

# Combating the New Excise Tax with a New Business Model

Sandra Ketchen

The medical device industry is bracing for the impact of the Obama Healthcare Plan's new medical device excise tax. The tax, along with rapidly changing regulations and rising production costs, are expected to affect every health industry firm's bottom line, regardless of company size or profitability.

The excise tax provision calls for device manufacturers or distributors to pay a 2.3 percent excise tax beginning in 2013 for each device sold to hospitals or other customers. All medical devices that are sold in the U.S. market will be affected except for products sold to consumers at the retail level, such as prescription eyeglasses or hearing aids.

After accounting for tax deductibility, some industry observers think the net impact of the tax will be closer to 1.5 percent while some companies fear that the hit on earnings could be as high as 10-20 percent. Regardless, industry observers warn that the tax will certainly impair profitability for all manufacturers—particularly smaller and mid-size firms.

The bottom line aside, the increasing operational costs may impair medical device companies' ability to invest in technology innovation, which poses a much more serious long-term concern for the industry.

Knowing that changes are imperative, forward-thinking medical device companies are no longer seeking band-aid solutions to reduce costs. Instead they are streamlining their operations by focusing on innovation, and seeking strategic partnerships to help bring their ideas to market quickly, cost-effectively, and reliably.

These companies are breaking away from the traditional "silo approach" of managing the entire product lifecycle in-house. They are relying on strategic partnerships to build a more nimble, modular structure that creates powerful new time and cost efficiencies.

These partnerships are different from the traditional piece meal outsourcing model when companies were using multiple partners to fulfill different production and distribution needs. A strategic partner demonstrates both the depth and breadth of knowledge to address the entire product lifecycle—from prototype design and development to sourcing and manufacturing, quality assurance, distribution and after-market services. At the same time, the partner can help navigate through the complex and evolving regulatory requirements in different regions to ensure the global success of a product.

## **Combating the New Excise Tax with a New Business Model**

Published on Medical Design Technology (<http://www.mdtmag.com>)

---

By selecting a strategic supply chain partner that can support the full product lifecycle, not only do medical device companies gain immediate cost efficiencies, more importantly, they can focus on their research and development to remain innovative and competitive instead of managing their supply chain.

The end result? Faster execution and unprecedented new levels of competitive advantage—the kinds of things that will prove timely for firms whose profitability, investment, growth, and innovation will be hardest hit amid the changes wrought by the new device excise tax.

**Source URL (retrieved on 04/18/2015 - 8:27pm):**

<http://www.mdtmag.com/blogs/2011/08/combating-new-excise-tax-new-business-model>