Baystate Health’s Clinical Lab Growth Plan:
How Can We Collaborate with Your Hospital Lab?

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I. Present real-life examples of how a hospital-based laboratory has developed and promoted strategies to “partner” with other local/regional hospitals to enhance quality of care, reduce expenses, grow volume/revenue, attract and retain technical and medical staff, and enhance the quality of laboratory services in the region.

II. Lay out assessment processes and key action steps utilized for various collaborative strategies.

III. Encourage open dialogue with participants on other successful initiatives in progress to enhance hospital laboratory service performance.
I. Overview of Baystate Health (BH)

II. Overview of Baystate Reference Laboratories (BRL)

III. Laboratory Environmental Review (National, Regional/Local)

IV. BRL’s Strategic Plan

V. Lesson’s Learned / Keys to Success

VI. Open Discussion
I. Overview of Baystate Health (BH)
I. Overview of Baystate Health

- Franklin
- Hampshire
- Hampden
I. Overview of Baystate Health (cont.)
I. Overview of Baystate Health (cont.)

**Baystate Health (BH):**
- $2B system
- 3 Hospital Integrated Delivery Network *(about to be 4)* with 800 – 950 Licensed Beds
- Approximately 10,000 employees; of which 450+ are employed physicians *(BMP - Baystate Medical Practices)*
- Owned health insurance plan *(HNE - Health New England)* with over 140,000 covered lives
- Owned visiting nurse association and hospice program *(BVNAH)*

**Regional Impact ≈ 7% of Economy**
Over seven cents of every dollar of gross regional product generated in 3-county area was attributable to Baystate Health

**Baystate Medical Center (BMC):**
- Academic ‘Mothership’
- Western Campus of Tufts University School of Medicine
- Only Level I Trauma Center in region
- ~250-300 residents & fellows
- Services population of approximately 850,000
- Emergency department with over 150,000 visits per year
- Just built and opened a $250M new Heart and Vascular Center
- Routinely realizes operating margins of 7%+
- National recognized for many services and overall quality of care
II. Overview of Baystate Reference Laboratories (BRL)
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**Basics:**
- 1st or 2nd largest hospital-based reference laboratory in the state
- BRL is the brand name for outreach laboratory services for Baystate Health
- 85% of 3 county market share for lab testing
- 500 FTE’s, >600 people
- Employed pathologist group (21 board certified subspecialists); CP/AP in one group
- Over 2,300 MD’s Serviced
- 30 Patient Service Centers
- Large and effective courier operation (above and beyond lab services)
- 2 primary sites of operation
  - Baystate Medical Center (core lab functions; transfusion medicine services, etc.)
  - Whitney (specialty lab functions, logistics, revenue team, client services, etc.)

**Financials/Volumes/Payors**
- Net revenue of $35M+ per year
- >4.5 Million Billable Tests/Yr for BH; approx 50% is outreach/BRL
- Payor mix primarily Medicaid, Medicare, BCBSMA, and Health New England
III. Laboratory Environmental Review (National, Regional/Local)
Managed care companies contracting with large regional and/or national providers trading high volume testing for lowest rates

Rapidly growing menu of expensive esoteric tests (specifically, molecular and genetic testing)

Industry consolidation – “Become big to survive”; trends are to grow, sell, or contract for lab services

Aging population and increased emphasis on prevention leading to increased lab testing volumes

Aging workforce (technical and professional) causing difficulties in filling vacancies, increasing importance of succession planning, and driving the need for advanced technologies

Shifting focus from growth of volumes to efficiency, quality, and price
  - Accountable Care Organizations (ACO’s)
  - Bundled Payments / Capitation
III. Laboratory Environmental Review
- Regional / Local Outlook -

