Understanding
Cost Cutting Initiatives
in Orthopedics

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WPM Enterprises

PRESENTATION OBJECTIVE

- Consider issues surrounding medical devices, and the existing barriers between clinical & economic arenas
- Engaging the participation and support of internal stakeholders
- Discuss challenges facing clinical teams when seeking physician collaboration
- Solicit suppliers for productive discussions directed at near term gains for both parties
- Review steps to obtain sustained savings in this arena

INDUSTRY PREMISE

Hospitals need to improve operating margins!

- ✓ Significant portion of operating costs determined by private practice physicians ⇨ fixed payment rates ⇨ excess costs come directly out of operating margins
- ✓ Financial mis-alignment of stakeholders ⇨ exodus threats of profitable procedures
- ✓ Numerous new procedures with unanswered reimbursement questions ⇨ understanding how to classify & compare products
- ✓ Rising costs of new technology ⇨ difficulty in substantiating "advances" in technologies

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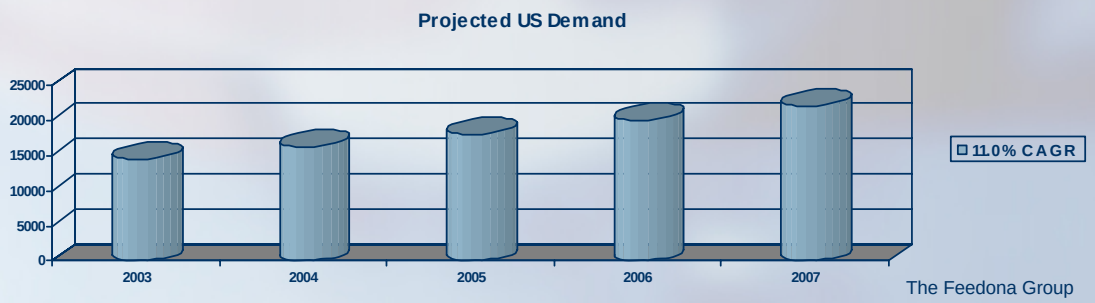
MARKET TRENDS & ISSUES

Implantable Medical Devices

MARKET TRENDS

Demand for IMD's



Fueled by Supporting Technology

- Pure Play
- Skill Based

Both driven by regulatory indications requiring educational support to clinical community

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MARKET TRENDS

Contribution to Med-Surg Expenditures

- ✓Med_Surg has carried 10.7% CAGR price increase since 2001
- ✓Medical Device products represents 89% of these expenditures
  - **Non Medical Device price growth at 2.6%**
  - **Medical Device price growth at 11.8%**

IMS Hospital Supply Index

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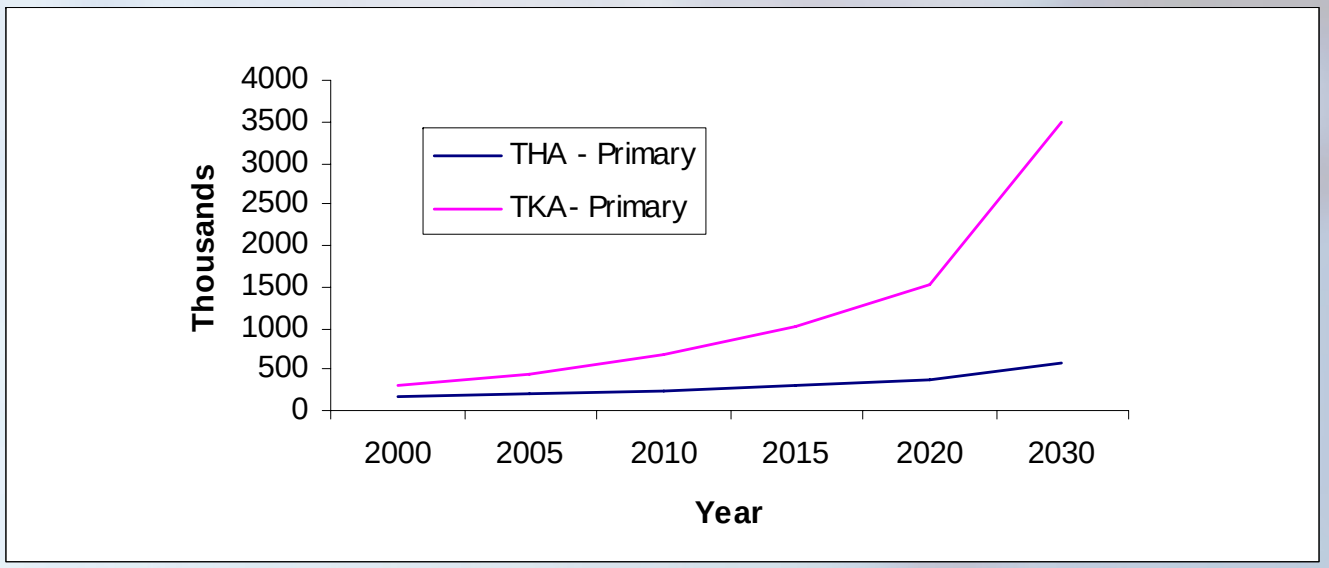
MARKET TRENDS

