How Hospitals and Health Networks are Assessing the Potential of Their Clinical Labs During a Time of Integrated Care, Precision Medicine and Falling Reimbursement

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Disclosures

• Jerry Hussong MD, MBA
  • CEO, Sonic Healthcare USA
  • Board Member or Key Officer in our various Sonic Healthcare entities

• Paul Fiedler MD
  • Board Member of Constitution Diagnostics Network (CDN)
Learning Objectives

• Understand that medical leadership in pathology and clinical laboratory practice is the foundation for successful, integrated patient care.

• Know why hospitals and health systems should explore the value of external partnerships, which enhance medical care and can also improve the bottom line.

• Understand that the factors contributing to a sustainable partnership include integrating local infrastructure and clinical expertise with external resources and technologies.
LEADING WITH MEDICAL LEADERSHIP: THE SONIC HEALTHCARE PHILOSOPHY
Sonic Healthcare
At a Glance

Third largest medical diagnostic company GLOBALLY

Number one in Australia, Germany, United Kingdom and Switzerland

Ranked among Top 50 Companies on Australian Securities Exchange

Medical centers in Australia housing 2,400 primary care providers

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Medical centers in Australia housing 2,400 primary care providers

More than 108M patients per year, 23M in the US

Laboratory medicine, imaging and clinical services

36K employees worldwide, more than 8K in the US
Approximately 1000 Pathologists Worldwide
Sonic Healthcare USA
United States

**AEL**
Alabama, Arkansas, Florida, Kentucky, Mississippi, Missouri, Tennessee

**EAST SIDE CLINICAL LABORATORY**
Connecticut, Massachusetts, Rhode Island

**PATHOLOGY LABORATORIES**
Ohio, Indiana, Michigan

**SUNRISE MEDICAL LABORATORIES**
Connecticut, New Jersey, New York, Maryland, Virginia, West Virginia, Washington D.C.

**WESTPAC LABS**
California

**CLINICAL LABS OF HAWAII**
Hawaii (Big Island, Kauai, Maui, Oahu)

**CLINICAL PATHOLOGY LABORATORIES**
Florida, Georgia, Louisiana, Nevada, New Mexico, Oklahoma, South Carolina, Texas

**AURORA DIAGNOSTICS**
Alabama, Arizona, Florida, Georgia, Ohio, Oregon, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, Nevada, North Carolina, Rhode Island, South Carolina, Texas, Virginia
Sonic Healthcare USA
United States

Legend

Southwest Division
Florida, Georgia, Louisiana, Nevada, New Mexico, Oklahoma, South Carolina, Texas

West Division
California

MidSouth Division
Alabama, Arkansas, Florida, Kentucky, Mississippi, Missouri, Tennessee

Northeast Division
Connecticut, Maryland, Massachusetts, New York, Rhode Island, Virginia, Washington D.C., West Virginia

MidWest Division
Indiana, Michigan, Ohio

Pacific Division
Hawaii (Big Island, Kauai, Maui, Oahu)
OUR CULTURE IS MEDICAL LEADERSHIP

Medical leadership defines who Sonic Healthcare is, what makes us unique and is an essential element of our growth and success. It is at the heart of what defines our interactions with physicians, patients and each other.

Personal

Personalized service for doctors and patients as well as respect for our people

Culture

Our Medical Leadership extends through our company, it is the core of our corporate culture

Expertise

More than 330 MDs and 13 PhDs leading through example, showcasing lab, pathology, academic and reference lab expertise
• Medical Leadership underpins our business model and has been key to our success for more than 30 years. It provides the basis of our commitment to quality and patient care and drives decisions that influence our culture, operational excellence, growth and partnerships.

• By Medical Leadership, we mean leadership which is based upon a deep understanding of physicians and the medical profession.

• Our Global and US Chief Executive Officers are Pathologists and there are four Physicians on the main Healthcare Board of Directors.
Mission
To provide medical leadership and oversight, formulate medical policy and standards, collaborate with our Division Presidents and Operational Leaders.

Members
Medical Directors, and industry leaders across the nine SHUSA divisions meet every three months with a biweekly call.