- Significant State pressure to reduce costs (looking for consistent rates)
- Rate reductions for lab/ancillary services disguised as “incentives” for providers – BCBSMA
- ‘Political” market boundaries
- Presence of National labs in MA; promoting connectivity, low contract rates, large testing menu, management services arrangements/partnerships, and even full purchases of outreach lab operations (e.g., UMASS)
- Continued ‘reductions-in-force’ and/or holds on new/replacement positions in many hospitals
- Physician Office Lab (POL) creation by providers seeking additional revenue (urology, nephrology, dermatology); taking revenue from hospitals
- Dramatically aging laboratory workforce and significant recruitment challenges
- Smaller hospitals **REALLY** struggling to make “ends-meet” and questioning the ability to maintain scope of on-site laboratory operations and/or invest in laboratory expansion strategies ---- and with potential misunderstanding or overestimation of laboratory financial performance
IV. BRL’s Strategic Plan
### Strengths
- Elevated BRL client/patient satisfaction
- Service area dominance
- Competitive test menu
- Preferred lab location
- Stellar reputation
- Current business allows expansion
- Alignment with BH Strategic Goals

### Weaknesses
- Internal BH competition for **capital $$**
- Lack of advanced **IT** applications and sufficient support (e.g., ability and speed to interface)
- **Cost structure and accounting**
- Aging workforce (MT)

### Opportunities
- Significant local / regional growth in multiple ancillary markets
- Need for system to capture new revenue, improve efficiencies, and reduce expenses
- Leverage pathology group expertise
- Augment test menu for Smart Growth
- More managed care contracts (new plans)

### Threats
- Loss of business due to ‘lower’ price competition (e.g., Payors and ACOs seek out low-cost provider)
- Large national labs and venture capital groups have interest in penetrating primary market
- Status Quo
IV. BRL’s Strategic Plan: (cont.)
- Strategic Options -

1. Status Quo

2. Sell the Lab - Contract Lab Services
   - Should we sell/contract?
   - What is it worth/What will it cost?

3. Grow BRL on its Own
   - Should we grow it ourselves?
   - What would it take?

4. Partnership Options
   - Why partner now?
   - Potential partnering opportunities and benefits
   - What types of partnerships are possible?
Local/Regional, small hospitals are experiencing the same market pressures
- Escalating lab costs (how can they reduce expenses?)
- Staffing (age, turnover, recruitment, etc.)
- Overall, ‘hungry’ for cash (may be considering selling or other options)

Regional reference laboratories also being affected and have expressed interest in partnership opportunities and even potential sales of outreach lab and/or contracting for lab services

National labs eager to secure the New England market; potentially willing to make significant concessions to partner with strategically significant health systems

Several hospital-based laboratories across the country have proven strategies for successful partnership arrangements
- within health system (ACL, Geisinger, NSLIJ)
- with other health systems (PAML, Michigan Co-Tenancy/Warde, Tricore)
IV. BRL’s Strategic Plan: (cont.)
- Partnerships -

- National Partner Benefits -

- Dramatically Reduced Expenses
- Potential Contracting Leverage with Payors and Reference Labs
- Potential Quality Enhancement --- Access to Sub-specialists and Specialty Testing
- Space Optimization Possibilities (with change of on-site test menu and required space)
- Expanded IT Resources and Offerings
- Enhanced Logistics and Support
IV. BRL’s Strategic Plan:    (cont.)    
- Partnerships - 

- Local/Regional Partner Benefits - 

- Keep testing and staff local 
- Control/Reduction of Expenses (cost/test) 
- Contracting Leverage with Payors and Reference Labs 
- Quality Enhancement 
- Improved Space Utilization 
- Expanded IT Resources and Offerings 
- Shared Logistics and Support 
- Access to Pathologists 
- Consolidated Staffing
Internal Focus: Determine best operating model for BRL and its relationships to BH facilities; BFMC, BMLH, BMC, etc. (lab consolidation and new structure under BH)

External Focus: Identify “Best Practice” opportunities and benefits for BRL (and Baystate Health) for development of a collaborative and integrated regional laboratory network

Goals:
- Minimize costs under a DRG/APC model (and pending healthcare reform)
- Maximize revenue opportunities
- Provide superior clinical quality and customer service
- Grow BRL into the “Thought Leading Entity” for all laboratory services (Clinical Path, Lab Management Processes, Internal/External Outreach, Logistics; etc.)
- Offer BRL as a “gateway” for additional BH growth opportunities (Imaging, Rx, HNE, etc.)
- Unify and align local/regional lab market
<table>
<thead>
<tr>
<th>INTERNAL: Consolidation</th>
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<td>- “Single” BRL – System-wide Lab Entity -</td>
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- Better position BRL for partnership development with external organizations
- Single, system-wide management structure and accountabilities
- Alignment of financial incentives
- Further expense reduction and operating efficiencies
- Improved coordination of marketing/outreach/branding efforts
- Single entity for outreach laboratory contracting (e.g., BCBS low-cost lab provider)
- Enhanced performance of revenue cycle and associated processes
- Staffing levels and career advancement
INTERNAL: Infrastructure Enhancements

- Full BH Senior Executive Support
  - (Understanding of full lab benefits, Momentum, CAPITAL & OPERATING $$$$)

- Enhanced BRL Management Team
  - (100% Lab Focus, Business Acumen, Business Development/Service, Metric Driven, Etc.)