TJR Primary 2005-2030



- Primary TKA procedures to jump by 673% to 3.48 million.
- Primary THA surgery rates to increase 174% to 572,000 cases.

Source: Kurtz SM, Lau E, Zhao K, et al. The future burden of hip and knee revisions: U.S. projections from 2005 to 2030. SE-53.

Presented at the American Academy of Orthopaedic Surgeons 73rd Annual Meeting. March 22-26, 2006. Chicago.

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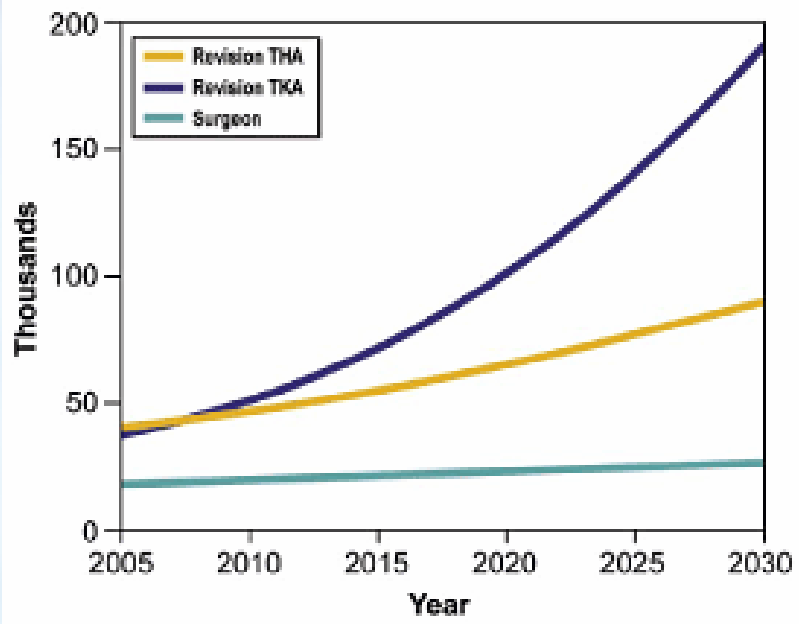
MARKET TRENDS

Projected THA/TKA Revision Procedures



- Doubling of TKA revisions by 2015
- Doubling of THA revisions by 2022.
- Fewer than 50% of surgeons are doing revisions

Source: Kurtz SM, Lau E, Zhao K, et al. The future burden of hip and knee revisions: U.S. projections from 2005 to 2030. SE-53. Presented at the American Academy of Orthopaedic Surgeons 73rd Annual Meeting. March 22-26, 2006. Chicago.

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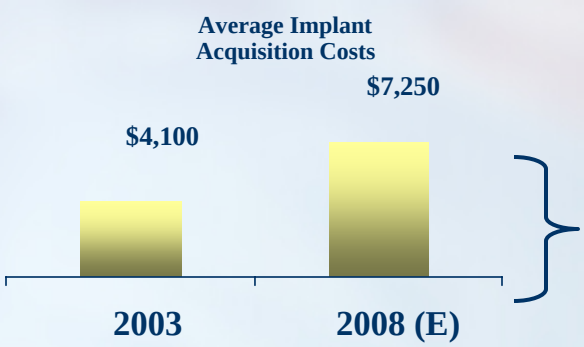
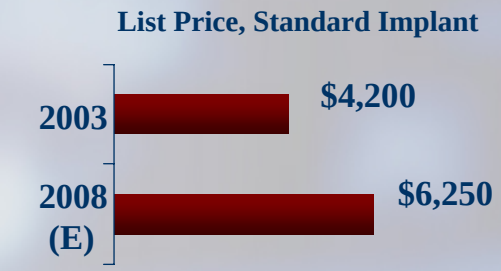
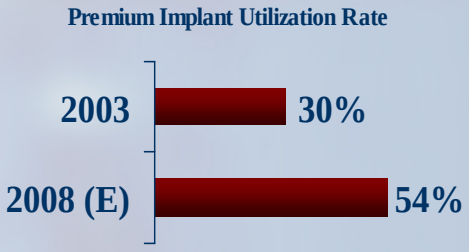
Total Joint Replacement Economics

