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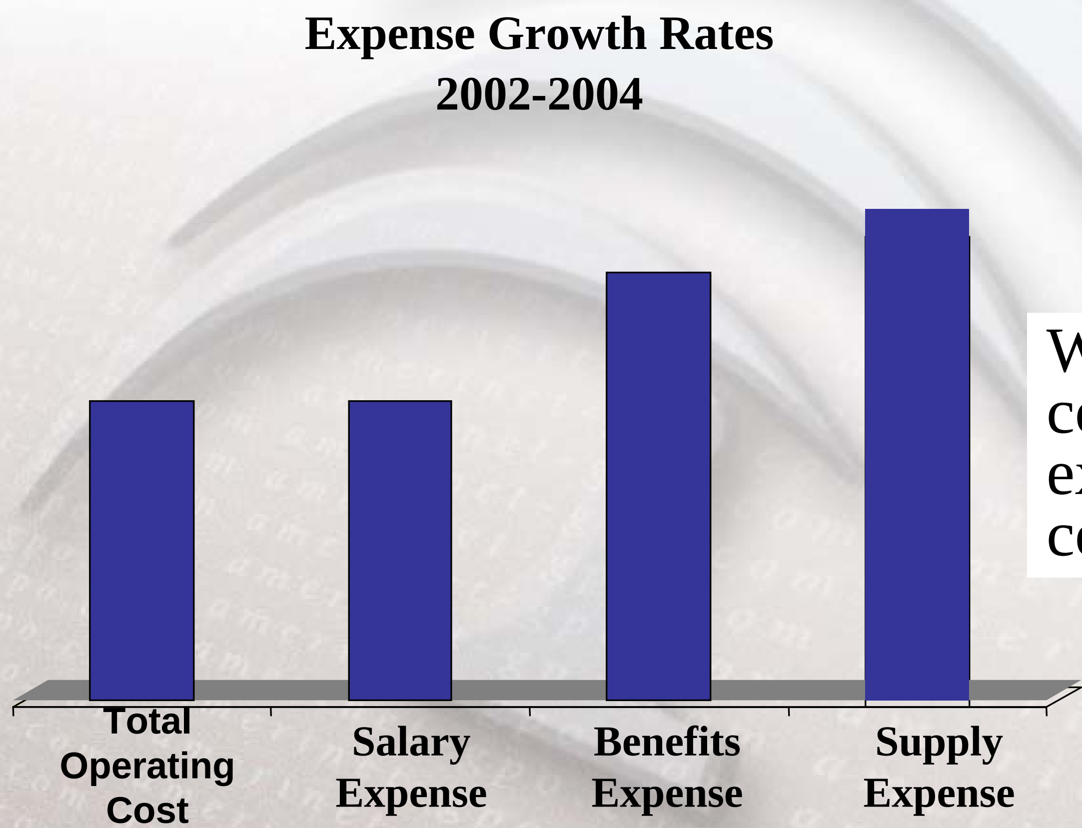
hmms-nj HealthCare Materials Management Society of New Jersey

Be Prepared When the CEO Knocks on Your Door

Karen Barrow
Sr. Vice President
Business Development

Supplies Have Overtaken Labor as the Fastest Growing Line Item



Within 5-8 years, supply costs + logistics costs will exceed labor as the #1 cost to hospitals

Source: 2005, Healthcare Financial Management Association

Supply Chain Management Is the Focus, The Solution

- Rising Expenses, Demand for Capital Investment and New Technology
- Short Term Debt Increasing
- Shrinking Revenues/Reimbursement

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Be Prepared When the CEO Knocks on Your Door

Learning Objectives:

- Market trends impact on future purchasing practices
- Reimbursements – changes and challenges
- Benchmarking – improve quality, reduce costs through efficiency

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Four Most Critical Issues For our CEOs

- **Include physician alliances and arrangements, long-term strategic planning, quality of care and patient safety, and employee recruitment and retention**

- The introduction and use of **new technology has accounted for 20 percent to 40 percent of the annual increase** in U.S. health care spending since 1960

- **Medicare's payment policies** do not support hospitals in the adoption of new technologies, even those that will improve patient outcomes and have the potential to lower health system costs

