ORTHOPEDIC POWER TOOLS - US ANALYSIS AND MARKET FORECASTS
Executive Summary

Orthopedic Power Tools: Key Metrics in the US

<table>
<thead>
<tr>
<th>2013 Market Sales ($m)</th>
<th>US</th>
</tr>
</thead>
<tbody>
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<td>Large Bone Power Tools (Capital Equipment, Consumables, and Repair Service)</td>
<td>$377.1m</td>
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<tr>
<td>Small Bone Power Tools (Capital Equipment, Consumables, and Repair Service)</td>
<td>$84.5m</td>
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<tr>
<td>High-Speed Power Tools (Capital Equipment, Consumables, and Repair Service)</td>
<td>$181.0m</td>
</tr>
<tr>
<td>Total</td>
<td>$642.6m</td>
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Key Events (2013–2020)

- (2014–2015) Zimmer to merge with Biomet to strengthen positions in various orthopedic markets  
  ↑↑↑
- (2014) DePuy Synthes launched the Anspach EG1 High-Speed Electric System  
  ↑↑
- (2013) ConMed Linvatec launched the Hall 50 Powered Instruments System  
  ↑↑

2020 Market Sales ($m)

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<thead>
<tr>
<th>US</th>
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</thead>
<tbody>
<tr>
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<td>Small Bone Power Tools (Capital Equipment, Consumables, and Repair Service)</td>
<td>$107.9m</td>
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<td>High-Speed Power Tools (Capital Equipment, Consumables, and Repair Service)</td>
<td>$205.1m</td>
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<td>Total</td>
<td>$734.1m</td>
</tr>
</tbody>
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The field of orthopedic power tools is among the most established markets in the orthopedic industry. In 2013, revenue from the US orthopedic power tools market, consisting of large bone power tools, small bone power tools, and high-speed power tools, was estimated to be $642.6m. Despite the lingering economic uncertainties and hospitals' tighter budgets for upgrading capital equipment, sales in the orthopedic power tools market are expected to experience slow growth throughout the forecast period, reaching $734.1m with a Compound Annual Growth Rate (CAGR) of 1.9%.

Key drivers during the forecast period include:

- A fueling demand for consumables due to the growing procedure volume of orthopedic surgeries
- Increased cross-selling opportunities as a result of operating room (OR) supply standardization
- A high-margin consumables-based recurring-revenue business model to encourage capital equipment purchase
- The need for enhanced patient experience and OR efficiency will further drive the adoption of battery-powered tools.

Key barriers during the forecast period include:

- Economic softness and hospital cost-containment measures that delay capital equipment upgrades
- High costs associated with premium devices, which slows down adoption and encourages reprocessing
- Ever-intensifying market competition with slow innovation on the horizon
- A shrinking margin in the power tools market, which dampens investor interest
As of 2013, the US comprised a majority of the global market share, with 46%, and is expected to continue to contribute a substantial amount to the global power tools market over the forecast period.

**Market Dynamics**

In the past several years, as hospitals consolidate and more physicians become hospital employees, hospital administrators are taking a greater role in purchasing. In most hospitals, all supplies and new technology that are proposed for use have to go through a value/cost analysis committee, making the purchasing process more complex and time-consuming. As for orthopedic power tools, there is an increased involvement with hospitals’ “C-level” management in the procurement process of premium systems. These senior hospital executives often need to assess whether the procedure mix and payer mix can support the purchase of certain orthopedic power tools, and such a cost-effectiveness analysis will help them in mapping out a purchasing plan that matches the hospital’s financial condition.

Moreover, given the current exigent economic conditions, hospital administrators are deploying different approaches to realize their cost-containment goals. Today, it is an increasing trend among large orthopedic vendors to leverage their market position by offering bundle discounts for hospital orthopedic departments upon the purchase of a combination of implants, instruments, and capital equipment, rather than giving a discounted price for power tools. In some cases, orthopedic power tools are included at no charge as part of multiyear consumables contracts.