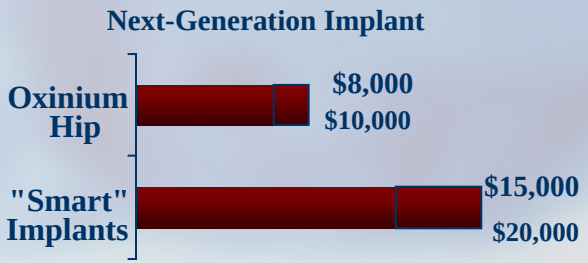


Inflation Prices

- Higher list prices
- Mix of premium implants
- "next-generation" implants







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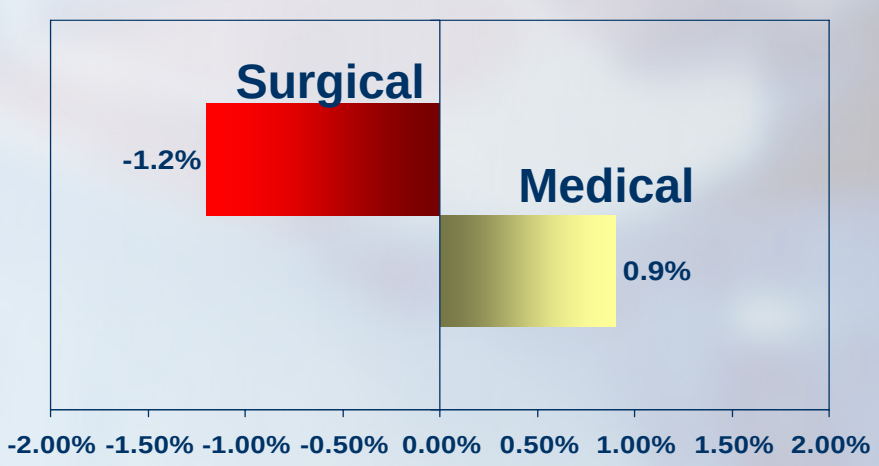
MARKET ISSUES

DRG Rebasing

- CMS Proposes Monumental Changes for Inpatient Payment
- Proposed Changes Address “Cherry-Picking” of Profitable Cases
- Financial Impact of Changes Varies Based on Hospitals’ Relative Case Mix
- Cardiac Service Line Hardest Hit, Impact Mixed Across Other Service Lines
- Multiple Year Timetable Surrounding Implementation

MARKET ISSUES

2007 CMS Targets Procedures



Source: FY 2007 Impatient Prospective Payment System Final Rule, August 1, 2006

Goal: to make hospital payments approximate costs
Purpose: to address the reimbursement bias of surgery over medicine

- For 2007, moving from a “charge-based” system towards a “cost–based” system
- “Case severity” projected 2008 – instead 20 new DRGs & 32 others modified

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MARKET ISSUES

- ✓ Leapfrog Group information for consumers and purchasers of healthcare
- ✓ Institute for Healthcare Improvement The 5 Million Lives Campaign – Protect patients from incidents of medical harm, six new interventions – 2 years --12/08
- ✓ P4P reimbursement based on quality and efficiency rather than volume of service. Encourages and reward performance improvement efforts
- ✓ CMS / Joint Commission limit burden by aligning measures Requirement to submit data on 21 quality measures beginning 3Q 2006 – Quality Improvement Organization Clinical Data Warehouse

MARKET ISSUES

"Efforts by aggressive medical malpractice attorneys could rapidly transform Leapfrog's standards from marketplace advantages for compliant hospitals to performance expectations required by law."

Source: Michelle Mello, Prof of Health Policy & Law, Harvard University

UNDERLYING DRIVERS

Of Supply Costs . . . . .

- ✓ Physician's Pen
- ✓ Technology Development
- ✓ Medical Research Industry
- ✓ Physician Competition/Marketing
- ✓ Medical Liability *(defensive medicine)*
- ✓ Evidenced Based Medicine
- ✓ Industry Direct Marketing

BARRIER CONTRIBUTORS

A Buyer's Perspective . . . . .

- ✓ Supplier's relations undermine hospital efficiencies
- ✓ Technology is not accompanied with a economic profile
- ✓ Instituting best practices addresses quality and economic realities
- ✓ Difficult to collaborate with surgeon community on standardization

BARRIER CONTRIBUTORS

A Physician's Perspective . . . . .