Before CEO Knocks…
Understand CEO Challenges

- Reimbursement
- Pay for Performance
- Transparency

Before CEO Knocks…
Understand CEO Challenges

2008 CMS Inpatient Payment Changes:

- CMS's proposed disclosure requirements for specialty hospitals
  - Disclose physician ownership
  - Disclose physician ownership to referrals/patients
  - Emergency care process

Before CEO Knocks…
Understand CEO Challenges

2008 CMS Inpatient Payment Changes:

- Eliminated extra pay for hospital-acquired infections/preventable conditions
- New DRG reflect acuity of care
- 745 new severity-adjusted MS-DRGs – replaced 538 DRGs
- Payment reductions for recalled or replacement devices

Not Present on Admission (NPA)

2008 CMS will *not* assign a higher paying DRG for the following eight conditions:

•Serious preventable event--Object left in surgery
•Serious preventable event--Air embolism
•Serious preventable event--Blood incompatibility
•Catheter-associated urinary tract infections
•Pressure ulcers (decubitus ulcers)
•Vascular catheter-associated infection
•Surgical site infection—
Mediastinitis after coronary artery bypass graft (CABG) surgery
•Falls

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More NPAs Being Added 2009

Feds Try to Cut Costs of Hospital Errors

- (4/14/08 Associated Press) reports "Federal health officials on Monday proposed adding dangerous blood clots in the leg and eight other conditions to the list of complications that Medicare won't pay to treat if they were acquired at the hospital:
- **Deep vein thrombosis**, or a blood clot within the vascular system, which occurred in 140,010 cases for the fiscal year ending Sept. 30;
- **Ventilator-associated pneumonia**, which occurred in 30,867 cases;
- **Bloodstream infections** with the staph aureus bacteria, 27,737 cases;
- **Legionnaire's disease**, which occurred in 351 cases.

Medicare's policy often sets precedent for private insurers, and many of them have already begun to adopt their own never-event policies."

Before CEO Knocks… Understand CEO Challenges

Quality and Cost Reporting will lead to transparency:

- 2008 CMS: 27 Quality Indicators will need to be reported, hospitals that don't comply will be penalized
- If not reported 2% payment penalty
- Patient satisfaction survey data
- Data made public beginning March 2008 on Hospital Compare Website

Before CEO Knocks…
Understand CEO Challenges

Transparency and Public Reporting:

- November 2006 – AHA reported 32 states had statutes requiring hospitals to report charges or payment rates.
- Many payers already are posting this information on their websites for enrollees.
- Patients want to know what their out-of-pocket costs are going to be.
- Providing this level of service requires collaboration of all the parties that can't be forced by just one side of the pricing equation.

Source: HFMA's Healthcare Finance Outlook 2007

Market Trends Overall

The Bottom Line

- Movement toward quality, transparency and efficiency is real.
- As CMS imposes reimbursement cuts, commercial payers will follow suit, making it more difficult to negotiate rates.
- Medicare and Medicaid reimbursement cuts do not address the underlying problem of funding inadequacy.
- Significant policy changes must occur to resolve the increasing cost of health care and related funding issues.
- Long-term outcomes will be increased affordability and access through some variant of universal coverage.

Many changes will not occur before new administration in 2009.

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Market Trends

Physician Preference Implants (PPI) Include:

- **Orthopedic Implants:**
  - Total Hips
  - Total Knees
  - Can also evaluate trauma, revisions, accessories
- **Cardiology:**
  - Pacemakers
  - Stents
  - Interventional Radiology (Cath Lab Products)
  - ICDs
- **Neurology: Spinal Procedures Only**
  - Plating
  - Cages
  - Implantable Generators
  - Lead Kits
  - Interventional Radiology

ICD Update

- Pace of new technology being released has slowed
- Technology on the horizon is really just an improvement of current technology
  - Longer battery life
  - Smaller sizes

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Market Trends

Spine Implant Market Players

- About 150 companies sell spinal devices
- Low barriers to entry in the marketplace resulting in 30 new companies in the last two years
- 12 of the new companies have some degree of physician ownership
  - Legal questions to be answered
- CMS looking at spinal fusion
- Physician-owned GPOs

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What Drives This Trend

Factors Contributing to Rising Health Care Expenditure

- New technology
- Growing and aging population
- Patient and society expectations

Technology innovation is the wild card

Sources: The Economist 2005, Sg2 Analysis, 2005.

