New Clinical and Business Opportunities for the Regional Multi-Specialty Pathology Practice

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Objectives

• Recognize the challenges and assess their impact on your practice
• Review both strategic business and tactical operational opportunities for successfully maneuvering the current environment
• Identify options available for long-term sustainability
• Return to your organization with specific ideas for improving performance and viability
ProPath is …

• 100% pathologist-owned practice and AP/esoteric laboratory (DFW)
• 34 pathologists
• +/- 260 non-physician employees
• Hospital-based practice: 15%
• Hospitals: 18 med dir; 23 ltd support
ProPath is...

- Outpatient practice: 85%
- Multi-subspecialty
- Outpatient volume (own lab):
  - 800-1,000 biopsy cases/day
  - 1,000-1,200 Pap smears/day
- National scope (work from 40+ states)
Our market 15 – 20 years ago …

- Fragmented pathology market
- 2 national players dominating clinical and anatomic pathology
- Managed care was a “take it or leave it” proposition
- HMOs and capitation were major threats
- Hospitals were buying practices
Our market now …

• Fragmented pathology market on inpatient side
• 2 national players dominating clinical pathology
• Consolidated fewer anatomic players
• Managed care is a “take it or leave it” proposition without leverage
• ACOs and bundling are major threats
• Hospitals are buying practices
Focus of Our Strategies …

Business: Structural/formative “GROW”

• Is ProPath positioned as a practice/organization for continued successful?

Tactical: Operational “OPTIMIZE”

• How can we operate more efficiently?
• What short- and long-term changes can we make to optimize performance?
• What ELSE can we do?
Strategy: Grow …

… coupled with the explicit decision to remain independent (no outside ownership or control)
Why we believed a pathologist-owned practice could remain independent and compete…

- Flexible / Decisive
- Controlled, focused environment (limit conflicting priorities)
- Integral part of the medical team
- Hospital / outpatient leverage
Recognized the outpatient requirement differences…

- Extreme competition
- Specialization
- Required investment
- Service expectations
- Pricing
- Branding
Strategy: become larger…

We merged practices

We were …

- 7-8 pathologists (SWMCPA/MLSS)
- ~15 non-physician employees
- Histology-only (no in-house cytology)
  - ~100 biopsy cases/day
- Failing laboratory relationship

Combined 6 practices (1996 forward) …

- 34 pathologists
- 260 non-physician employees
- Adopted the “ProPath” brand
Structure and governance …

• Moved all pathologists into two practice(s)

• Maintained separate hospital-based and outpatient practices

• Created the “Business unit” concept
Advantages of BU structure …

• Maintain independent identities
  • Could maintain separate DBAs (we did not)
• Determine staffing levels
  • Hiring/firing decisions
  • Vacation policies; scheduling
• Income/expense allocated to Business Units
  • Independent income-sharing decisions
• Maintain/establish own culture
• Partner incomes can be very different
• Business units can leave ProPath
Governance …

- Governing board of directors
  Handles overlapping issues for both medical practices
- Each Business unit has board membership
- Most daily decisions retained at BU level
- Individual practice “Councils” handle issues unique to practice setting
  e.g., best practices, QA/PR
What worked …

• Gained leverage with managed care
  • Via more exclusive hospital arrangements
  • Better outpatient pricing/network inclusion

• Larger investments possible/less painful
  (instrumentation, technologies, etc.)

• Afforded better business management

• Clear guidelines for buy-ins and outs

• Clear “vote in” and “force out” provisions

• An effective brand
What could have been better ...

- Built-in flexibility/triggers for voting changes
- Better defined process for procuring and assigning new relationships (geographical vs. sphere of influence, etc.)
- More reasonable percentages for voting approvals (no 100% requirements)
- Better defined/communicated differences in “ownership” vs. “administrative authority”
Tactical Challenge: Optimize …

• Where to look within the operation for areas of potential improvement?
• Which existing systems and processes can be improved?
• Which operating areas to analyze for improvement of management and profit margins?

3 ways of asking the same question…
The 2013 Perfect Storm (Revenue) …

- CMS: 88305

- 3 major managed care contract changes
  - 11/2012 renewal of favorable contract Major payer delayed 4Q ‘12 renewal awaiting CMS
  - BCBS out-of-network change

- Impact: 11% reduction in top line revenue = 45% reduction in owner compensation
Tactic: Operational efficiency …

• Operational efficiencies drive improved financial performance
  – “Specimen Flow” process
  – Business Analysis
    • All clients are on the table
    • All contracts are on the table
    • All resources are on the table
    • All business/products are on the table
Specimen Flow …

- Track every movement of specimens from pick-up (or earlier) through result delivery
- Remove redundancies
- Automate manual processes
- Efficiency / costs (+profit margin)
- Improve throughput (+TAT)
- Process right the first time (+all metrics)
Real life example …

- growth of out-of-area work to >50% of total volume
- inundated by boxes of specimens
- “one piece” processing was impossible
- we were drowning

How do we rationalize “the batch”? Where are the STATs?
The movie ...
Tactic: Business Analysis …

• Some business at $105/88305 may not make sense at $70/88305
  – Size and mix of business
  – Requirements or demands
  – Logistics

• All contracts are (re-)negotiable. Where are we spending the dollars?
Tactic: Make it easy to do business with you (while saving $)
Tactic: Alternative Sources of Income …

- Lessen dependency on insurers, patients and pricing whims
- Research projects
  - Academic
  - Pharmaceutical
  - Cosmeceutical
- Biobanking
- Transplant support
- Digital imaging services
Results of the 2013 process …

- Took >60% of the revenue reduction out of expenses in current period.
- Expense reductions made later in 2013 will be realized in 2014 (and thereafter).
- Projects continue.
Tactical: 2014 Challenge …

• Reduction in IHC reimbursement
• We will still be profitable in 2014
• Our process:
  – Purchase antibodies directly
  – Markedly diluted; titrated for stain optimization
  – Very efficient batch process; low cost
Lessons learned at ProPath …

- Payers will continue to look for (and find) ways to not pay
- Providers will continue to look for ways to augment their income – in/out of specialty
- Healthcare reform will mean … something
- Cheaters are not punished
- Growing/merging groups is hard work
- Internal disagreements happen, but…
Lessons Learned at ProPath …

• Size matters
• Investment is mandatory and not cheap (technology and innovation)
• Comprehensive service matters (market dependent)
• Mistakes will happen – get over it (R&D)
• The struggle and pain are worth it … many times over
Summary …

• Size improves sustainability

• Improve the process (the end results will follow)

• Maintain a mindset of efficiency and throughput

• Continual monitoring is mandatory (with metrics relating to the process)

• Be easy to work with

• Reevaluate your products

• Find alternative income sources