- ✓ Bears the burden of liability
- ✓ Want's to work with the "latest & greatest"
- ✓ Traditional underlying tension with hospital providers
- ✓ Standardization equates to restricted access
- ✓ Looking for efficiencies to off-set payment reductions

BARRIER CONTRIBUTORS

A Supplier's Perspective . . . . .

- ✓ Focus on procedural issues
- ✓ Not enamored with the prospects of retooling their sales forces.
- ✓ Has been little volume movement through price concessions
- ✓ Corporate pressure on local reps to address supply chain issues

POLARIZED ENVIRONMENT

With the growth of this fragmented and seemingly hostile environment, there appears to be little opportunity to advance relations, understanding and creditability that is needed to effect resolution

PROPOSAL

Focus on Three Platforms

Establish **internal collaborative** from both the economic and clinical influences, assuring appropriate participation from all levels based on their committed interest

Promote **far-term resolution** through **best practice parameters** that assesses physician needs and engages them in new relational models

Seek **near-term resolution** through building a “quid pro quo” between the buyer and seller at the local level

Discuss the steps needed to provide sustainable savings with Medical Devices

PROPOSAL

Areas of Focus

- **Collaborative Balance**
- **“quid pro quo”**
- **Facilitate Negotiations**
- **Coordinate Communications**
- **Appropriate Contract Model**

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SYSTEM STAKEHOLDERS

Promoting Internal Collaboration

Input Received From:

Amerinet, Inc.

SYSTEM STAKEHOLDERS

Developing a Process

- ✓ Identify cost reduction opportunities
- ✓ How to prepare
- ✓ Setting the stage
- ✓ Develop a workable contract
- ✓ Reaching mutual acceptable outcomes

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SYSTEM STAKEHOLDERS

Identify Cost Reduction Opportunities . . .

- ✓ Monitor Procedural Metrics
- ✓ Look for inflationary trends through cost accounting system
- ✓ Compare against GPO contract pricing and appropriate tier levels
- ✓ Utilize database resources
- ✓ Networking – What are your peers paying for products?

SYSTEM STAKEHOLDERS

How to prepare . . . . . .

- ✓ Build expert champions
- ✓ Evaluate information gaps
- ✓ Utilize information from GPO
- ✓ Determine desired relational approach
- ✓ Is there a need for outside facilitator

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SYSTEM STAKEHOLDERS

Underpinnings for Success

Establish strong Surgical Services Value Analysis process and strong guidelines on supplier access to surgeons and staff.

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SYSTEM STAKEHOLDERS

Setting the stage . . . .

- ✓ Obtain consensus on the value of your effort
- ✓ Develop a plan
- ✓ Organize & align your support
- ✓ Create a supplier information forum
- ✓ Evaluate individual strengths & weaknesses
- ✓ Anticipate disadvantage niches

SYSTEM STAKEHOLDERS

Develop a workable contract . . . .

- ✓ Identify and address desired outcomes
- ✓ Are the deliverables doable
- ✓ Traditional vs innovative
- ✓ Does it consider the clinical influences
- ✓ Have you included Performance Criteria
- ✓ Allow for future trends, technology & resources

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SYSTEM STAKEHOLDERS

Reaching Mutual Acceptable Outcomes . . .

In business as in life, you don't get what you deserve, you get what you negotiate

- Chester L. Karrass

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SYSTEM STAKEHOLDERS

Tips for negotiations . . . .

- ✓ Be Flexible. Always have an alternate choice.
- ✓ Don’t say Yes to quickly.
- ✓ Don’t make the first major concession.
- ✓ Watch concessions as deadline approaches – big mistakes are often made.
- ✓ Be skeptical – Things are not always as they appear.
- ✓ Watch out for hidden money

CLINICAL RELATIONS

Engaging the Physicians

Input Received From::

The Riner Group Inc.

ENGAGING PHYSICIAN GROUPS

In their daily activities, physicians and financial staff speak different languages. Establishing a common ground of that difference is the first step to building trust and collaboration.

The second step is showing the physicians that their input really matters.