“The future, according to some scientists, will be exactly like the past, only far more expensive.”

Author: John Sladek
December 15, 1937 – March 10, 2000
American science fiction author.

Direct to Consumer Advertising

The Zimmer® Gender Solutions™ High-Flex Knee
The First and Only Knee Replacement ***Shaped*** to Fit a Woman's Anatomy

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DOJ Investigation Results

- Settlement requires disclosure of consulting agreements and payments to patients by surgeons and on company websites (including surgeon name and payment amounts)
- Appointment of federal monitor for each firm to review all compliance and consulting agreements
- Market share not likely to change
- Playing field has been leveled

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Disclosure Sheds Light in Ties Between Physicians and Industry

Physician Fees and Settlement Amounts

	Number of Payments Over $1M*	Sum of Payments Over $1M	Settlement Fee
Biomet	5	$10M	$26.9M
DePuy	9	$29M	$84.7M
Smith Nephew	6	$11M	$28.9M
Stryker	10	$22M	Non-prosecution agreement
Zimmer	19	$45M	$169.5M

*Payment to individual physicians; does not include payment to physician groups or institutions. M = million.
Sources: Biomet, 2007; DePuy, 2007; Smith & Nephew, 2007; Stryker, 2007; Zimmer, 2007.
Sg2: Highlights from AAOS, 2008

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NJ Physician Orthopedic Consulting Payments

Supplier	Surgeon	Ortho Firm	Location	Invdividual Pmts	Group Pmts	Kind Pmts
Biomet	BENEVENIA, JOSEPH	Foundation of UMDNJ	Newark, NJ	$75,000 - $99,999		
Biomet	FELDMAN, DAVID	Holy Name Hospital	Teaneck, NJ	$1 - $24,999		
Biomet	FEMINO, FRANK P		Belleville, NJ	$25,000 - $49,999		
Depuy		Capital Health System Foundation	Trenton, NJ		$ 3,000	$ -
Depuy		Centrastate Healthcare Foundation	Freehold, NJ		$ 750	$ -
Depuy		Foundation of the UMDNJ	Piscataway, NJ		$ 1,950	$ -
Depuy		New Jersey Orthopaedic Society	Trenton, NJ		$ 2,500	$ -
Depuy		Quadrant Healthcom Inc	Newark, NJ		$ 16,500	$ -
Depuy		Univ of Orthopaedic Assoc Inc	New Brunswick, NJ		$ 2,500	$ -
Depuy	HARRER, MICHAEL F MD		Haddonfield, NJ	$ 16,000		$ 430
Smith Nephew		Hudson Surgical Design	Cream Ridge, NJ		$ 7,000.00	
Smith Nephew	HARWOOD, DAVID		New Brunswick, NJ	$175,001 - $200,000		$ 58,978
Smith Nephew	KATZ, LAWRENCE		Upper Saddle River, NJ	$ 3,996.00		
Smith Nephew	MCKINNEY, PAM		Jackson, NJ	$ -		$ 9,496
Smith Nephew	POLAKOFF, DONALD		New Brunswick, NJ	$ 10,313.00		$ 14,406
Smith Nephew	RODERICKS, DAVID		Galloway, NJ	$ 2,000.00		$ 1,610
Smith Nephew	TRIA, ALFRED		Somerset, NJ	$525,001 - $550,000		$ 75,985
Stryker	ADLER, EDWARD		Watchung, NJ	$0-$25,000		$ 1,561
Stryker	ANDRONACO, JOHN		Hackensack, NJ	$0-$25,000		$ 72
Stryker	PIZZURO, JOSEPH P		Ridgewood, NJ	$75,000-$100,000		$ 1,894
Stryker	RANAWAT, CHITRANJAN		Alpine, NJ	$1,950,000-$1,975,000		$ 1,284
Stryker	SCHOIFET, SCOTT D		Lumberton, NJ	$25,000-$50,000		$ 1,901
Zimmer	BEZWADA, HARIP		Moorestown, NJ	$ 5,000		
Zimmer	GLASSMAN, ANDREW	Essex IRB	Lebanon, NJ	$ -		
Zimmer	GOLDMAN, ROBERT		Short Hills, NJ	$ 10,088		
Zimmer	GUTOWSKI, W THOMAS		Princeton, NJ	$ 30,409		$ 902
Zimmer	HARTZBAND, MARK A		Franklin Lakes, NJ	$ 982,622		$ 29,926
Zimmer	KELLY, MICHAEL A		Franklin Lakes, NJ	$ 1,043,028		$ 17,113
Zimmer	KLEIN, KENNETH S		Brick, NJ	$ 15,000		
Zimmer	MALBERG, MARC I		Princeton, NJ	$ 6,741		
Zimmer	NELSON, CHARLES L		Voorhees, NJ	$ 68,746		$ 6,797
Zimmer	TRIA, ALFRED		Princeton, NJ	$ 220,640		$ 48
Zimmer		Buechell-Pappas Trust	Endotec, NJ		$ 125,767	

