PHYSICIAN ALIGNMENT
Solving the PPI Problem
PERPETUAL PROBLEM — IMPENDING CRISIS

The costs and inherent issues of physician preference items (PPI) in hospitals and surgery centers have been challenges in the healthcare setting for many years. But as providers are faced with shrinking reimbursements and service line contribution margins in this era of healthcare reform, finding innovative ways to align with physicians and reduce costs while maintaining high standards of quality care takes on even greater importance.

Consider some interesting facts regarding physician preference items:

- **More than half of the medical-surgical supplies used in modern hospitals are “physician preference” products, including devices and implants.**
- **PPI costs are growing by 10-20% annually, depending on product category.**
- **By year end 2014, orthopedic and cardiac implants alone represented fully $49 billion in spend versus $33 billion in 2009.**

Based on these facts alone, the need to establish a strategy for controlling PPI costs is readily apparent. With 10,000 people each day turning 65, and the reality that this portion of the population will grow to 20% by 2030 and that 1 in 12 of the population will have total knee replacement, this device cost issue will continue to escalate.

But, just recently, the need to act on this issue reached a new level of critical urgency when the Centers for Medicare and Medicaid Services (CMS) proposed a mandatory bundled payment model encompassing total joints called Comprehensive Care for Joint Replacement (CCJR). Specifically, CCJR is a bundled payment model that covers care for joint replacement patients from admission through 90 days following discharge including physicians services, inpatient services, long-term care, rehabilitation, skilled nursing, durable medical equipment, pharmacy and more.

The model will was implemented in January 2016, for five years in 75 cities that cover approximately 35% of the country’s population. Hospitals in the areas will be required to participate in CCJR under the current proposal. The areas are a mix of large cities, which include New York City and Los Angeles, medium cities and smaller cities.
Prior to the start of each performance year, CMS will provide participant hospitals with Medicare episode prices, called target prices. The target price includes a 2% discount over expected spending and incorporates a blend of historical hospital-specific spending and regional spending. The new model is also aimed at providing incentives for improved quality of care as well. Hospitals will have to meet performance measures in three areas including:

- Risk-standardized complication rate following elective hip/knee replacement.
- 30 day all cause readmission rate following elective hip/knee replacement.
- Hospital consumer assessment.

Following completion of the performance year, hospitals that achieved spending below the target price and meet the quality performance thresholds on the three required measures will be eligible to earn a reconciliation payment from Medicare for the difference between the target price and the actual episode spending, up to a specified cap.

**WHAT CAN YOU DO?**

The threat of impending crisis provides the opportunity for healthcare facilities to take a critical look at the way they currently manage implant costs and ask:

- Is there a better, more efficient, more cost-effective way to address implants costs?
- Is our process too cumbersome – is there a better way to do the work?
- How can I impact the bottom line?

**SUPPORT COLLABORATION**

In terms of getting the process started, first and foremost, healthcare providers must understand that they will experience the most comprehensive and sustainable success when it comes to PPI initiatives by involving representatives from all levels – executives, physicians, other clinicians and supply chain management. This way everyone contributes and has a voice in determining which implant/interventional manufacturers are acceptable.

Many providers will need to reduce their operating costs by 15-25% to assure continued viability in the value environment. This isn’t going to be achieved by simply reducing the cost of surgical sponges. As a result, physician alignment and post-acute partnerships are critical to success. Hospitals should closely align with high-quality, low-cost physicians and post-acute care providers. Therefore, executives need strategies for how to engage physicians in addressing hospital issues.

**But what happens if the episode spending exceeds the target price?**

*That burden will fall on the hospital — meaning the hospital is ultimately financially responsible for episode costs driven by physicians, skilled nursing facilities (SNFs) and post-acute providers.*

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**INVOLVE PHYSICIANS IN GOAL SETTING**

It takes considerable time and effort to develop a strong value analysis team. Having a facilitator, liaison or project lead helps to build engagement and purposeful discourse. Inviting materials managers on the team, who can be armed with evidenced-based information, will increase the chances of standardizing products and establishing protocols with...
Physicians. And, of course, physician involvement is critical for understanding their concerns on maintaining quality of care, product ease of use, quality outcomes and product choice to suit patient needs. Selecting the right team helps ensure your value analysis processes cover all bases with regard to high tech and high touch healthcare products, including reimbursement, safety, education and clinical credentialing, product standardization, and appropriate utilization. It is also vital to maintaining the organization’s cost structure, compliance with negotiated contracts and agreements.

Physicians will be more supportive of PPI cost-savings initiatives because they have worked together with materials managers and internal staff from the start through collection and analysis of data, benchmarking, identifying cost-reduction opportunities, supplier selection and custom contracting strategy development.

**CREATE TRANSPARENCY**

Actionable data and analytics are the basic building blocks for an organization’s economic direction and also provide the facts and evidence needed to communicate the realities facing every stakeholder.

Historically, physicians have been the main decision makers regarding which implants will be utilized and which suppliers meet the performance criteria. However, the CCJR is creating an environment where everyone needs to be aware of the technology doctors are using and realize it has a profound impact on the cost of the implants that are being used and how margins may be impacted by that usage. So even though products may look similar, the cost differences can be great.