Utilize your facility's data as benchmarked against national & regional data to initiate discussions with your physicians

ENGAGING PHYSICIAN GROUPS

"Personality" Characteristics

- ✓ Outcomes oriented *(as opposed to process)*
- ✓ Desire instantaneous results

  your short-term is their long-term
- ✓ Want to deal with "decision makers"
- ✓ Often mistake deliberate decision making with "stalling"
- ✓ Frequently "mistrust" administrators

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ENGAGING PHYSICIAN GROUPS

"Business" Characteristics

- ✓ Small business mentality
- ✓ Do not retain earnings
- ✓ Very concerned about "overhead"
- ✓ Consider referring physicians as customers & patients as consumers
- ✓ Tend to avoid capital intensive activities
- ✓ Feel they control access to hospital services

ENGAGING PHYSICIAN GROUPS

Decision & Communication Issues

- ✓ Internal governance & leadership mechanisms often cumbersome
- ✓ Roles of lead physician(s) & administrator not always clear
- ✓ Difficulty in adopting a single spokesperson

  "If you speak to one cardiologist, you've spoken to one cardiologist"
- ✓ Representatives at table often no empowered
- ✓ Often arrive at table without defined goals & strategies

PHYSICAN GROUPS vs HOSPITALS

Physician Group Goals

- Often ill-defined
- Generally link to:
  - *Quality of care & Physician income*
- Short on long-range planning
- Focus on practice, not community

Hospital/System Goals

- Well defined & organizationally oriented
- Involve reinvestment of income
- Multi-year in nature
- Community oriented

Common Goals

- Maximize market share in defined service
- "High-tech" image
- Develop reputation for quality
- Develop brand recognition
- Procedural efficiency (costs)

Potential Clashes

- Patient allegiance
- Customer-vendor vs. team approach
- Maximize vs. optimize care
- Community health vs. patient care
- Long-term investment vs short-term results

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PHYSICAN GROUPS & HOSPITALS

Affiliation

- Less formal
- Voluntary
- Goals & objectives may differ
- Indeterminate duration…unstable
- Dependent upon unilaterally perceived mutual benefit & goodwill
- Non-economic relationship

Partnership

- More formal
- Contractual
- Partnership goals & objectives defined
- Definite duration or notice period . . . . Stable
- Defined bilateral contributions & benefits
- Often financial linkage *(equity distributions, payment for services, incentives, gainsharing, etc.)*

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PHYSICIAN/HOSPITAL INTEGRATION

Less ⟵ ⟶ **More**

No Economic Relationship

-Ad Hoc

-Voluntary Interaction

-No accountability

Medical Directorship

-Paid positions

-Some accountability

-Irregular input

Physician-Hospital Institute

-More accountability

-Often a paid position

-Regular meetings

Management Arrangement

-LLC

-Contractual integration

-Specific responsibilities per contract

-Major accountability

Complete Economic Integration
(staff or group model)

-Physicians employed

-May include physicians, hospital, health plan

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Venues for Physician Discussions

- ✓ Physician Hospital Organizations
- ✓ Protocols and knowledge dissemination
- ✓ Medical Executive Committee
- ✓ Monitoring of Quality Analysis
- ✓ Physician/Hospital alignment w/ 3rd Party Payers
- ✓ Service Line Management
- ✓ Joint Ventures

SUPPLIER COLLABORATION

How to Affect Near-Term Resolutions

SUPPLIER COLLABORATION

What do you need to know . . . .

- ✓ Understand the local ortho market
- ✓ Supplier product differentiation
- ✓ Surgeon alliances *(and why)*
- ✓ Underlying supplier competitiveness
- ✓ Ortho trends in your market place

SUPPLIER COLLABORATION

Where to start . . . . .

- ✓ Become versed with pertinent local & national agreements
- ✓ Develop a Plan of Action
- ✓ Create a supplier information forum
- ✓ Meet with suppliers individually
- ✓ Organize & align your support team

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SUPPLIER COLLABORATION

Implement Plan . . . .

- ✓ Initiate RFQ – required response, plus options
- ✓ Go/No-Go Commitment
- ✓ Build Out Negotiations
- ✓ Develop/Activate Contract
- ✓ Reinforce clarity through communications
- ✓ Periodic Performance Reporting

SUPPLIER COLLABORATION

Ongoing communications . . .

- ✓ When and to whom
- ✓ A position for transparency
- ✓ Milestones to review
- ✓ Flexibility for momentum

Venue for Supplier Discussion

Obvious need for building better business models that allows both buyer and seller to meet objectives

- ✓ If Health Care is a local business, then resolution will be better served locally
- ✓ What are the local needs that produces an interest for contracting trade-offs
- ✓ Are negotiations better served through the use of an outside facilitator
- ✓ Life after contracting

ACTION STEPS

How to organize go-forward efforts

Information provided by:
Amerinet Clinical Advantage

ACTION STEPS

I

Define a Manageable Project Scope

Defining a manageable project scope also means targeting one implant at a time, generating a focused, efficient effort.

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ACTION STEPS

II

Set a Clear Timetable

Build in a clear timetable in your Plan of Action and stick to it. Be sure to leave flexibility, with the understanding this timetable is only important to you.

