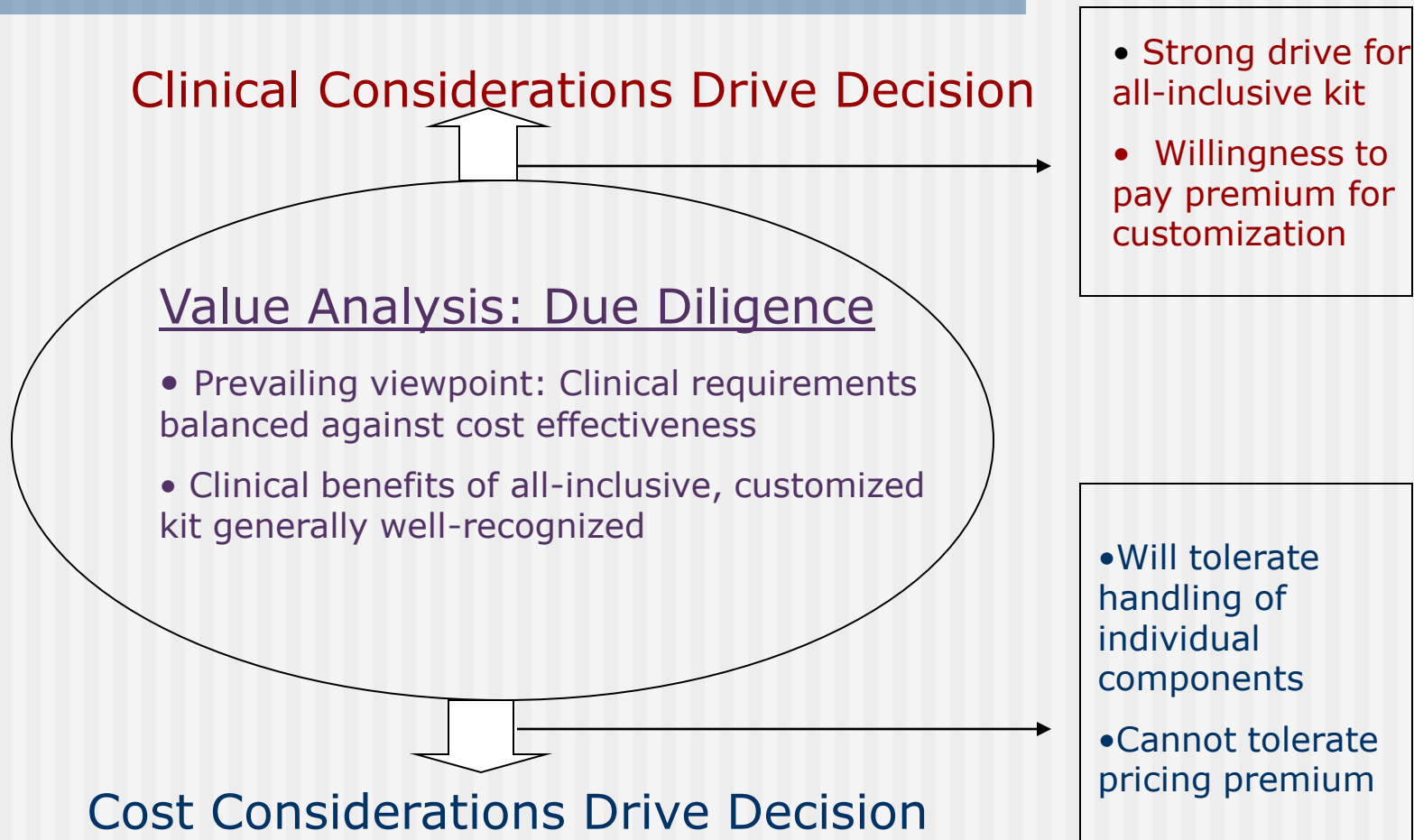


Attitudes about custom kits

- Users are generally pleased with their custom kits and the included components
 - But they do re-specify their kits on average 1.5 times
- This favorable attitude creates a significant barrier to any prospective alternative supplier
 - An established contractual obligation of undisclosed duration is also an important barrier to competitive suppliers
 - Taking share will be difficult for new entrants
- **A custom kit is a strong competitive tool**



Customer segmentation



Key drivers of customization

Clinical drivers seek solutions that provide . . .

- Convenience and protocol standardization
- Enhancement of ability to maintain sterile field

Value drivers seek cost effective solutions that enable . . .

- Adherence to regulatory and institutional standards
- Reduction of waste

Cost drivers seek cost minimization via . . .