Meanwhile, despite the increasing constraints on spending, there is a rising demand amongst hospital administrators for additional services from orthopedic companies to help increase the efficiency of clinical staff and lower the overheads of daily operation. In particular, the supply side’s efforts in helping hospitals with operations management and inventory optimization, as well as the medical education of clinical support professionals in the OR, are most desired.

**Key Players in the US Orthopedic Power Tools Market**

There is one clear leader in the orthopedic power tools market: Stryker. As Stryker is the pioneer in orthopedic and spine technologies, and has been constantly pushing the frontier in the power tools space, the company has sustained the leading
position, especially in the large bone and small bone segments. GlobalData estimates that Stryker currently contributes to about 35% of the global market for orthopedic power tools. Following Stryker is ConMed Linvatec, DePuy Synthes, and Medtronic.

Beyond these multinational orthopedic players, the global orthopedic power tools market is crowded with small-cap instrument-focused companies with established power tools portfolios vying to steal shares, and the rest with a wide range of me-too products targeting the low-end market. While Stryker is very likely to dominate the market in the next few years, GlobalData anticipates an evolving competitive landscape. In fact, the bar for effective competition has been raised again and again in the power tools field, making it very difficult for small-to mid-sized companies to navigate the competitive landscape. How the tier-two companies will leverage their platform technologies to diversify their current portfolio and enhance their competitive edges against Stryker will be the most interesting thing to follow in the coming years.

**The US Market Future Outlook**

Despite the economic softness, battery-powered systems will continue to generate traction in the global orthopedic community, mainly driven by an expanded appreciation of the clinical advantages associated with these cordless systems, as well as the more aggressive marketing efforts from companies to encourage system upgrades. Meanwhile, the sales units of pneumatic-powered tools will be declining as a proportion of the overall market as surgeons adopt new-generation battery-powered systems, particularly in large bone surgeries.

In the past quarters, several orthopedic companies have posted only low single-digit growth in their power tools segment and an increased decline in capital equipment products. Moving forward, cost-containment efforts by cash-strapped hospitals will continue to result in pricing erosion in nearly every segment of the orthopedic power tools market, particularly with large bone power tools, as the whole orthopedic community is now placing appreciable emphasis on austerity measures in hip and knee procedures.

Although the competition is set to tighten due to the increased pricing erosion and cost-reduction measures in the general orthopedic industry, there are still growth opportunities. For instance, given the recent saturation in the large joint reconstruction segment, an increasing number of players see the extremity market as an attractive avenue for growth, and as such, are investing heavily in physician training and consumer marketing. How to develop and introduce additional line extensions that address new surgical applications in small bone procedures is currently one of the research directions in the power tools field.
Executive Summary

What Do Physicians Think?

As the adoption of battery-powered tools increases further in the next five years, surgeons will be anticipating more efforts from the supply side to push the frontier in battery-powered systems.

“You are going to be looking at lighter batteries. For a total knee surgery, you are going to hold that saw for 50–60% of the time, if you manage your time well. If you have six to eight cases a day, by the end of that day, your accuracies and your stabilizations will change, and you can tell you are not as good in your last three cases as you were in your first three cases. What we are looking for is an ergonometric grip, light batteries that require little or no maneuvering, [and tools that provide] precision, power, and longevity of the system.”

Key Opinion Leader

Because the power tools market overlaps with a number of medical fields – spine, trauma, joint reconstruction, and extremities – cross-selling is to be expected, and has helped a number of orthopedic companies gain competitive advantages in marketing their power tools portfolio. Thus, companies that do not boast a strong spine/orthopedic product line will have reduced bargaining power.

“Most hospitals would work with a certain company and look for a whole package of medical supplies, covering implants, instruments, and power tools, so that they [hospitals and companies] can negotiate and come up with the best pricing.”

