# 'Generic' medical devices could cut into name-brand profits

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Generic competition - a billion-dollar problem for brand-name drug companies since the 1980s - is making inroads in the orthopedic medical devices industry. Last week Cardinal Health Inc., one of the three biggest device wholesalers, said it was increasing its offering of lower-cost products for broken bones.

This nascent trend, borne of increasing pressure to control health care costs, represents a direct threat to brand-name device makers such as West Chester, Pa.-based Synthes, which was bought in June by Johnson & Johnson for $19.7 billion.

Cardinal Health, 21st on the Fortune 500 list, is based in Dublin, Ohio. In announcing its so-called "Orthopedic Solutions" option for hospitals and surgery centers, Cardinal said it could supply some products at 30 to 50 percent savings.

"Based upon our market and customer research, we believe that U.S. health care providers are ready to support a simpler, more transparent, fair priced orthopedic business model," Cardinal Health executive Lisa Ashby said in a statement.

Cardinal Health entered a partnership with Emerge Medical, a Denver-based company that makes surgical screws, drill bits and guide wires. Emerge CEO John Marotta is a former Synthes sale representative. Synthes was sufficiently annoyed with his efforts that it sued him in 2011. He has countersued, and a trial is pending.

"Together we will provide a low-cost trauma solution that will drive simplicity and transparency to this pressured health care environment," Marotta said of the Cardinal Health partnership.

The U.S. Food and Drug Administration does not use the term "generic" devices, as it does with drugs, but there is an approval process. Like drugs, medical devices have patents, and the disputes employ numerous lawyers.

Johnson & Johnson CEO Alex Gorsky said last week that medical devices are a $40 billion market worldwide. But Johnson & Johnson, like other device makers is being pressed to lower prices or at least slow the rate of growth.

Trade publication Orthopedic Network News reported that list prices for hip and knee implants increased 4.2 percent between 2011 and 2012 - the lowest increase in the 19 years it has surveyed device manufacturers and the fourth straight decline in the growth rate.

Laura Ruth, director of the health care practice for research and consulting firm Fuld & Co., said the generic device market is still "fragmented," but pointed to a January report by the Government Accountability Office as an example of greater scrutiny of the cost and acquisition process of hospitals, whose bill are often transferred to taxpayers. Hospitals often buy through group purchasing organizations, which have been criticized for being too cozy with manufacturers and too secretive with hospitals.

The title of the GAO report was: "Lack of Price Transparency May Hamper Hospitals' Ability to Be Prudent Purchasers of Implantable Medical Devices."

Because of those forces, Ruth said, "there should be a greater opportunity for lower-cost devices."