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# Will Flawed All-Metal Hip Replacements Cost J&J and Zimmer \$5 Billion?

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If you have an all-metal hip replacement, you may be among the lucky ones who can walk. Or you may be worse off than you would have been without the allegedly flawed device. One thing's for sure: Those flaws are going to cost Johnson & Johnson (JNJ) and Zimmer Holdings (ZMH) plenty in legal fees and possible settlement costs. How much? Maybe \$5 billion.



Image via Wikipedia

One thing is for sure: there are people out there suffering tremendously due to the flaws in all-metal hip replacements. As the *New York Times* reports, the friction of metal parts — the ball and joint — rubbing against each

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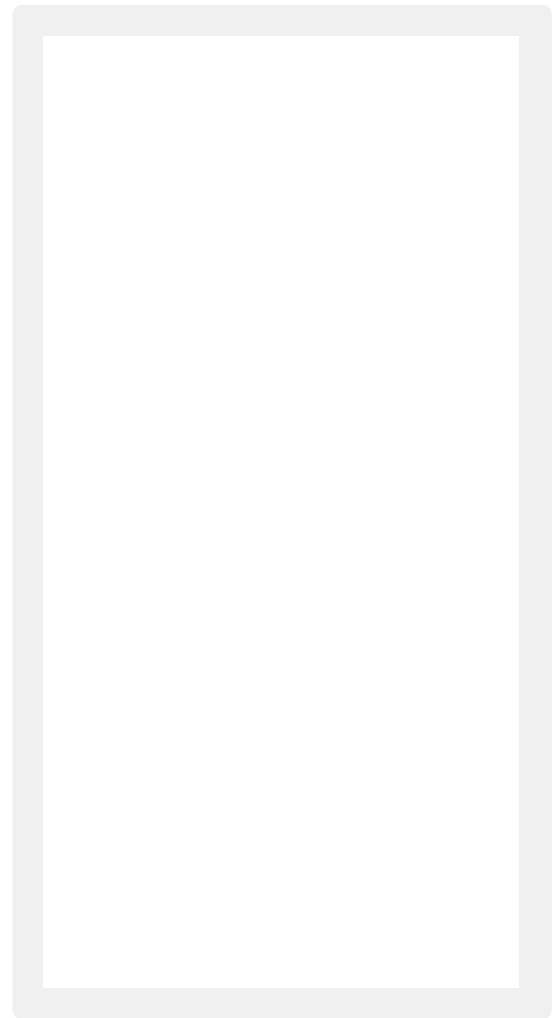
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other create splinters that can cause infections and other damage to the people who host these devices.

One of them, a 55-year-old worker at Caterpillar (CAT), Thomas Dougherty, has incurred “\$400,776 in charges related to hospitalizations, and \$28,081 in doctors’ bills,” according to the *Times*.

Numbers on how much these flaws will cost the manufacturers are hard to come by. But there are estimates of how many people may have received the all-metal implants. The *Times* reports that about 33% of the 250,000 hip replacement patients per year received the all-metal version. That percentage has fallen sharply and the *Times* estimates that 500,000 patients have the all-metal implants.

And those all-metal implants do not have a great track record. The *Times* cites a study finding that over a five year period, none of the all-metal implants outlasted the older versions and 30% were worse.

The two biggest all-metal hip replacement makers are feeling the pain. J&J’s DePuy division has recalled 40,000 of its all-metal implants and as of October 2011, 9% or 3,500 patients had filed suit against J&J, according to the *Times*. Meanwhile, the *Times* said that Zimmer Holdings claims that “its all-metal implants are safe,” and has settled “hundreds of patient claims.”

Neither the U.S. government, nor the industry tracks how many of these hip replacement operations fail. However, there are two data points that could help in making an estimate of how much these allegedly flawed all-metal hip replacements will cost their manufacturers.

First, there is precedent in the form of a 2001 settlement made to patients who received contaminated hip and knee replacements. Back then, Sulzer Orthopedics paid “a record \$1 billion to settle claims by 6,800 patients” whose artificial hips and knees from the company were “contaminated with industrial oil during the manufacturing process.” And the *Times* quotes a former Sulzer lawyer as estimating that the cost of settling the problems with all-metal hips will be much higher.