Key Opinion Leader

Recently, the single-use power tools have started to attract media attention. Despite the aggressive marketing efforts seen from the companies, key opinion leaders indicated that, even though these on-the-shelf solutions may help in reducing overhead costs to some extent, their cost-effectiveness in volume surgeries remains to be justified at this stage.

“It might be a good idea for hospitals to keep them [single-use power tools] on standby in case of dead batteries, sterilization issues, and time restraints, but this doesn’t mean they are cost-effective.”

Key Opinion Leader

“I can imagine in some facilities where they have robot payments, they can afford disposable systems like that. For general hospitals, we want the major cost of equipment to be nil on a case-by-case basis, and to be a small part of the absolute cost.”

Key Opinion Leader
Executive Summary

Moving forward, the saturated orthopedic power tools market, with mostly commodity products, requires companies to keep competing on price. However, to expand revenue streams and sustain margin growth, power tools vendors will need to effectively engage with an evolving client base to understand market realities and deliver a value-adding portfolio to match hospital needs.

“Their give you power tools for free if you keep buying consumables from them. Also, now what we have seen more and more in the tender process is that they offer value-added services. For example, they have consulting services to help with coding and hospital logistics. Larger companies have the capability to provide discount structures based on volume, and they also have the power to provide additional value-adding services to improve the efficacy of your work stream and department structure.”

Key Opinion Leader
# Table of Contents

1 Table of Contents ....................................................................................................................... 7

1.1 List of Tables .................................................................................................................... 13

1.2 List of Figures ................................................................................................................... 16

2 Introduction ............................................................................................................................... 17

2.1 Catalyst ............................................................................................................................. 17

2.2 Related Reports ................................................................................................................ 17

3 Industry Overview ..................................................................................................................... 19

3.1 Product Overview .............................................................................................................. 19

3.1.1 Capital Equipment ......................................................................................................... 19

3.1.2 Consumables ................................................................................................................ 24

3.2 Procedural Trends ............................................................................................................ 24

3.2.1 US ................................................................................................................................. 24

3.3 Adoption Trends ................................................................................................................ 28

3.3.1 The Growing Role of Cost in Purchasing Decisions ....................................................... 28

3.3.2 Increased Involvement of the C-Level ........................................................................... 31

3.3.3 The Shift to Battery-Powered Systems .......................................................................... 32

3.3.4 Product Life Cycle ......................................................................................................... 34

3.3.5 Maintenance and Repair ............................................................................................... 36

3.3.6 Reprocessed Single-Use Saw Blades ........................................................................... 38

3.4 Market Access .................................................................................................................... 41

3.4.1 US ................................................................................................................................. 42
### Table of Contents

3.5 Reimbursement..................................................................................................................... 42
   3.5.1 US................................................................................................................................. 42
3.6 Mergers and Acquisitions/Key Partnerships........................................................................ 45
   3.6.1 Zimmer to Combine with Biomet in Transaction Valued at $13.35 Billion (April, 2014) .. 45
   3.6.2 Johnson & Johnson Acquired Synthes for $19.7 Billion (June, 2012)............................ 45
   3.6.3 Zimmer Acquired SoPlus Orthopaedic Surgical Power Tools Company (December, 2010) ......................................................................................................................................................... 46
   3.6.4 Synthes Acquired Anspach (November, 2010).............................................................. 46
4  Market Drivers ........................................................................................................................ 47
   4.1 Increasing Orthopedic Procedure Volume Fuels Demand for Power Tool Consumables .. 47
   4.2 Operating Room Supply Standardization Drives Cross-Selling ........................................ 48
   4.3 Rising Competition Forces Businesses to Innovate.......................................................... 49
   4.4 A Powered Approach to Pedicle Screw Insertion ............................................................. 51
5  Market Opportunities............................................................................................................... 52
   5.1 Small Bone Power Tools................................................................................................... 52
   5.2 Ultrasonic Bone Cutting Tools.......................................................................................... 54
   5.3 Integration of Computer-Assisted Navigation Technologies into Power Tools ............... 55
   5.4 Continued Focus on Buying Groups and Integrated Delivery Networks to Drive Volume Growth ......................................................................................................................................................... 57
   5.5 Emerging Countries.......................................................................................................... 58
6  Market Barriers ....................................................................................................................... 59
   6.1 Hospital Consolidation ........................................................................................................ 59
   6.2 Hospital Cost-Containment Pressures .............................................................................. 60
## Table of Contents