- Customized partial kits from aftermarket “kit packers”
- Lowest-cost suppliers



Levels of customization

- Strong preference for one component – such as the key proprietary device – can drive supplier selection
- A finite number of choices for each component and a finite number of kit configurations may provide acceptable levels of choice
- However, a comprehensive standard kit is not generally regarded as an acceptable alternative to a fully customized kit

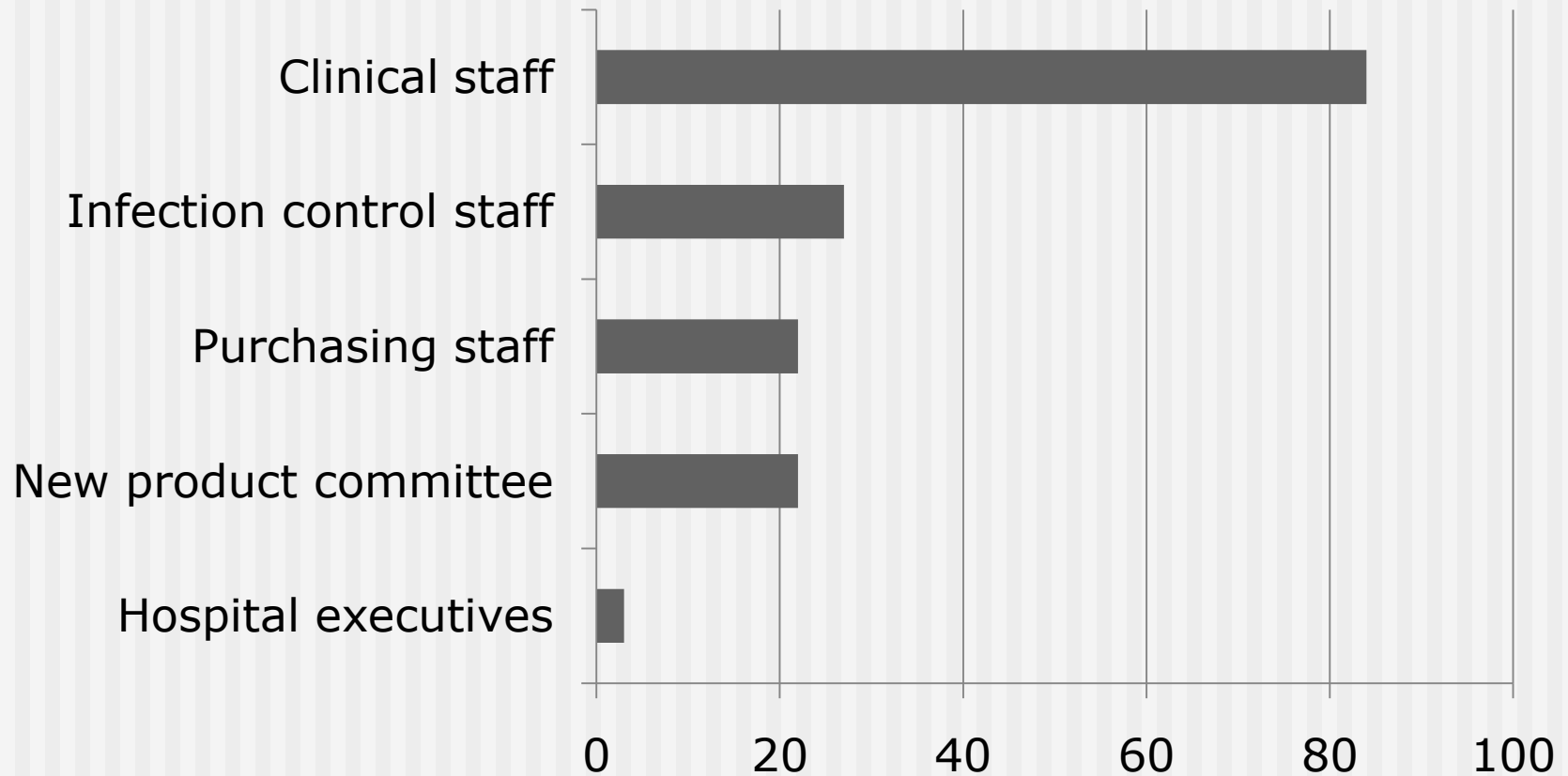


Kit adoption and selection

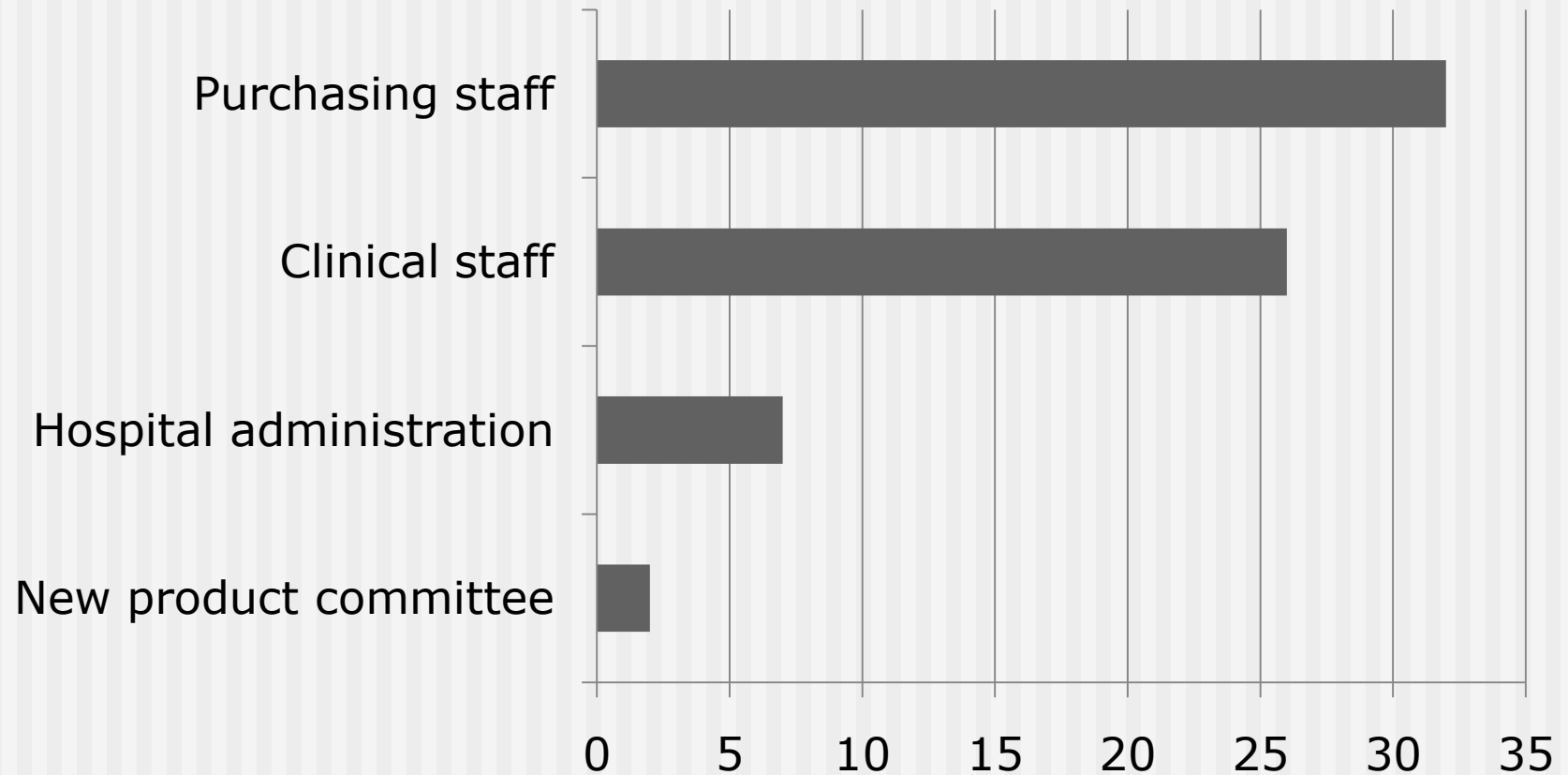
- Clinicians generally lead initiatives related to kit selection but many claim that purchasing is increasingly influential in decision-making
- Although clinical needs take precedence, clinicians and purchasing staffs are each driven by increasing budgetary constraints
- Conversion to a new kit generally requires a comprehensive evaluation process
- Although GPO and other hospital system contracts do influence supplier selection, some hospitals (not all) can and do work around these contracts if cost or clinical benefits are compelling



Who was involved in the decision to adopt a custom kit?



Who chose the custom-kit supplier?