Senate Bill To Require Implantable Medical Device Manufacturers To Disclose Prices- More Demand for Transparency

October 25, 2007

- **A Senate Bill Would Require Implantable Medical Device Manufacturers To Disclose Prices.** Senators Arlen Specter and Chuck Grassley (both Republicans) have introduced a bill (S 2221) that would require medical device firms to report average and median prices of implantable medical devices to the government on a quarterly basis beginning January 1, 2009.

Before CEO Knocks….
Collect Data

Transparency Requirements:
Credible Data and Benchmarks

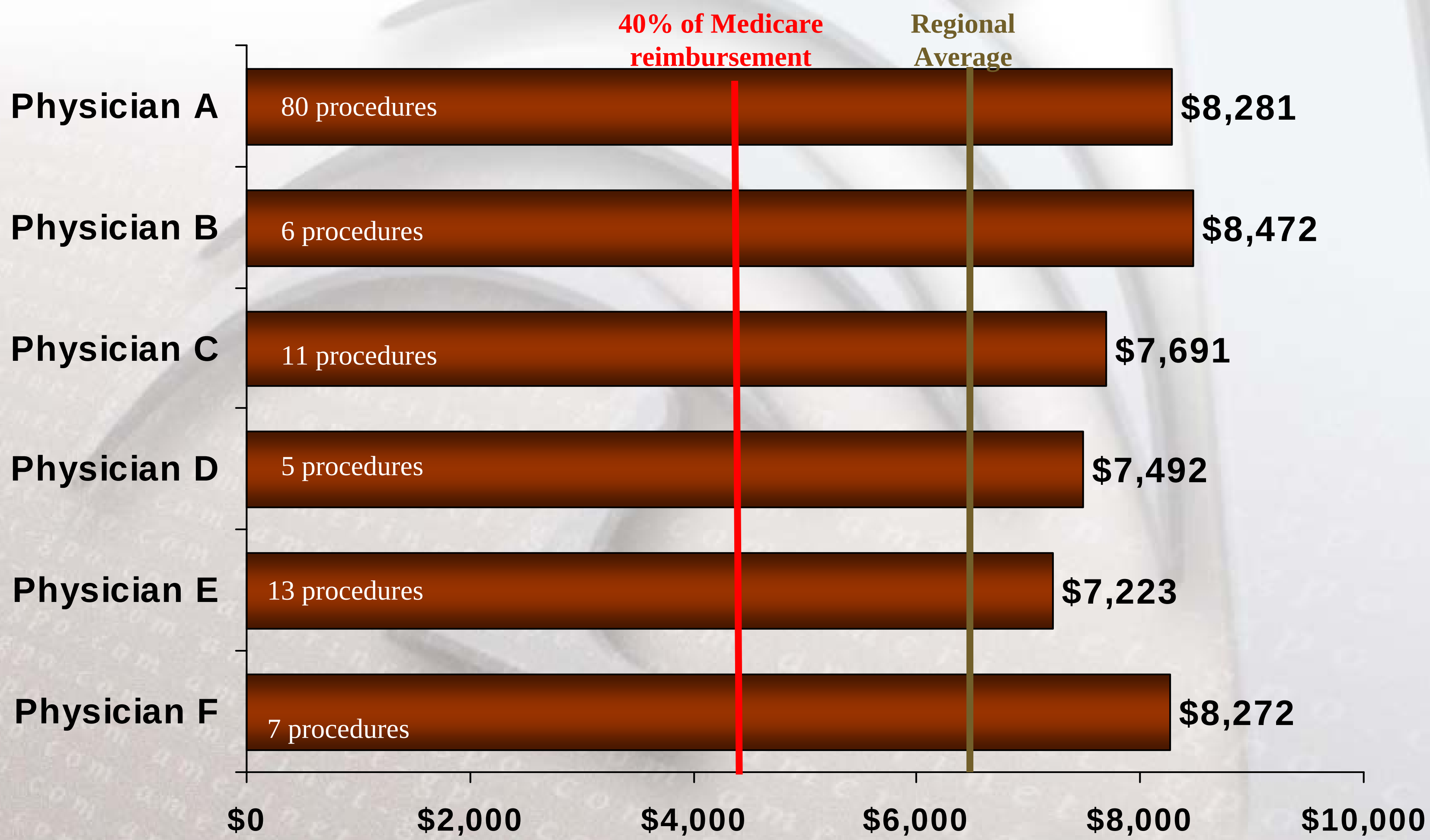
- Helping the C-suite understand the need for total spend management of Implants:
  - Physician Preference Implants represents 40 – 63% of supply spend
  - PPI market trends
  - Margin improvement for PPI
  - Key performance indicators/Benchmarks