6.3 Reimbursement................................................................................................................. 61  
6.4 Are Robotic Technologies a Threat?................................................................................. 61  
6.5 Medical Device Excise Tax............................................................................................... 63  

7 Unmet Needs............................................................................................................................ 65  
7.1 Refocus on Pipeline Products........................................................................................... 65  
7.2 Further Enhancements on Batteries.................................................................................. 67  
7.3 Cost-Effectiveness Analysis of Single-Use Power Tools................................................... 69  

8 Competitive Assessment.......................................................................................................... 73  
8.1 Overview........................................................................................................................... 73  
8.2 Aesculap........................................................................................................................... 73  
8.2.1 Overview....................................................................................................................... 73  
8.2.2 SWOT Analysis............................................................................................................. 74  
8.3 Arthrex.............................................................................................................................. 75  
8.3.1 Overview....................................................................................................................... 75  
8.3.2 SWOT Analysis............................................................................................................. 75  
8.4 Brasseler USA (Tava Surgical in Outside US markets)..................................................... 76  
8.4.1 Overview....................................................................................................................... 76  
8.4.2 SWOT Analysis............................................................................................................. 77  
8.5 ConMed Linvatec.............................................................................................................. 77  
8.5.1 Overview....................................................................................................................... 77  
8.5.2 SWOT Analysis............................................................................................................. 79  
8.6 DePuy Synthes................................................................................................................... 79  
8.7 De Soutter Medical ............................................................................................................ 81
# Table of Contents

8.7.1 Overview ....................................................................................................................... 81
8.7.2 SWOT Analysis ............................................................................................................... 83

8.8 MicroAire ........................................................................................................................... 83
8.8.1 Overview ....................................................................................................................... 83
8.8.2 SWOT Analysis ............................................................................................................. 85

8.9 Misonix .............................................................................................................................. 85
8.9.1 Overview ....................................................................................................................... 85
8.9.2 SWOT Analysis ............................................................................................................. 86

8.10 Medtronic ......................................................................................................................... 86
8.10.1 Overview ....................................................................................................................... 86
8.10.2 SWOT Analysis ............................................................................................................. 88

8.11 OsteoMed ........................................................................................................................ 88
8.11.1 Overview ....................................................................................................................... 88
8.11.2 SWOT Analysis ............................................................................................................. 89

8.12 Stryker .............................................................................................................................. 89
8.12.1 Overview ....................................................................................................................... 89
8.12.2 SWOT Analysis ............................................................................................................. 92

8.13 Zimmer Holdings ........................................................................................................... 92
8.13.1 Overview ....................................................................................................................... 92
8.13.2 SWOT Analysis ............................................................................................................. 93

9 Current and Future Players ....................................................................................................... 94
9.1 Trends in Corporate Strategy ............................................................................................ 94
9.2 Established Players............................................................................................................ 96
# Table of Contents

9.2.1 Aesculap ...........................................................................................................................................................................................................................................96

9.2.2 Arthrex .................................................................................................................................................................................................................................98

9.2.3 Brasseler USA (Tava Surgical in Outside US markets) ..............................................................................................................................................................100

9.2.4 ConMed Corporation .............................................................................................................................................................................................................102

9.2.5 DePuy Synthes ................................................................................................................................................................................................105

9.2.6 De Soutter Medical ................................................................................................................................................................................................107

9.2.7 MicroAire ..................................................................................................................................................................................................................109

9.2.8 Misonix ......................................................................................................................................................................................................................111

9.2.9 Medtronic ............................................................................................................................................................................................................112

