LBK Hamburg meets the market

By Gregory J. Millman

Healthcare costs are a crushing burden throughout Europe, nowhere more so than in Germany, where the government is slashing traditional subsidies. Which is why one of the country's largest hospital groups has embarked on a bold plan to embrace market-based competition.

Germany has more hospital beds per capita than any other country in Europe. A measure of the excellence of the country's healthcare system? A symptom of national hypochondria? Or do Germans just get sicker than other Europeans?

None of the above, as it turns out. Hospitals were built in Germany, sometimes even when they were not needed, because the state traditionally provided the money. Once they had been built, various economic incentives lined up to reward doctors and hospitals for keeping patients in those abundant beds.

This is admittedly an oversimple analysis. But as a summary of the logic that once governed German health care, it comes pretty close.

German healthcare costs are the highest in Europe, accounting for nearly 14 percent of the country's GDP. To reduce the bloated healthcare subsidies, the federal government is encouraging

market forces to do what they do best: creative destruction. Germany is opening its healthcare system to more competition, which means new and unaccustomed pressure on healthcare providers.

Nineteenth-century models

Until 1996 Germans had only limited freedom to choose which of the government-subsidized health-insurance companies they would be covered by, so there was no real competition in health care at the payer end. For the German healthcare providers, market-based competition on quality and cost comes as a shocking change.

Take, for example, the Landesbetrieb Krankenhäuser (LBK) Hamburg, a consortium of eight hospitals with 7,000 beds, 13,500 employees and a budget just shy of $1 billion; it accounts for more than 50 percent of the hospital beds in the Hamburg metropolitan area. Built under the old regime of state subsidies, LBK Hamburg must now adjust to the new law of the market.

The German healthcare system dates back to the age of Bismarck. Some of its hospitals are almost as old, operating according to organizational models unchanged since the late 19th century.

Case in point: The Allgemeines Krankenhaus Barmbek, the 1,000-bed flagship hospital of the LBK Hamburg group. It houses patients in 52 small ward-pavilions, most built no later than 1910, scattered around a beautiful, sprawling campus. The pavilions, each with its own staff, are separated by grassy, tree-dotted lawns. Because the staffs seldom interact, they tend not to communicate very well with one another.

AK Barmbek is less a single institution than a group of more or less self-sufficient and autonomous units. Until quite recently, self-sufficiency and autonomy also characterized the relationship between LBK Hamburg hospitals. They were independent rivals competing to attract the best physicians and offer the most extensive range of services.

But with the establishment of a corporate board at LBK Hamburg in 1996, the member hospitals had to face some hard facts. Operations were deep in the red as the government continued to slash the subsidies that had routinely underwritten wasteful duplication of services; bottom-up budgets sent to the board by hospitals asked for twice as much money as the board's top-down budgets offered.

LBK Hamburg had no strategy for the group as a whole—no sense of market position or competitive strength, no understanding of its competitors, and no way of defining customer satisfaction or service quality. In fact, the idea of the patient as a customer was utterly alien to these hospitals, whose focus hitherto had been on their own internal processes and on scientific research. Yet while the problems were clear to all, employees feared change.

LBK Hamburg's new three-person board nonetheless decided to commit the consortium to a radical course of

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economic therapy. Its objective: to turn the autonomous and uncoordinated member hospitals into a smoothly functioning public health system.

Emergency medicine

By 1998 AK Barmbek had recognized that it could slow the flow of red ink by replacing its pavilions with a new building. The board decided not only to build the new hospital but also to embrace an innovative business model—called KLINOVA—that would thoroughly modernize the more-than-century-old institution.

Accenture was engaged to develop and implement the new business model at AK Barmbek and to oversee its rollout for the entire LBK Hamburg group. Using the KLINOVA model, LBK Hamburg is expected to lower operating costs and increase customer satisfaction while maintaining its high clinical standards.

A two-day workshop at the Barmbek site brought together Accenture professionals and LBK Hamburg executives for an overview of the latest in hospital technology, organization and management strategy. Afterward LBK Hamburg sent a small team including representatives of the board, physicians, nurses and union leaders to tour some of the top hospitals in the United States, including Stanford Medical Center, Mercy Hospital of San Diego, Kaiser Permanente, the Henry Ford Health System and the Cleveland Clinic.

