

## Reprocessed Devices Gain Traction in the US



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A perfect storm is brewing in the market for reprocessed devices. Historically subject to intense scrutiny due to concerns about their safety, these devices are now more in demand than ever. With increasing regulatory support for reprocessing, shrinking hospital budgets, and an ongoing economic recession, these cheaper alternatives to new devices are quickly gaining ground. In fact, while many sectors in the US medical technology market are experiencing slower growth or even a decline as a result of the ongoing recession, revenues for reprocessed devices will expand at a double-digit rate through 2013. Despite efforts on the part of original equipment manufacturers to dissuade its use, reprocessing will continue to be a popular option for cash-strapped US hospitals.

Reprocessed devices have been in use in the US for over 20 years, but a number of recent events have changed both regulatory and practitioner views of the occasionally-maligned devices. Until 2000, most device reprocessing was done within a hospital by staff, but changes in FDA regulation made device reprocessing much more costly. As a result, most hospitals contract device reprocessing out to third parties.

## Regulatory Reinforcement

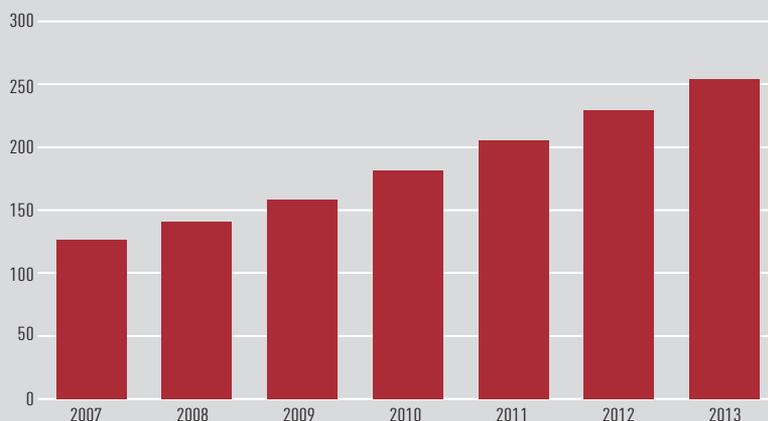
A number of regulatory moves are helping the market for reprocessed devices to achieve its relatively robust growth: over

2008, the Government Accountability Office released reports that proved supportive of the use of reprocessed devices. One of these reports concluded that there is no evidence that reprocessed single-use devices create an elevated health risk for patients; a second concluded that the use of reprocessed devices does not contribute to healthcare-associated infections in hospitals. Combined with support from state legislatures such as Massachusetts, these endorsements will reinforce acceptance and dismiss negative perceptions associated with the devices.

Of course, regulatory support alone is not driving device adoption. A key factor in the growing popularity of reprocessing is its cost-effectiveness. Many US hospitals generally tend to be budget constrained at the best of times, and their status during the continuing economic crisis has deteriorated significantly. Escalating health care costs are forcing facilities to look for savings and cut costs wherever possible. Additionally, many patients are postponing treatment until more stable times; recession-related job loss is resulting in loss of health coverage for many Americans. According to the American Hospital Association (AHA), US hospitals reported an average loss of 1.6% in the third quarter of 2008, compared to an average profit of 6.1% in the same period of the previous year.

Large hospital group purchase organizations are also fueling growth in the market for reprocessed devices.

US Reprocessed Device Market, (US\$M)



Source: Millennium Research Group's *US Markets for Reprocessed Devices 2009*

ProvSource, a customized contracting program for VHA Inc. and Novation that handles all the purchasing needs of Providence Health & Services, will likely continue to sign supply contracts with commercial reproducers, and the market will continue to expand in accordance.

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### Profitable Progress

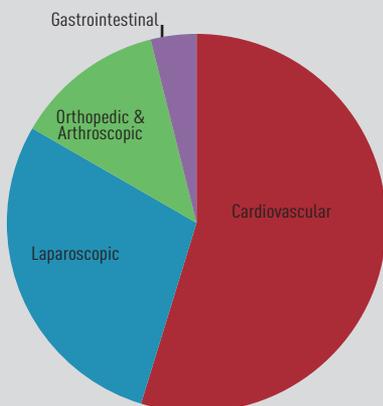
Worth over \$140 million in 2008, the US market for reprocessed devices will expand to exceed \$250 million by 2013. Generating a large proportion of revenues for reprocessed device suppliers in 2008 are cardiovascular, laparoscopic, orthopedic/arthroscopic, and gastrointestinal devices.

The cardiovascular and laparoscopy segments will be particularly important in driving growth in the overall market. Expansion in the reprocessed cardiovascular device market will largely result from health care facilities' heightened use of compression sleeves as a means

of preventing deep vein thrombosis (DVT) for patients undergoing surgery. Because compression sleeves are easily and effectively reprocessed, reprocessed compression sleeves will comprise a rising proportion of devices employed for DVT prevention. In addition, increased adoption of higher-priced reprocessed devices, such as advanced EP catheters, will also contribute to expansion of the reprocessed cardiovascular device market. The reprocessed laparoscopic device market will be driven primarily by the strong sales of reprocessed direct energy devices, especially advanced energy devices, which are particularly costly; therefore, the cost savings to the hospital are more attractive.

Given the size and growth projections for the market, competition is fierce. In 2008, Ascent Healthcare Solutions garnered majority share in the reprocessed device market and had approximately 1,800 hospital partners. Its high-volume production approach enables it to reduce operating costs and lower prices to compete for sales. Second-leading competitor SterilMed offers an integrated service combining reprocessing and repair services through its on-site reprocessing and repair management program. Its refurbishing process ensures that each facility receives the same devices that were collected on their premises. Other competitors Hygia Health Services, MEDISS, and ClearMedical are making progress in the market, although with the lion's share in the hands of Ascent and SterilMed, inroads into the market are difficult. **IQ**

US Reprocessed Device Market, by Segment, 2008 (%)



Source: Millennium Research Group's US Markets for Reprocessed Devices 2009

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