9.2.10 OsteoMed ..............................................................................................................................................................................................................115

9.2.11 Stryker ..............................................................................................................................................................................................................117

9.2.12 Zimmer Holdings ..................................................................................................................................................................................................119

9.3 Emerging Players ........................................................................................................................................................................................................122

10 Market Outlooks.......................................................................................................................................................................................................123

10.1 Company Share Analysis ...........................................................................................................................................................................................................123

10.1.1 Overview .........................................................................................................................................................................................................123

10.1.2 US Market Share ................................................................................................................................................................................................124

10.2 By Geography ........................................................................................................................................................................................................127

10.2.1 US ......................................................................................................................................................................................................................127

11 Appendix.........................................................................................................................................................................................................................133

11.1 Abbreviations ...................................................................................................................................................................................................133

11.2 Bibliography ............................................................................................................................................................................................................137

11.3 Report Methodology ................................................................................................................................................................................................141
## Table of Contents

11.3.1 Overview ..................................................................................................................... 141  
11.3.2 Coverage .................................................................................................................... 141  
11.3.3 Secondary Research ................................................................................................. 141  
11.3.4 Forecasting Methodology .......................................................................................... 142  
11.3.5 Primary Research – Key Opinion Leader Interviews .................................................. 143  
11.3.6 Expert Panel Validation ............................................................................................. 144  
11.4 Physicians and Specialists Included in this Study .......................................................... 145  
11.5 About the Authors ........................................................................................................... 147  
11.5.1 Analysts ...................................................................................................................... 147  
11.5.2 Bonnie Bain, PhD, Global Head of Healthcare .......................................................... 148  
11.6 About MediPoint .............................................................................................................. 149  
11.7 About GlobalData ........................................................................................................... 149  
11.8 Disclaimer ....................................................................................................................... 149
# Table of Contents

## 1.1 List of Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SWOT Analysis – Battery-Powered Tools</td>
<td>21</td>
</tr>
<tr>
<td>2</td>
<td>SWOT Analysis – Electric-Powered Tools</td>
<td>21</td>
</tr>
<tr>
<td>3</td>
<td>SWOT Analysis – Pneumatic-Powered Tools</td>
<td>22</td>
</tr>
<tr>
<td>4</td>
<td>SWOT Analysis – Single-Use Orthopedic Power Tools</td>
<td>23</td>
</tr>
<tr>
<td>6</td>
<td>Hospitals’ Three Primary Options When Orthopedic Power Tools Break Down</td>
<td>36</td>
</tr>
<tr>
<td>7</td>
<td>Stryker’s Prevision Saw Blade</td>
<td>39</td>
</tr>
<tr>
<td>8</td>
<td>IEC 60601-1 and National Standards in Major Countries</td>
<td>41</td>
</tr>
<tr>
<td>9</td>
<td>Medicare National Average Reimbursement Rates for Major Orthopedic Procedures that Involve the Usage of Power Tools, FY 2013–2014</td>
<td>44</td>
</tr>
<tr>
<td>10</td>
<td>Marketing Focus of Single-Use Orthopedic Power Tools</td>
<td>69</td>
</tr>
<tr>
<td>11</td>
<td>Aesculap’s Orthopedic Power Tools</td>
<td>74</td>
</tr>
<tr>
<td>12</td>
<td>SWOT Analysis – Aesculap’s Orthopedic Power Tools Portfolio</td>
<td>74</td>
</tr>
<tr>
<td>13</td>
<td>Arthrex’s Orthopedic Power Tools</td>
<td>75</td>
</tr>
<tr>
<td>14</td>
<td>SWOT Analysis – Arthrex’s Orthopedic Power Tools Portfolio</td>
<td>75</td>
</tr>
<tr>
<td>15</td>
<td>Brasseler’s Orthopedic Power Tools</td>
<td>76</td>
</tr>
<tr>
<td>16</td>
<td>SWOT Analysis – Brasseler’s Orthopedic Power Tools Portfolio</td>
<td>77</td>
</tr>
<tr>
<td>17</td>
<td>ConMed Linvatec’s Orthopedic Power Tools</td>
<td>78</td>
</tr>
<tr>
<td>18</td>
<td>SWOT Analysis – ConMed Linvatec’s Orthopedic Power Tools Portfolio</td>
<td>79</td>
</tr>
<tr>
<td>19</td>
<td>DePuy Synthes’ Orthopedic Power Tools</td>
<td>80</td>
</tr>
<tr>
<td>20</td>
<td>SWOT Analysis – DePuy Synthes’ Orthopedic Power Tools Portfolio</td>
<td>81</td>
</tr>
<tr>
<td>21</td>
<td>De Soutter Medical’s Orthopedic Power Tools</td>
<td>82</td>
</tr>
<tr>
<td>22</td>
<td>SWOT Analysis – De Soutter Medical’s Orthopedic Power Tools Portfolio</td>
<td>83</td>
</tr>
</tbody>
</table>
Table of Contents