Second, the *Times* interviewed Dr. Art Sedrakyan, a researcher at Weill Cornell Medical College who combined an extrapolation from non-U.S. data on hip replacement performance with estimates of U.S. metal hip use to conclude that the number of patients by 2021 who will need to get their all-metal hips replaced could total in the “tens of thousands.”

My conclusion is that this problem could cost J&J, Zimmer, and other metal-hip replacement providers about \$5 billion. I based this estimate on two key assumptions. First, the average cost to settle each all-metal hip replacement claim will be \$169,000 — 15% more than in the \$147,000 average in the 2001 Sulzer settlement. Second, that the manufacturers will end up settling 30,000 claims.

While these assumptions may be wrong, there is no doubt that they do not factor in the reputational damage that these allegedly flawed devices have



In 1994, I ditched corporate America and started a management consulting and venture capital firm (<http://petercohan.com>). Before that I worked for Harvard Business School professor, Michael Porter's consulting firm and at two Boston-based financial institutions. I started blogging in 2006 with Aol's DailyFinance and joined Forbes in April

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*The author is a Forbes contributor. The opinions expressed are those of the writer.*

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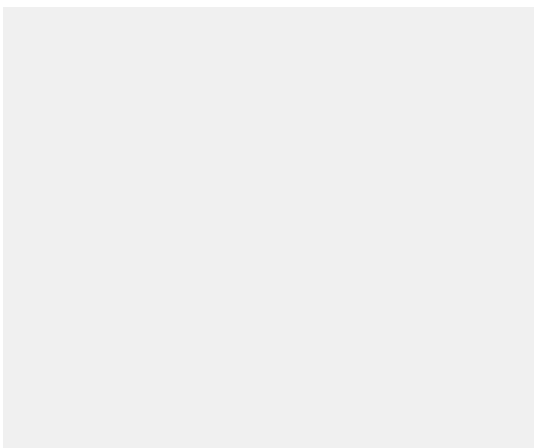
caused the industry. Nor do they reflect the cost to whoever ends up paying the hospital bills to treat the patients who host these all-metal hip replacements.

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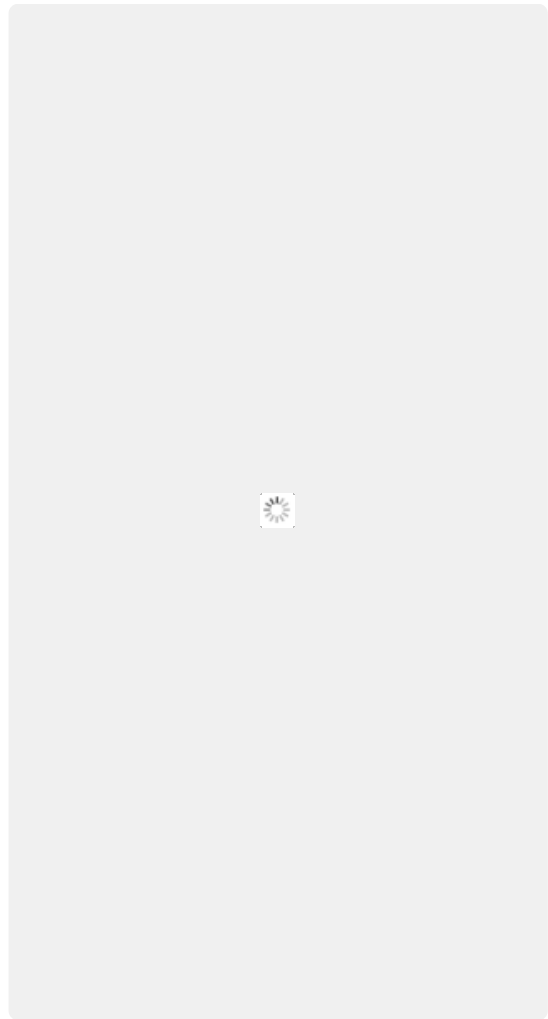
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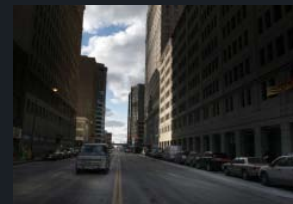
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