Scarcity's Challenge:

Comparative Advantage and Value Creation

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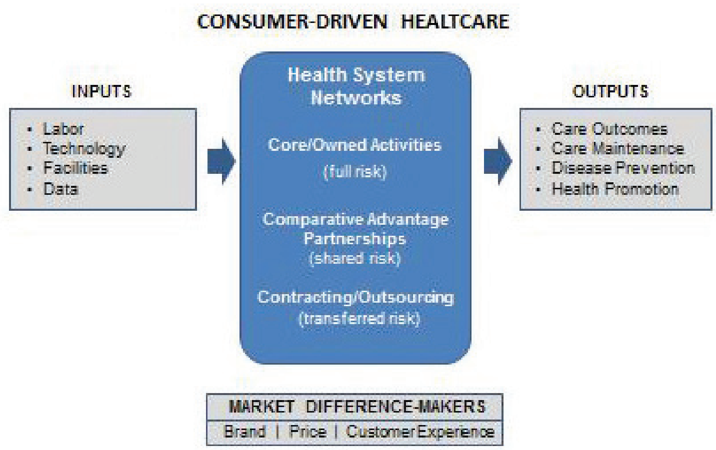
Relative to other advanced economies, the United States spends too much on healthcare and has lower health status. Healthcare overspending reduces investment in other industries that could stimulate economic growth and job creation. Under reform, the health insurance market is transforming. Increasingly, governments, corporations and individuals are purchasing lower cost, higher-value health insurance policies through risk-based contracts, narrow networks and health exchanges. Resource scarcity and delivering value are the "new normal" for health systems. Pursuing "comparative advantage" partnerships with companies that advance value-based care is a powerful strategy for delivering more effective and efficient healthcare services. To illustrate, this article highlights comparative advantage case studies in real estate/facilities management and perioperative services.

Comparative Advantage and Health Systems

Economics is the study of scarcity, tradeoffs and optimization. In a world of finite resources, growth occurs when companies increase productivity by optimizing "inputs" (labor, technology, land and raw materials) to generate more "outputs." In the early 1800s, British economist David Ricardo formulated the theory of comparative advantage as it applied to international trade. In a famous example, he demonstrated it advantaged Portugal and England to produce more wine and cloth respectively and then trade with one another to optimize the amounts of each product available to each country's consumers. The increased "value" originates because England was relatively better at making cloth and Portugal was relatively better at making wine.

As healthcare becomes more consumer-oriented, health companies will develop networks that compete based on brand, price and customer experience. Applying Ricardo's comparative advantage theory (loosely) to health systems, it makes sense for health systems to partner with companies whose capabilities advance their operating effectiveness. In essence, "comparative advantage" partnerships enable health systems to deliver better, higher quality outputs at lower prices. This value creation benefits health system customers and solidifies their market positions. In a consumer-driven marketplace, health systems must determine which activities they will do themselves, which they will outsource and where they will partner to enhance outcomes and competitiveness (see chart).



Unfortunately, partnering does not come easily to health systems. Health system cultures too often emphasize control and ownership over value creation. This must change. As scarcity forces tough resource allocation decisions, winning health systems will tradeoff ownership/control for greater efficiency and better outcomes. As the following case studies illustrate, comparative advantage partnerships are a winning strategy.

Real Estate/Facilities Management: Beaumont Health System and Jones Lang LaSalle

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After payroll and supplies, real estate/facility management (leasing, maintenance, project management) is typically a health system's largest expenditure. Health systems have been slow to centralize and/or standardize this function. Real estate is among the last bastions of hospital control. Hospitals lack the scale and proficiency to optimally manage their real estate. Service redundancy, overstaffing and sub-optimal leasing abound. Centralized management with an experienced partner can generate significant economies and cost savings.

Beaumont Health is a $2.3 billion health system serving metropolitan Detroit with three hospital campuses and numerous ambulatory/clinical sites. Until 2011, Beaumont Services Corporation ("BSC") centrally managed the company's real estate operations. Operating BSC gave Beaumont's leadership insight into centralized management's benefits and led them to seek a national partner to achieve greater efficiencies. After a competitive process, Beaumont selected Jones Lange LaSalle ("JLL") to become equal partners with BSC in managing their real estate operations.