Present data that shows procedure costs by surgeon and procedure (See Table 1). Make sure the data is blinded, to prevent any finger pointing. In analyzing data, you can evaluate which physicians may be using a supplier that is at a higher cost and which are using a lower cost supplier. Once physicians see this type of data, they will be more likely to engage the suppliers in getting those costs lowered.

Many hospitals struggle to overcome physician loyalty to a particular brand. Some of it is due to where the physicians are trained, some to comfort level with the instrumentation, and a lot is due to the relationship with the local representative. The loyalty has to be dealt with based on credible data.

Therefore, it is important to benchmark physicians against their peers, not just within their own facility, but within their region. Take the time to benchmark those costs versus a database that shows national averages on where they need to be with that particular supplier on a particular product (See Table 2).

**TABLE 1: SAMPLE MEDICAL CENTER**

<table>
<thead>
<tr>
<th>Average Primary Total Knee Implant Cost by Physician</th>
</tr>
</thead>
<tbody>
<tr>
<td>A (51)</td>
</tr>
<tr>
<td>B (51)</td>
</tr>
<tr>
<td>C (26)</td>
</tr>
<tr>
<td>D (10)</td>
</tr>
<tr>
<td>E (47)</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Average reimbursement (expected)</th>
<th>Average direct cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>BlueCross (6)</td>
<td>$12,716</td>
</tr>
<tr>
<td>Champus (7)</td>
<td>$14,501</td>
</tr>
<tr>
<td>Cigna (1)</td>
<td>$11,920</td>
</tr>
<tr>
<td>Medicare (47)</td>
<td>$13,317</td>
</tr>
<tr>
<td>UHC (1)</td>
<td>$13,236</td>
</tr>
</tbody>
</table>

**TABLE 2: SAMPLE MEDICAL CENTER**

*Average Reimbursement for Primary Total Hips by Financial Class - DRG470*

If physicians see actual pricing that similar facilities are receiving, and feel those are real prices they are also entitled to, they can go back to their vendors to negotiate with ammunition and confidence. Using this particular approach...
serves to educate and enlighten the physicians, giving them comfort to understand that the process was not about forcing them to move away from certain products they might have been trained on or been comfortable with, but to support them and help work collaboratively together to reduce the expenses associated with the products they used.

Also, based on credible data, facilities can work to develop custom contracts based upon a surgeon’s supplier choice and the quality outcomes they want to have for their patients.

A key ingredient is that while many organizations or potential partners can supply data, how you get from the page to the actual implementation is the true driver of success. It is paramount to have pricing transparency and subject matter experts, whether inside or outside the organization, that can interpret the data. It is important to factor into the equation some of the following questions: What is the organization? Where are they? Where do they provide services? Factors such as these affect pricing within the market. Understanding the organization and being able to engage the physicians and surgeons where they live and being able to present a very compelling case, will build confidence in all stakeholders and help ensure success.

Yavapai Regional Medical Center Achieves Savings

An Intalere member, Yavapai Regional Medical Center, was able to identify some quick wins and significant savings using this approach through Intalere’s Clinical Advantage Program. In the cardiac rhythm management category, they were able to reduce expenses by 10-15%, a savings of $350,000. In the area of total joint replacement, savings was $500,000.

“A cost reduction of up to 20% is quite significant and these are savings that have trickled right down to our bottom line,” said Dorance Dillon, the facility’s supply chain director. “But just as important, it does not require the physicians to change what they are using and it did not change anything as it relates to the reps that support our organization.”

Physicians must continue to refine operational, financial and governance processes in order to stay ahead of changes in reimbursement models. Facilities must work to establish mutual goals with physicians, nursing and clinical staff to maintain and improve the patient experience, which, it must be remembered, remains the central goal in any engagement. The most successful initiatives result in highly positive outcomes because physicians drive the process, building a fully customized program to meet their specific need, with physicians choosing which devices to target and developing the strategy.
Nearly all physicians and surgeons say that money is not their top motivator. What motivates physicians is positive patient outcomes, professional recognition and a sense of pride in the work they do. Any alignment model or project should make sure to include these components. The most compelling aspect of these comprehensive, data grounded, quality-based initiatives is their potential to have a long-term effect on the quality of healthcare delivery. It must be sustainable within an individual hospital or health system. There is always room to improve outcomes. More importantly, these models put quality first, aligning all incentives with the true mission of each healthcare provider – caring for patients.

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About Intalere
Intalere’s mission focuses on improving the operational health of America’s healthcare providers by designing tailored, smart solutions that deliver optimal cost, quality and clinical outcomes. We strive to be the essential partner for operational excellence in healthcare through customized solutions that address customers’ individual needs. We assist our customers in managing their entire non-labor spend, providing innovative technologies, products and services, and leveraging the best practices of a provider-led model. As Intalere draws on the power of our owner Intermountain Healthcare’s nationally-recognized supply chain expertise and leadership in technology, process improvement, and evidence-based clinical and business best practices, we are uniquely positioned to be the innovation leader in the healthcare industry.

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