- Availability of IT Resources
  - (Dedicated Staff, Interface Applications and Management, Etc.)

- Enhanced Financial Management and Data Analytics
  - (Dedicated Staff, Dashboards, KPIs, Cost Accounting, Pricing Models, Cost/RVU, Etc.)

- Adequate Growth “Platform”
  - (Logistics (Couriers, Specimen Tracking/Processing, Client Service, etc.)
  - (Lab Space Efficiencies (Core Lab Reconfiguration and Whitney Avenue Expansion))
Complete market assessment and strategy development
(Initial focus target all hospitals in 50 mile radius)

Targets
- Hospitals
- Nursing Homes and Skilled Nursing Facilities
- Providers

“Cooperative Model”
- Phase I: Reference testing alliance
- Phase II: Testing Collaboration (Smart Growth ‘Pullback’ to Central Lab)
- Phase III: Outreach and Lab Management Initiatives
IV. BRL’s Strategic Plan: (cont.)

- Strategic Direction Selected -

Initial Target Hospitals --- (50/75/100 mile radius)
IV. BRL’s Strategic Plan: (cont.)
- Strategic Direction Selected -

Initial Target Hospitals --- (50 mile radius)
IV. BRL’s Strategic Plan: (cont.)

- Strategic Direction Selected -

EXTERNAL: Sample Partnership Arrangements
- Not Mutually Exclusive -

- **Reference Lab Testing**
  - Become primary reference lab
  - Immediate savings for smaller hospitals
  - Partners gain contracting leverage with reference laboratories, as well as enhanced ROI for “In-House” testing margin and expansion

- **Co-Tenancy Model**
  - Shared assets with focus on reducing expenses (cost/test); rather than true market growth/expansion
  - Least “competitive” model for region

- **Management Service Arrangements**
  - Provision of management oversight of laboratory operations – clinical/medical (e.g., equipt, supplies, medical directorships, regulatory assistance, etc.) and/or business/logistics (e.g., IT, couriers, revenue cycle management, etc.)
  - Likely will require additional management positions
EXTERNAL: Sample Partnership Arrangements (cont.)
- Not Mutually Exclusive -

- **“All-In” Partnership**
  - Joint venture or similar; shared expenses and revenue (Full integration of operations)
  - % ownership/control assessment and agreement will be crucial to success

- **Regional Employment Collaboration**
  - Coordinate efforts to attract/recruit, train, and retain laboratory personnel
  - Partners gain access to additional training facilities, expanded test menus and equipment, sub-specialists, and more
  - Requires “3rd party” facilitator

- **Closer Alignment with Primary Reference Laboratory**
  - Multiple options available – national reference laboratories willing to offer a wide-spectrum of services and collaboration
  - Co-branding, IT enhancements, testing protocols, specialty assistance, supply/equip expense reduction, etc.
  - What works for one may not work for all – but absolutely worth discussing/evaluating (these are your partners and you spend a great deal of $$$ on/with them!)
IV. BRL’s Strategic Plan: (cont.)
- Strategic Direction Selected -

On-going and face-to-face meetings with senior administrators (and lab management) of regional/local hospitals continue to elicit tremendous awareness of shared pressures/challenges, as well as increased interest in collaborative/partnership opportunities.
Background
- 250 bed hospital seeking opportunity to reduce reference lab expenses
- Contracted reference lab actively competing against them in their own market
- System has strong relationship with Baystate (tertiary care)
- BRL does NOT compete in their primary catchment areas