Table 23: MicroAire’s Orthopedic Power Tools ......................................................................................... 84
Table 24: SWOT Analysis – MicroAire’s Orthopedic Power Tools Portfolio ............................................ 85
Table 25: Misonix’s Orthopedic Power Tools ......................................................................................... 86
Table 26: SWOT Analysis – Misonix’s Orthopedic Power Tools Portfolio ............................................. 86
Table 27: Medtronic’s Orthopedic Power Tools ....................................................................................... 87
Table 28: SWOT Analysis – Medtronic’s Orthopedic Power Tools Portfolio ........................................... 88
Table 29: OsteoMed’s Orthopedic Power Tools ....................................................................................... 88
Table 30: SWOT Analysis – OsteoMed’s Orthopedic Power Tools Portfolio ........................................... 89
Table 31: Stryker’s Orthopedic Power Tools .......................................................................................... 91
Table 32: SWOT Analysis – Stryker’s Orthopedic Power Tools Portfolio ................................................. 92
Table 33: Zimmer’s Orthopedic Power Tools .......................................................................................... 93
Table 34: SWOT Analysis – Zimmer’s Orthopedic Power Tools Portfolio .............................................. 93
Table 35: Company Profile – Aesculap ..................................................................................................... 96
Table 36: SWOT Analysis – Aesculap ...................................................................................................... 97
Table 37: Company Profile – Arthrex ..................................................................................................... 98
Table 38: SWOT Analysis – Arthrex ...................................................................................................... 100
Table 39: Company Profile – Brasseler ................................................................................................... 101
Table 40: SWOT Analysis – Brasseler .................................................................................................... 102
Table 41: Company Profile – ConMed Corporation ................................................................................ 103
Table 42: SWOT Analysis – ConMed Corporation .................................................................................. 104
Table 43: Company Profile – DePuy Synthes ........................................................................................ 106
Table 44: SWOT Analysis – DePuy Synthes ............................................................................................ 107
Table 45: Company Profile – De Soutter Medical .................................................................................. 108
Table 46: SWOT Analysis – De Soutter Medical .................................................................................... 109
## Table of Contents

Table 47: Company Profile – MicroAire ............................................................................................................. 110
Table 48: SWOT Analysis – MicroAire ............................................................................................................. 110
Table 49: Company Profile – Misonix ............................................................................................................... 111
Table 50: SWOT Analysis – Misonix ............................................................................................................... 112
Table 51: Company Profile – Medtronic .......................................................................................................... 113
Table 52: SWOT Analysis – Medtronic ............................................................................................................ 115
Table 53: Company Profile – OsteoMed .......................................................................................................... 116
Table 54: SWOT Analysis – OsteoMed ............................................................................................................ 116
Table 55: Company Profile – Stryker ............................................................................................................... 117
Table 56: SWOT Analysis – Stryker ................................................................................................................ 119
Table 57: Company Profile – Zimmer Holdings .............................................................................................. 120
Table 58: SWOT Analysis – Zimmer Holdings .............................................................................................. 121
Table 59: Emerging Players in the Global Orthopedic Power Tools Market ......................................................... 122
Table 60: US Orthopedic Power Tools Capital Equipment Sales Units, 2011–2020 ........................................ 128
Table 61: US Orthopedic Power Tools Market Sales Forecast ($m), 2011–2020 ............................................. 131
1.2 List of Figures