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ACTION STEPS

III

Establish Ability to Move Market Share

Assess your facility's ability to move market share from one supplier to another before beginning negotiations with suppliers.

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ACTION STEPS

IV

Target Measurable Results

Collect & analyze data with your project team and gain consensus on measurable and realistic savings that can be obtained. To ensure these cost savings materialize, facilities must also set processes in place that continually monitor and record contract results are being achieved.

To not rely on the supplier to provide the compliance data needed to achieve contract milestones.

ACTION STEPS

V

Obtain Senior Management Commitment

Continual commitment from senior management helps keep the project moving and demonstrates the importance of the project to all hospital staff.

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ACTION STEPS

VI

Build a Representative Project Team

Implant cost-reduction initiatives affect a range of stakeholders, as well as quality of care

Including all affected stakeholders reduces the risk of staff resistance to the final solution and ensures quality concerns are not overlooked.

ACTION STEPS

VII

Involve Clinicians and Address Physician Needs

With quality of care as their first priority, physicians drive the decisions about which implants they use and which suppliers are acceptable. Therefore, facilities must engage physicians throughout the process – from data collection through supplier selection and custom contracting.

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ACTION STEPS

VIII

An environment that nurtures involvement

Involving the right people and acting on their input throughout the process is a major step to winning support.

Providing comprehensive, reliable data builds team trust and generates a sense of urgency.

To enhance support from all facets, incentives should be provided for their participation and compliance.

ACTION STEPS

IX

Present Comprehensive Data

The data should focus on actual costs for conducting procedures compared to reimbursements for those procedures.

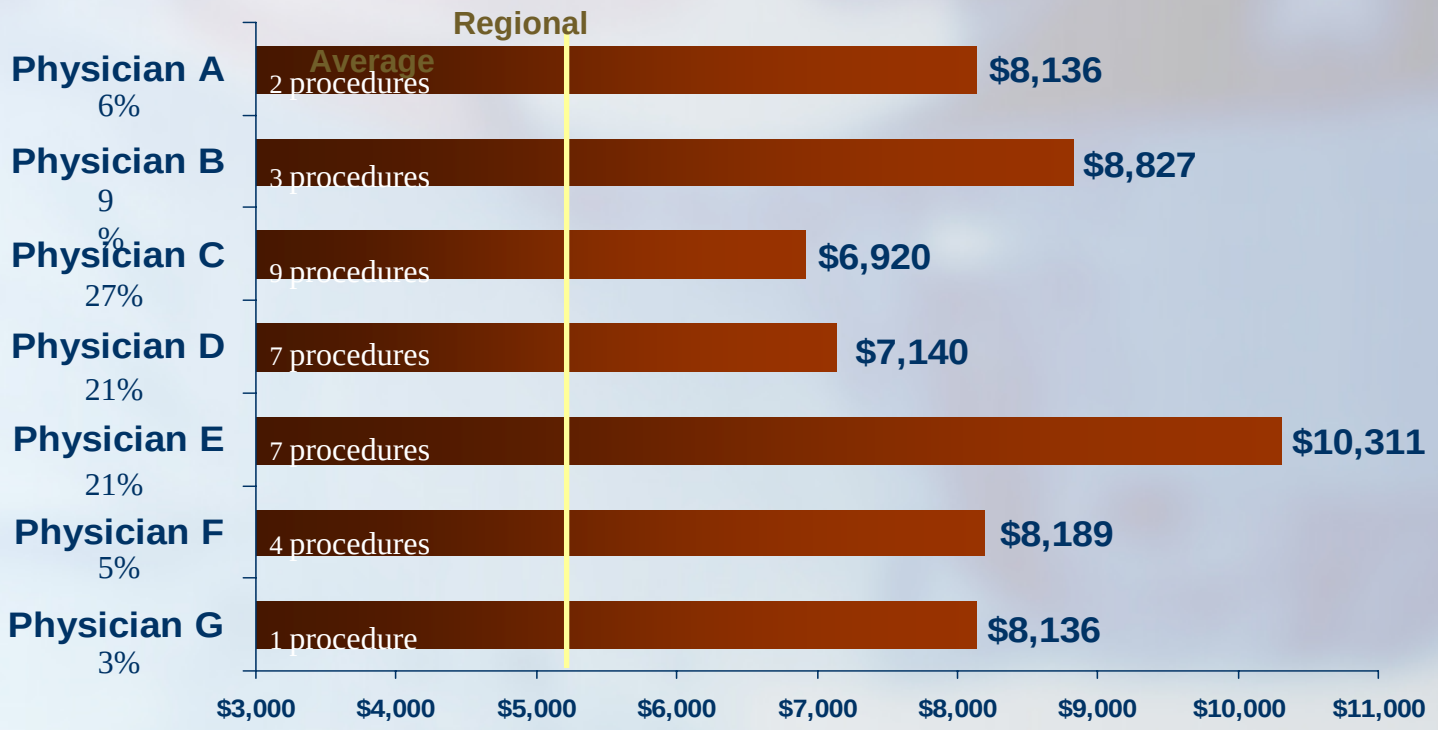
Collecting the data is a labor-intensive process, requiring facilities to examine their implant logs, purchase orders and invoices. To ensure complete data, facilities should involve clinical department managers in the data collection process.