Partnership Arrangement
- BRL became their primary reference lab in June
- BRL utilized additional reference testing volumes to renegotiate its reference testing rates realizing an 18% overall reduction and saving partner hospital over 20% in their annual send-out testing expenses
- Strong service and collaboration over the past several years
- Now assessing additional collaborative strategies (e.g., couriers, IT, co-branding, lab consolidations, staff training, etc.)
Background

- Significant financial challenges for hospital
- Lab operations losing over $1.3M per year; with little to no opportunity for growth
- Had outsourced all AP lab work and professional services to local ‘competitor’
- Seeking to further reduce expenses yet maintain quality lab services necessary to support Inpatients and ED services
- Interested in BRL as primary reference lab; as well as in considering further lab testing consolidation opportunities (specifically, microbiology and histology)

Partnership Arrangement

- BRL proposal to; (1) become primary reference lab, (2) provide medical director for on-site testing, (3) provide consultative assistance to scale lab back to RRT, (4) take over all AP testing – technical and professional, (5) collaborate for blood donor programs/services, (6) assist with TMS oversight
- BRL proposal projected to save hospital over $800K/year
- Work together to provide more standardized care across the region
Collaborative Recruitment, Training, and Staffing: Regional Employment Board

- **Regional Clinical Lab Workforce Analysis Project:**
  - Regional Employment Board is a dedicated 3rd party group with focus on building skilled workforces for the region
  - BRL led efforts to initiate a focused project to develop a more secure LAB STAFFING WORKFORCE; with the guidance of REB leadership and the Healthcare Workforce Alliance of Western MA
  - Compromised of over 5 local/regional hospitals; with senior executive support and lab management participation
  - Team submitted a grant to the state for funding to assist with the project; and was awarded grant approval within 3 months!

- **Focused Efforts and Goals:**
  - Coordinate efforts to attract/recruit, train, and retain laboratory personnel
  - Collaborate with each other to provide enhanced access to additional training facilities, expanded test menus and equipment, sub-specialists, and more
  - Create a “safe” forum for all sorts of strategic idea sharing and dialogue
  - Ideally, lay the foundation of trust to move forward with a true, **regional lab for Western MA**
Select the Right Partner

- BRL made a decision to change its primary reference laboratory for the purpose of finding the “right” partner vs. only aiming to reduce testing expenses
- There are many partners in the market – and it is up to each organization to assess who is a better match for its culture, goals, strengths, and needs.
- Key is to realize that your reference lab is your partner! Treat them as a partner and collaborate with them to help improve your operations, presence in the market, testing quality, etc.

Key Focus on our Primary Reference Lab Partnership

- Best practice sharing (technical workflows, logistics, revenue cycle, test menu expansion, testing protocols and algorithms, staff training, etc.)
- Co-branding (name recognition)
- IT (data analytics and interfacing)
- Drive more tests “in-house” vs. sending out for testing; and assist with test utilization analyses and planning
- Medical director alignment and support
- Etc.
Other Partnership Strategies In Progress

- **Reference Testing**
  - Continue to offer reference testing services to local/regional hospitals
  - Improved TAT with local presence and more opportunities for local staff
  - Co-branding
  - Price reductions
  - Etc.

- **Logistics Collaboration**
  - Courier services (primary focus)
  - IT (HIE and other integrations)
  - Etc.

- **Expanded Partnerships**
  - Joint venture with larger organization in the area (address all key strategies discussed)
  - Ownership %, tax status implications, pathologist group impact, etc.

- **Other National Possibilities**
  - Northeast “hub”
  - Sub-Specialty Pathologists (cytology, mol/gen, E/M, etc.)
V. LESSONS LEARNED / KEYS TO SUCCESS
V. Lessons Learned / Keys to Success

- Assemble a management team who’s singular, full-time focus is the lab
- Gain ‘Top’ to ‘Bottom’ buy-off and support on mission, objectives and strategy --- remove *inertia*!
- Implement appropriate KPIs, benchmarking and six sigma processes in order to measure/track progress towards goals and on-going performance
- Internalize (or at the very least ensure dedicated-focused support) for key lab system/operating components
  - Decision Support
  - Financial Management
  - Business Development – Sales - Client Service
  - IT
- Promote collaboration vs. competition, as well as the **POWER** of local/regional alignment
- Realize that “one shoe does not fit all” and develop flexible options/strategies to best meet the needs of each potential partner as appropriate
VI. OPEN DISCUSSION
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