The partnership generated immediate and sizable savings that average $16 million annually. JLL's scale, specialized expertise and ability to integrate with management have transformed Beaumont's facility maintenance, energy management and purchased services. JLL discovered a third of Beaumont's real estate expenditures weren't included in BSC's budget. Coordinated planning eliminated 95% of vacant lease space. Beyond this, JLL has brokered third-party service contracts and provides operational input on quality and safety issues. As this short video with Beaumont and JLL leaders illustrates, the best comparative advantage partnerships not only deliver superior outcomes, they excite and energize partners to explore, experiment and strive higher together.

Hospital Perioperative Services: Surgical Care Affiliates

Representing approximately 30% of commercial health insurance spending, surgery is highly profitable business. However, inefficient scheduling, slow operating room ("O/R") turnaround, hospital-physician misalignment and lack of standardization reduce productivity, stifle growth, frustrate patients/physicians and diminish profitability. Beyond this, surgeons are often unaware of device costs when making medical decisions. In one orthopedic surgeon survey, only twenty-one percent were able to estimate the cost of thirteen common orthopedic devices within twenty percent of actual costs.[1]

Surgical Care Affiliates ("SCA") partners with hospitals to improve perioperative services. By eliminating inefficiency and making customers happy, hospitals can gain market share, lower costs and improve physician alignment. SCA begins with a rigorous diagnostic review of a hospital's surgical operations. SCA then works with hospital management and surgeons to design and implement data-driven solutions. Knowing what to measure and pressing for continuous performance improvement are essential to success. According to Gerry Biala, SCA's head of Perioperative Services, "It's not enough to offer tools; we have to change behavior." Breakthrough performance improvement requires changing governance, engaging surgeons on strategy, flexible scheduling and constant re-engineering (see chart and case study below).

Rapid Assessment	SCA Solutions	Scalable Management
• Assessment of one or more surgery departments • Focus on efficiency, case mix, profitability, and clinical quality • Develop recommended action plan	• **Physician Engagement** • **Schedule Optimization** • **Labor Optimization** • **Supply Cost Management** • **Case Profitability** • **Market Expansion**	• Integrate full management services for surgery department and off-site facilities • Leverage and complement existing delivery model • Provide interim and transitional leadership

Florida Hospital Carrollwood was marginally profitable and in danger of losing its largest surgical group. The hospital partnered with SCA to improve surgical operations. After an eight-day, on-site assessment, SCA created a shared decision-making governance counsel with hospital and physician representatives to address utilization, scheduling, staffing and growth. Together they designed and implemented a performance improvement plan. The results were impressive:

- Surgical volume increased 10% with no additional staffing;
- O/R utilization increased from 53% to 73%
- O/R turnover time decreased from 35 minutes to 16 minutes
- On-time starts increased from 36% to 93%
- Case cancellations dropped from 12% to 3%
- Patient satisfaction increased from the 28th percentile to the 70th percentile
- Infection rates decreased from 2.7% to 0.8%
- Profitability surged

W. Edwards Deming would be proud. SCA-hospital partnerships improve surgical quality and procedure outcomes by reducing costs and increasing efficiency. They exemplify how comparative advantage can transform behaviors, cultures and performance.

Be Brave in the Attempt

Supported by fee-for-service payment systems, the general hospital business model has prospered for over fifty years. Health systems today are bigger and stronger than ever. Their very success, however, can inhibit positive change and perpetuate unproductive behaviors. With the expansion of health insurance through Obamacare, the healthcare policy debate has shifted from access to resource scarcity and value creation. To remain competitive, health systems must eliminate waste and improve outcomes. Comparative advantage partnerships, like those offered by JLL and SCA, are powerful tools for turbo-charging value creation.

Too often, health systems resist change because they fear the unknown. Being cautious has proven effective. Tried and true strategies have prevailed. Playing defense, however, won't work as disruptive innovation transforms the healthcare industry. Caution becomes counter-productive. Instead, health system leaders should experiment with new, value-creatingapproaches, including comparative advantage partnerships. Their reward will be healthier, more adaptive and successful companies. The powerful Special Olympics motto reads: "Let me win. But if I cannot win, let me be brave in the attempt." Winning health companies will summon the courage to try new strategies and invest in those that create value for customers.

[1] Kanu Okike, Robert V. O'Toole, Andrew N. Pollak, Julius A. Bishop, Christopher M. McAndrew, Samir Mehta, William W. Cross III, Grant E. Garrigues, Mitchel B. Harris and Christopher T. Lebrun Survey Finds Few Orthopedic Surgeons Know The Costs Of The Devices They Implant *Health Affairs*, 33, no.1 (2014):103-109 doi: 10.1377/hlthaff.2013.0453