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How to “Aldi” Healthcare by Taking Out Costs



By Thomas D. Wilson

Aldi. The mere utterance of the name stirs fear in the heart of competitors, and joy in the heart of consumers. Aldi, the German-owned international grocery store chain with a growing presence in California, is renowned for offering quality products at low prices and even lower operating costs. It is a company that understands managing costs equals a healthy bottom line.

What if someone could “Aldi” healthcare? What if some healthcare provider, some innovator, could take the costs out of healthcare just as Aldi has taken the costs out of groceries? What if healthcare providers could get better outcomes for their patients with a better outcome for their bottom line?

Sounds impossible? If Aldi can do it with groceries, why can't someone find a way to do it with healthcare?

In fact, we can reduce healthcare costs, much as Aldi has achieved with groceries.

The ambulatory surgery center (ASC) and its bundled payments model is the “Aldi” of healthcare.

To better understand the business art form of taking the costs out, let's take a quick look at Aldi's business model.

Renting a Shopping Cart

It starts with a quarter, twenty-five cents. Customers shopping at Aldi are familiar with Aldi's renting shopping carts to shoppers at the entrance to an Aldi store for a quarter. For the uninformed, renting shopping carts may appear unfriendly and exploitative of customers, even off-putting. But Aldi knows that paying an employee to chase around the parking lot gathering up shopping carts is an unnecessary expense, especially if customers will simply return the carts once they have loaded their groceries into their car. Hence the twenty-five-cent cart rental. Return your cart and Aldi returns your quarter. That is how you take the costs out of a business.

Aldi shoppers, who enjoy legendary low prices, reportedly consider the cart rental, and their returning the carts after use, an essential part of the Aldi experience.

Likewise, customers bring their own bags and bag their own groceries at Aldi. There are no staff to bag groceries and carry them out to your car. An unnecessary expense when customers can do it themselves.

And, while you are at the checkout counter, stand back as Aldi cashiers are legendary for their productivity. They don't hunt for bar codes on packages because Aldi, which packages and sells many of its own brands, prints the bar codes several places on the packaging, and they train cashiers to memorize the prices on produce and other unmarked items, making checkout more a sprint than a marathon. Customers reportedly love the speed and efficiency. No long, slow-moving lines at Aldi.

Fewer Brands

In the store itself, there are far fewer brands on the shelf, making inventory management more efficient and reducing demand for shelf space and the square footage to support it. That adds up to lower inventory costs, while the smaller store footprint costs less in rent, maintenance, lighting, heating and cooling.

Speaking of the stores, while they aren't plain, no one would describe them as fancy. As it turns out, fancy costs more.

However, what catches the customer's fancy are the legendary low prices offered at Aldi. The company can offer lower prices simply because it focuses on taking the cost out of every element of its business.

Indeed, Aldi legend has it that in the early days when Aldi was growing from a one-store operation in post-World War II Germany, store managers had to use public telephones near their store as Aldi's owners considered the telephone an unnecessary expense.

The name of the game for Aldi: taking the costs out to reduce prices for its customers. Nobody in the grocery business does this better, not Walmart, not Costco, not Trader Joe's.

Importantly, Aldi does this without sacrificing quality, for, as any student of process improvement knows, quality is always less expensive if the process is managed from end to end.

ASCs and Bundles — the Aldi of Healthcare

Which brings us to ASCs and bundled payments.

Like Aldi, ASCs focus on taking the costs out. This does not mean that patients wrap their own bandages or take their own vital signs. It does mean that ASCs offering bundled payments are as intensely focused on managing costs as is Aldi. The result: Some surgical procedures performed at an ASC and billed under a bundled payment arrangement cost half as much as the same procedure performed in a traditional hospital. A 50% savings on a procedure that costs upwards of \$50,000 at a hospital is meaningful to anyone, especially if outcomes and patient experience are as good as or better than the hospital.

While it is relatively easy to see how Aldi takes the costs out of the grocery business, it is not so easy to see how to take the costs out of healthcare. After all, if it were possible to simply take out costs, wouldn't everyone in healthcare do that to lower costs?

This may be one of the great mysteries of life and business. Few sectors of our economy have been so resistant to cost management as has been the healthcare sector. Yet, as the experience of ASCs offering bundled payments shows over thousands of procedures over many years, it is possible to take costs out of healthcare while equaling or improving upon the outcomes of more traditional, more expensive healthcare providers.

How to take the costs out? Bundle services for a single episode care. Bundling significantly reduces costs especially when providers are guaranteed patient volume in exchange for reduced fees. Simply said, there are obvious economies to bundling. Imagine what a new car would cost if you unbundled it and had to buy the tires, engine, seats and interior appointment separately. Unbundled healthcare services are the norm; bundling is the exception. Were it the norm, overall healthcare costs in the U.S. would be significantly reduced.

What about quality? Evidence shows that bundling services has no negative impact on quality and may, in fact, improve quality, as providers, connected as they are through the bundle, coordinate care more effectively.

An example of this is seen in the findings of a study of more than 1,600 elective spine surgery cases conducted between 2010 and 2017 at Monterey Peninsula Surgery Center. A review of these surgical cases shows that there were 11 hospital admissions (0.68%), eight emergency department visits (0.5%) and one surgical site infection (0.06%). Of the 11 hospital admissions, six were for pain management, two for anaphylactic reaction to antibiotics, and the remaining two for miscellaneous postoperative complications that were quickly resolved. Of the eight emergency department submissions, four were for urinary retention, two were for pain management, and two were for

anaphylactic reaction to medication and wound swelling. In all, the outcomes were on par with or better than in-patient outcomes for similar procedures. Bundled payments procedures performed at ASCs are safe.

Blocking the Bundle

Why has the U.S. healthcare community been so resistant to bundling? Why does healthcare as a sector continue to resist the structured, comprehensive pricing models common to virtually all other business sectors? Perhaps it is inertia; perhaps it is that overall healthcare as it is currently practiced is profitable for most market players. Perhaps it is the significant role government plays in the healthcare sector.

Whatever the cause, it is a given fact that healthcare in the U.S. costs too much. The entire sector is vulnerable to disruption by outside forces. Bundling is a responsible, self-regulating response to the healthcare cost crisis. Bundling benefits providers, payers and patients.

ASCs providing bundled pricing services are the Aldi of healthcare. It is safe to say that everyone likes to save money, be it with groceries or surgical procedures. As Aldi's relentless cost management approach to its business continues to drive its success, it stands as a model for healthcare. Take the costs out of healthcare through ASCs and bundling, and you will most certainly get a great deal more than your twenty-five cents back.

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Global 1 | Since 2009, Global 1 provides predetermined, single-payment pricing for an episode of care at its network of more than 135 outpatient surgery centers. The program is designed to provide alignment with the facility, surgeon, and anesthesiologist which leads to a high-quality outcome in a lower-cost setting. Today, more than 800 physicians use Global 1 bundled payments for 70+ surgical procedures including orthopedics, spine, general surgery, women's health, and ear/nose/throat.