Building bridges with physicians and bringing its group purchasing organization (GPO) to the table helped a North Dakota hospital make progress on one of the toughest cost management issues—orthopedic implants.

St Alexius Medical Center in Bismarck saved $500,000 on its total joint replacement procedures, $250,000 of that from implants—in its latest contract negotiations. The new contracts are for 3 years.

The hospital performs about 5,500 procedures a year in its main ORs, 43% of which are in orthopedics. Of those, about 600 are hip or knee replacements.

These are some strategies that helped St Alexius achieve its results.

Lay a foundation
Teamwork with physicians, cultivated over several years, is a major reason the project was successful, says John Schreier, director of purchasing.

“We didn’t start by going after orthopedic implants,” says Schreier, who was the OR manager before taking his current position. “Obviously, implants are the area everyone focuses on. But that’s also where the doctors get defensive.”

By working with the physicians on less sensitive projects first, the St Alexius team built collaboration and trust. At the same time, the team worked internally to present a united front. Schreier is closely allied with the director of surgical services, Claudia Dietrich, RN, MSN. They meet weekly, along with Elaine Mather, director of central service. The orthopedic clinical coordinator, Bryon Hoff, RN, BSN, is also a key ally because he works with the surgeons on the front lines.

Areas the team addressed early were blood wastage, antibiotics, and preoperative education.

On antibiotics, for example, pharmacists noted the surgeons did not all use the same antibiotics or regimens, but there were no differences in infection or complication rates. The pharmacists began persuading the surgeons to standardize their routines.

Share cost information
Sharing data was a common theme in these projects, says Schreier.

“We began giving the doctors the data, and pretty soon they were giving us ideas,” he says. “We got them to standardize in several areas and built credibility to take it to the next level.”

Previous implant cost management projects had focused on negotiating better pricing and contract terms with the vendors.

To move the project forward, Hoff began providing cost information to the surgeons so they could see how much implant procedures were costing and how much reimbursement the hospital received. The team encouraged the surgeons to challenge the data and kept refining it. The surgeons were asked not to share the information with the vendors.

“We want them to know what the stuff is costing us—not just the invoice cost but the processing, the freight, the whole 9 yards,” Schreier says.

All 7 of the orthopedic surgeons took an interest, and the 2 who perform most of the procedures emerged as champions. The orthopedic surgeons are in 1 group loosely affiliated with the hospital.

Use national data
With the foundation laid, St Alexius brought in another player, Amerinet, its GPO.
“Our job is to build a bridge to help the materials manager work with the physicians and the OR director in cost reduction,” says Karen Barrow, vice president of the Amerinet Clinical Advantage Program. “What we have learned over the years is that these contracts are really negotiated between the physicians and the vendor.” Sales reps cultivate physician loyalty and drive a wedge between the physicians and the hospital. Barrow says the GPO tries to bring the hospital back into the loop.

The bridge is built with data. Barrow assembled data about St Alexius’s cost per case for hip and knee procedures. She also provided regional and national data so the hospital could compare its pricing with others. Barrow says Amerinet’s database uses average pricing and does not entail sharing confidential contracted price.

“Nationally, the total joint prosthesis represents 50% to 75% of a hospital’s total reimbursement,” says Barrow. In the past 13 years, the cost of a total joint implant has risen 119%, while hospitals’ Medicare payment for DRG 209 has increased just 4.5%. Meanwhile, physicians’ reimbursement has fallen by 38%.

“If we don’t close the gap, by 2030 when many of us reach retirement age, hospitals aren’t going to be able to afford to do these implants,” she says.

Hospitals are caught between Medicare’s limited reimbursement and the implant vendors, who need revenue growth to satisfy their stockholders.

Compounding the problem, companies are marketing newer, more expensive technology directly to consumers.

“People see Jack Nicklaus in an ad playing golf when he’s 70 years old. They say, ‘If that ceramic-on-ceramic hip is good enough for Jack, it’s good enough for me,’” Barrow notes.

St Alexius already had the main ingredient for tackling implant costs, she says—a good relationship with its surgeons.

“They had already taken on a whole cost management project, but they got caught up on the implants, which is typical of what we see,” Barrow says. “They needed an unbiased third party to help get the physicians off the block.”

**Enlist surgeons as allies**

To get the ball rolling, St Alexius called a dinner meeting with the surgeons and invited Barrow to present her data.

“I think the surgeons were astounded at some of the numbers,” says Dietrich.

The team gave the surgeons spreadsheets showing procedure-specific costs for total joint cases by physician and discussed the data with them. The next step was to enlist the surgeons’ help in the contracting process.

“We asked the surgeons if they would be willing to work with us on achieving our outcomes with the new contracts,” Schreier says. The team asked the surgeons when approached by the vendors to refer the vendors back to the hospital.

They also asked the surgeons to agree to commit 80% of their business to the 2 or 3 vendors that were awarded contracts. The other 20% would allow surgeons to choose products for revisions or new technology for specific patients.

The team asked the surgeons which vendors they wanted to invite to the table. They explained which vendors were in the region, what kind of relationship they had with the hospital, and how willing the vendors were to work with the team.

Though orthopedic implant companies have traditionally negotiated directly with hospitals for total joint implants, Amerinet says it has had some success working with vendors.

The surgeons selected 3 vendors to receive requests for proposals (RFPs).

The 3 companies were invited to separate 1-hour meetings, with Frank Kilzer, St
Alexius’s director of materials management, Schreier, and Barrow. The vendors were asked to send not only the local rep but also the regional manager or other decision maker. The team reviewed the RFP process with the vendors and shared data about the hospital’s costs and reimbursement rates.

“We told them that if we continue to lose money, they are going to lose our account because we won’t be able to continue on this path,” Schreier notes.

In the end, 3-year contracts were awarded to 3 vendors in November 2003. The physicians later decided to drop 1 vendor, and 2 remain.

As a spin-off, other surgeons, including the cardiovascular group, are showing strong interest in learning about costs.

“Now that we’ve had some success in orthopedics, the cardiovascular group is saying, “I guess we’re willing to play in that ballgame, too. That’s a huge success for us,” Dietrich says.

### Orthopedic implant cost crunch

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*Source: Amerinet.*