"In God We Trust: All Others Bring Data"

Edwards Deming 1992

Physician Variance:
Average Primary Total Hip Implant Cost by Physician

(4 Months)



Four Most Critical Issues For our CEOs -

- ***Physician alliances and arrangements, long-term strategic planning, quality of care and patient safety, and employee recruitment and retention***

Alignment of Interests Has Never Mattered More

- Hospitals and Physicians have a common agenda:
  - Raising the bar on quality and safety
  - Making healthcare more affordable
  - Reduce legal liability
  - Pursue intelligent technology adoption
  - Improve financial return on service line
  - ***Prove to the government, payers and patients that together we will provide quality, safe, cost effective healthcare***

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*" Our doctors would be very happy to work with Amerinet again. It went very smoothly, and the savings we're starting to realize is higher than projected – about **1.2 million** annually total."*

- Louisa Adelung
Chief Executive Officer
Foundation Surgical Hospital

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SUCCESS

Amerinet Clinical Advantage

"Our doctors would be very happy to work with Amerinet again. It went very smoothly, and the savings we're starting to realize is higher than projected – about $1.2 million annually total"

Louisa Adelung
CEO, Foundation Surgical Hospital

Amerinet Clinical Advantage Directs Texas Hospital to Savings

Spine-related surgeries are a challenging undertaking for both medical specialists and health care facilities. The process is further complicated by a myriad of implant options available from seemingly countless suppliers. Ensuring the highest quality care at the best possible price for these procedures is not an easy task.

"The hardware is complicated, there are hundreds of individual elements and it's difficult to manage. We struggled with it," Louisa Adelung, chief executive officer of Foundation Surgical Hospital, said of the obstacles inherent in managing a growing spinal surgery program.

Foundation Surgical Hospital (FSH) is a state-of-the-art specialty orthopedic and neuro-spine facility in Bellaire, Texas, designed and developed to provide patients with the highest quality of care in a comfortable, convenient environment. Featuring board-certified surgeons and staff, FSH has programs for spine surgery, total joint replacement surgery and sports medicine, as well as general orthopedic and neuro-spine procedures.

To help improve the efficiency and cost-effectiveness of their spinal surgery program, FSH officials contacted Amerinet and its Clinical Advantage program. "We recently added a new director of purchasing and he suggested that we 'talk to the Amerinet people,' " Adelung said. "We soon discovered there was a lot of potential for us for savings."

Physician collaboration

Recognizing physicians' critical role in quality patient care and cost control, Amerinet Clinical Advantage uses a collaborative process to engage staff support and reduce costs.

Facilities that complete Amerinet Clinical Advantage projects:

- Reduce device costs by as much as 25 percent
- Benchmark implant costs
- Improve physician relationships
- Receive credible data to anchor cost-savings initiatives
- Take advantage of Amerinet's custom contracting expertise

"Amerinet has established a successful track record of helping hospital executives, materials management and physicians establish common ground, build trust and work together," said Karen Barrow, R.N., vice president of Clinical Solutions and Business Development for Amerinet's Enterprise Solutions division. »

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