Collected data should include:

- ✓Number of procedures by facility and physician
- ✓Suppliers used
- ✓Dollar/unit volume per case, by supplier & hospital
- ✓Cost variation between facilities and physicians
- ✓Physician brand preferences
- ✓Number of physicians
- ✓DRG reimbursement
- ✓Non-device costs

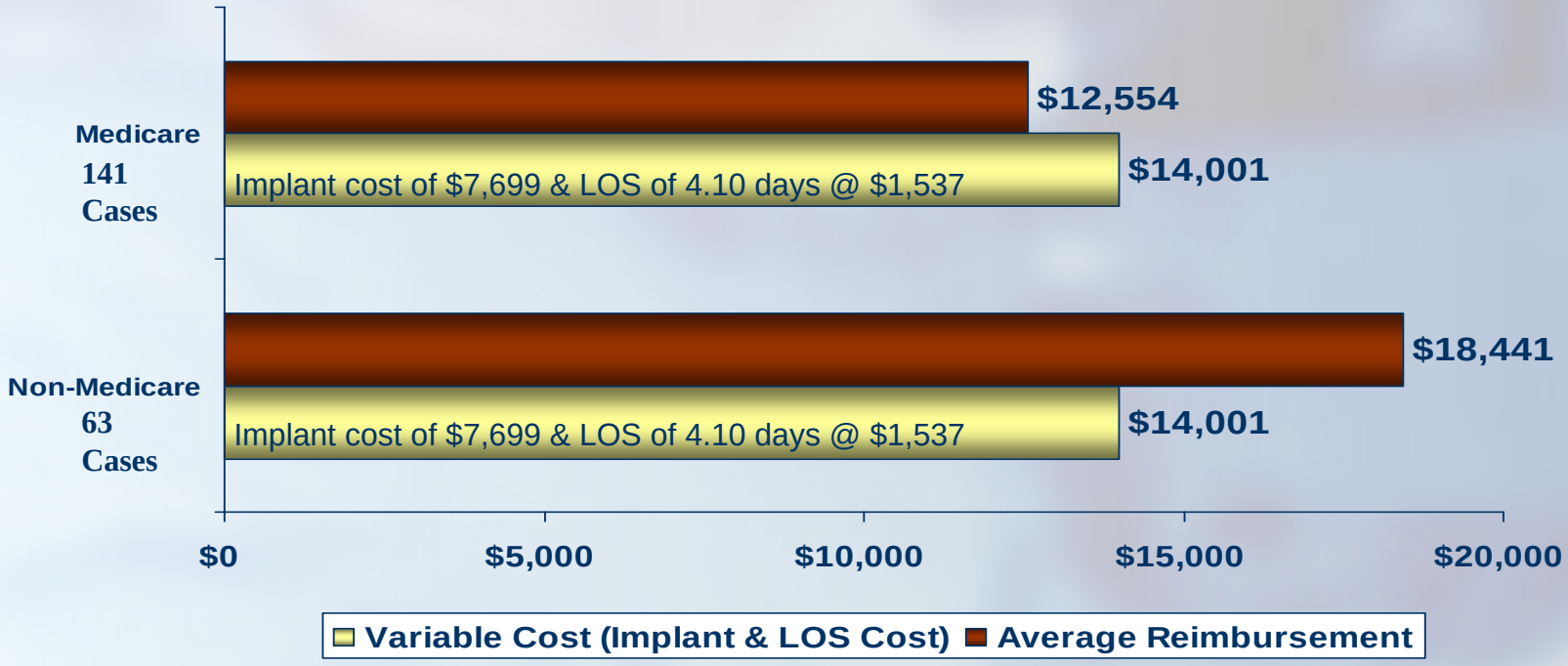
FURTHER ON DATA

Example: - Primary Hip by Physician 12/05-4/06



FURTHER ON DATA

Example – Primary Knee Variable Cost to Reimbursement



*Bilateral procedures are not included

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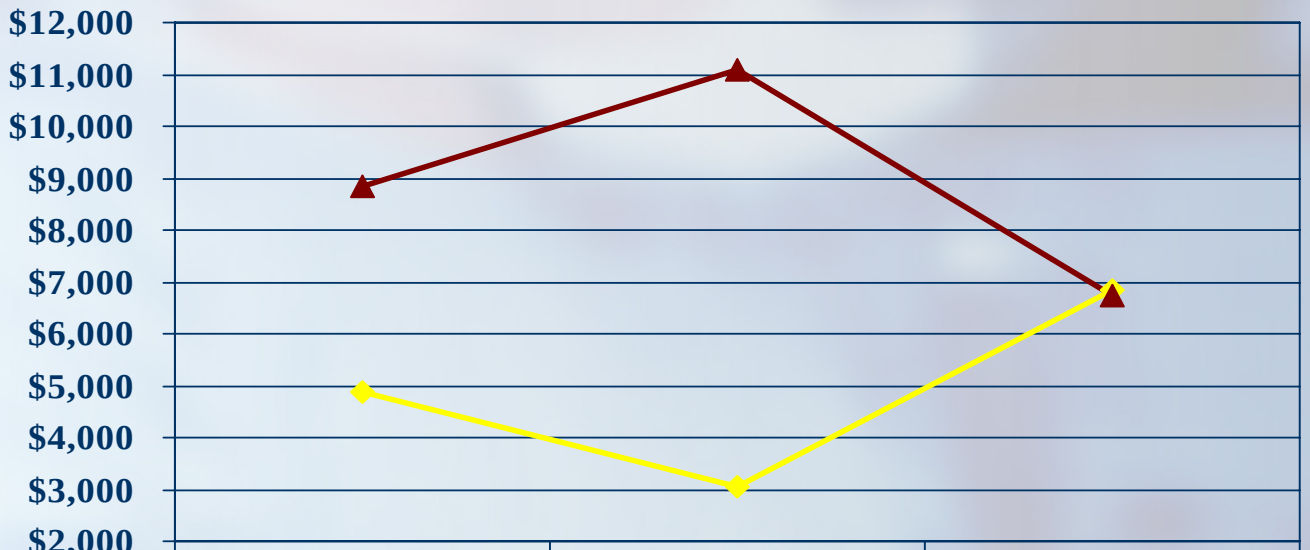
FURTHER ON DATA

Example – Cervical Spine Fusion by Level – posterior entry



	Pysician 1	Physician 2	Physician 3
Level 1	$4,879	$3,064	$6,848
Level 2	$8,844	$11,071	$6,725

ACTION STEPS

X

Evaluate and Select Cost Reduction Options

Identify several possible cost-reduction strategies and involve physicians in selecting which to use.

The best solution will deliver significant and sustained cost savings and use physicians' preferred suppliers.

To achieve the maximum bottom-line impact, facilities turn to custom contracting, involving the physician team in which suppliers will be involved in the contracting process.

ACTION STEPS

XI

Product Evaluation Committees

One key way to keep these costs in check is by having policies & procedures in place for the introduction of ‘new technology’ – or what is being defined as “proprietary” by some suppliers. These policies will eliminate the purchase of products not on contract.

ACTION STEPS

XII

Develop Clear Communication Strategies

Clear and appropriate communication between the physician and the supplier and between the facility and the supplier must occur for successful negotiations.

Physicians see supplier representatives as trusted partners in delivering quality care. Physicians are often concerned that the negotiation process may strain that trust. Providing suggested talking points for physicians can alleviate their discomfort and increase the chances of success significantly.

Be clear and honest with the suppliers at the negotiating table. Facilities should clearly state their need to reduce costs, their cost-reduction goal and the strategy they have chosen.

Venue for Industry Consideration

- Reimbursement is favorable to recapture margins
- Government posturing a more competitive environment
- Other stakeholders will not stay at arms length
- Economic cascade via co-payments to consumer

Will we accept legitimizing "tier care" and provide better health care for those of financial means?

BUSINESS STATEMENT

Since 1978 I have been building experiences in strategy development, organizational placement and national contracting. Starting out by "walking the halls" in a provider environment, I was able to obtain a working knowledge of hospital infrastructure and process interdependence.

Having developed National Account Platforms for three Fortune 500 Corporations, I provided contracting activity and implemented price-discounting strategy for products spanning the influences of commodity to highly technical. I have further developed "umbrella programs" for multi-division companies that leverage synergies under a shared service profile.

As a consultant, I have become recognized as a passionate facilitator of collaboration between buyers and sellers, participating on industry panels and forums on the need to establish the value of new technology.