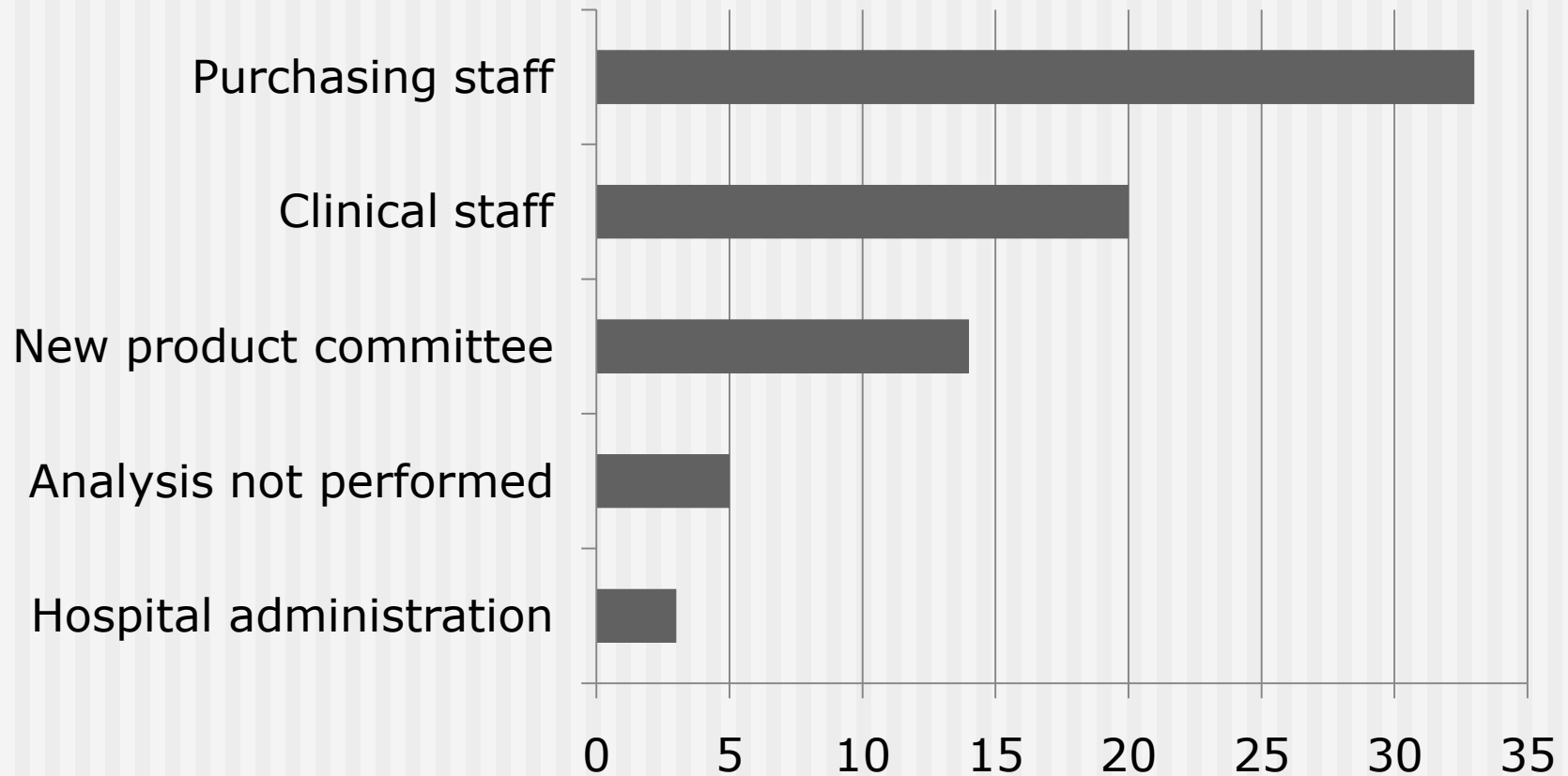


Cost analysis of custom kits

- Buyers (unlike clinicians) generally do not believe that custom kits save money at the institutional level because soft-cost accounting is fictitious
 - FTEs are almost never reduced
- However, buyers do believe that clinical drivers of custom kits are valid justifications for adopting them; clinician views are seldom ignored
- Buyers tend to rely upon their own resources – not a supplier – for any cost analyses that are conducted



Who conducted the cost/benefit analysis?



Upcharge for customization

- Clinicians and buyers of fully integrated custom kits (those including key devices) generally feel that their upcharge for customization is in the range of **5-15%**
- Actual pricing data provided by our surveyed buyers yields a mean upcharge of **8.6%**
- We conclude that premium pricing should not be your primary reason for embracing custom kitting



OEM customization process

- Customer/sales submits a request
- Bill of materials created
- Pricing determined
- Non-sterile sample created
- Customer reviews sample & signs agreement
- Design and manufacture product in accordance with design controls
 - Timing: 6-12 weeks or more, depending upon complexity of kit
- Customer receives product

The benefits and burdens of customization must be weighed!



Your strategic choices

- To customize or not?
- Which customer segment(s)?
- Limited offering or full customization?
- Internal investment or outsourced partnership?



We can support your choices:

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