Figure 1: Market Segmentation of Orthopedic Power Tools................................................................. 19
Figure 2: Major Large Bone Procedure Volumes in the US, 2011–2020 .................................................. 26
Figure 3: Major Small Bone Procedure Volumes in the US, 2011–2020 .................................................. 27
Figure 4: Major High-Speed Procedure Volumes in the US, 2011–2020 ................................................. 28
Figure 5: Average Life Span of Orthopedic Power Tools in 10 Major Markets, 2013 ............................... 35
Figure 6: Average Replacement Rate of Orthopedic Power Tools in 10 Major Markets, 2013 ................. 36
Figure 7: US Market Share for Orthopedic Power Tools, 2013 ............................................................. 125
Figure 8: Estimated US Market Share for Orthopedic Power Tools, by Segment, 2013 ......................... 126
Figure 9: US Orthopedic Power Tools Capital Equipment Sales Units Segmentation, 2011–2020 ............ 129
Figure 10: US Orthopedic Power Tools Market Sales Forecast ($m), 2011–2020 ................................. 131
Figure 11: US Orthopedic Power Tools Market Revenue Distribution, by Segment, 2013 and 2020 ......... 132
Figure 12: Other Primary Research Participants Breakdown, by Institution (n=25)................................. 146
Introduction

2 Introduction

2.1 Catalyst

A power tool is a key instrument in the armamentarium of the operating room (OR) for many orthopedic surgeries. Overall, the growth of orthopedics in developed markets is being driven by established healthcare infrastructure and expanded insurance coverage, as well as the trend of active aging, while ongoing macroeconomic pressures continue to influence the healthy growth in the procedure numbers of high-volume surgeries, such as hip and knee replacement. The adoption rates for orthopedic power tools vary in different regions, mainly due to price sensitivity. Globally, and driven by the orthopedic industry’s continued innovation in cordless battery-powered systems as well as a better understanding of corded systems’ downsides, the usage of pneumatic-powered tools has been declining in the past decade as surgeons adopt premium-priced electric and, more significantly, battery-powered systems.

Moving forward, industry consolidation and intense competition in the orthopedic power tools market will cause more and more companies to increase their research efforts to differentiate their products from the lower-end competitors. Instead of focusing on the capital equipment, players are expected to shift their marketing efforts to high-margin consumables. By implementing a consumables-based recurring-revenue business model, companies are able to establish a stable revenue stream while driving handpiece or capital equipment placements via capital sales and/or rentals. Meanwhile, it is equally important for companies to seek new revenue streams as delays in capital equipment purchases weaken the revenue growth.

2.2 Related Reports

Introduction

11.6 About MediPoint

MediPoint is the flagship product for GlobalData’s Medical team. Each MediPoint report is built from the ground-up by our team of healthcare analysts in the US and UK. Each report includes input from experienced physicians and leading Key Opinion Leaders (KOLs). Running throughout each report in the series, “What Do Physicians Think” quotes provide a unique insight into how healthcare professionals are reacting to events within the industry, and what their responses could mean for industry strategists.

11.7 About GlobalData

GlobalData is a leading global provider of business intelligence in the healthcare industry. GlobalData provides its clients with up-to-date information and analysis on the latest developments in drug research, disease analysis, and clinical research and development. Our integrated business intelligence solutions include a range of interactive online databases, analytical tools, reports, and forecasts. Our analysis is supported by a 24/7 client support and analyst team.

GlobalData has offices in New York, San Francisco, Boston, London, India, Korea, Japan, Singapore, and Australia.

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