To be sure, the US healthcare system is notorious for its inability to solve the problem of treating the uninsured. But it is market-driven (to a fault, some would argue), and the LBK Hamburg representatives saw how US healthcare providers use customer service and efficiency to build competitive advantage.

They also saw the potential of information technology. "We looked at electronic medical records of patients where part of the file was a video of the main procedures during the operation, so you have a multimedia electronic record. That was really stunning for many of the LBK representatives," says Martin Kerres, a physician and an Accenture associate partner. Some of these healthcare providers had also pioneered the use of information technology to care for patients at home instead of in the hospital.

Inspired by what they had learned, the Barmbek team set new goals that defined success in terms of customer satisfaction and patient revenue. KLINOVA called for pursuing a reputation for excellence in selected areas of health care. Meanwhile, AK Barmbek would focus on those areas where it had competitive advantage and core competence—and would not try to compete across the board.

By eliminating inefficiencies, using advanced information technology and cross-training teams of healthcare workers to cover more than one area, KLINOVA could reduce the AK Barmbek bed count by one-third. The hospital's union agreed to support the creation of a flexible, multidisciplinary workforce and patient-focused work hours as part of the strategy to establish the hospital as a leader in efficiency and cost management.

The strategic-planning phase of the KLINOVA project was completed in fall 1998, and the new hospital is scheduled to open by 2005.

The KLINOVA model—which has received considerable coverage in the German press and positive reviews from government health officials—has already begun to change the way the rest of LBK Hamburg does business.

KLINOVA's approach to defining a strategy led to similar efforts for other LBK Hamburg group hospitals and for the consortium as a whole.

Part of the process involved adapting to German conditions some of the "best practices" that members of the KLINOVA project team had seen in action in the United States. For example, a distinctive marketing and service-delivery strategy aims to differentiate LBK Hamburg in the marketplace and create an LBK Hamburg brand. "Our dream is that when the ambulance driver asks the patient where to go, the patient says, 'LBK Hamburg,' " notes Kerres.

Core competence

Like KLINOVA, LBK Hamburg is defining and building on core competencies and setting up "centers of excellence" to deliver strategic services. Emergency services clearly are a core competence of the hospital group, since it currently handles nearly two-thirds of all emergency cases in Hamburg and administers six of the city's eight emergency medical centers. Hence the group has undertaken an initiative to build a center of excellence in emergency medicine. It is also looking at the possibility of building a center of excellence for cardiac services in conjunction with one of the leading university hospitals in Hamburg.

As the transition progresses, group hospitals are eliminating duplication and waste and are getting rid of noncore functions. For example, orthopedics will be moved out of AK Barmbek to another LBK Hamburg hospital. Many ancillary and service functions, such as waste disposal and facility management, are being centralized to reduce costs and improve performance.

Meanwhile LBK Hamburg is forging strategic alliances with new partners to deliver products and services outside of its own core competencies. As early as January 1998, member hospitals AK Barmbek and St. Georg had merged eye-clinic departments. In January 1999, faced with statistics that pointed to a continuing decline in the birthrate, LBK Hamburg and Hospital Finkenau formed an alliance to consolidate their obstetrics-gynecology departments, which would create the largest birth center in Germany.

Information technology has been the key to systemwide improvements and efficiency. In the fall of 1998, LBK Hamburg and Accenture reviewed the consortium's information systems to link the member hospitals more closely.

Better logistics management promises immediate and dramatic improvements to the bottom line. Historically each of the LBK Hamburg member hospitals had its own purchasing and distribution system for drugs, medical supplies, food and laundry. The group is building a centralized purchasing and distribution system that is expected to cut costs by 5 percent to 10 percent.

Such consolidation is also producing payroll cost savings: LBK Hamburg's head count has been reduced from approximately 15,800 employees in 1996 to fewer than 14,000 currently, and 650 beds have been eliminated.

LBK Hamburg's success at adapting to a market-driven system is seen by some as the last, best hope for Germany to continue providing affordable health care to all. ■

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