Initiatives
Since its inception in March 2017 the PELC has standardized reference ranges, spoken about Biotin interference with lab tests and released quality metric standards.
EVOLVING HEALTHCARE ECOSYSTEM
Clinical Pathology

2018 ($B)
- POL: $4
- Independent Labs: $28
- Hospital Labs: $47

Locations
- 122k
- 6k
- 9k

2018 (%)

Hospital Labs

POL

Independent Labs

Reference
- Outreach
- Inpatient and Outpatient
Anatomic Pathology

Segmentation

- **Outpatient**
  - $7.3b
  - 54%

- **Hospital**
  - $8.5b
  - 46%

Testing

- **Anatomic**
  - $11.4b

- **PAP Testing**
  - $1.8b

- **Pharmacogenomics**
  - $4.4b

**Total Market Size:** $16b

Evolving Healthcare Ecosystem

Market Dynamics

- Value in Laboratory Medicine
- Patient population (Geriatric)
- **Consumerism**
- Patient Awareness
- Diagnosis of chronic disease states
- Focus on preventative medicine

- **Personalized/precision medicine**
  - Genomic Medicine
  - **Molecular diagnostics**
- Population health management
- Data/analytics: Decision support tools

- **PAMA**-Reimbursement reduction/model
- **Managed care organizations**
- Health systems pursuing strategic lab options
- Aggressive consolidation of physician groups

- **Reimbursement models** based on quality of care
- **Risk sharing models**/ Data Sharing
- Reduction of traditional fee-for service models
Evolving Healthcare Ecosystem
Integrated Care Delivery

Healthcare delivery increasingly evolves around hospitals and health systems

Hospitals and health systems undergoing consolidation.

Health systems acquiring physician practices.

Independent physician join IPAs, ACOs, and other integrated delivery networks (IDNs).

Reference: Physicians Advocacy Institute, February 2019
• Value based contracting demands measurable clinical and financial outcomes.

• Providers and Hospitals receive incentives and bear risks for outcomes.

• Financial outcomes are measured as total cost of care which promotes care coordination, integrated care delivery and continuity of care between hospitals and ambulatory services.
FUTURE LANDSCAPE
Significant capital investment required and competing investment priorities within the organization.

Requiring labs to provide higher professional expertise and adopt new technologies such as NGS for precision medicine.

Consolidation expands complex care delivery in health systems

Expanded necessary expertise, technologies and infrastructure creates excess capacities which requires volumes from ambulatory care outreach markets to be sustainable.
Labs represent a small percentage of the budget, but have significant influence on care delivery.

Lab Medicine is a practice of economy-of-scale unlike other clinical services.

Pressure for test consolidation increases service logistic challenges.

Labs represent a small percentage of the budget, but have significant influence on care delivery.
Future Landscape
Healthcare System Laboratories Options: Outreach

MAKE
Requires Critical Mass

Challenges:
- IT: EMR interfaces
- Complex Billing and Finance operations
- Customer Service
- Sales and Marketing
- Logistics
- Procurement costs
- Service Expectations: TAT
- Hospital Cost Center vs. Revenue Center/
- Confusing management goals
- PSC/ IOP Planning and Management

OUTSOURCE
Avoid Capital Investment
Cash Infusion
(if selling outreach)

Challenges:
- Impact to Patient Care:
  - Hospital (IP/OP) services separated from outreach.
- Testing technologies and professional expertise moved away from where patients and doctors are.
- Who is required to promote appropriate test utilization?
- Education and Research

PARTNER
Ability to leverage partner’s assets and competency
Retain control and support of clinical missions

Challenges:
Selecting Right Partner
- Cultural alignment
- Conflict of interests (Existing operational territories)
- Governance
- Long-term sustainability and stability
- Personnel and resources
Performing outreach lab testing.
Reducing inpatient laboratory costs.
Generating revenue for both partners.

Covers the New York metro area.

More than 1,500 physicians transitioned to venture since inception.
Creating a Regional Microbiology Core Laboratory Servicing 22 Hospital Health System and outreach covering Tennessee, Arkansas & Mississippi Implementing fully automated Kiestra System.

Improved Turn-Around-Time by 12-14 hours. Addressed Medical Technologist shortage.

Reduced length of stay by $3k per admission with positive culture. Increased expertise and scope of services within center of excellence.
Sonic Healthcare USA JV

Constitution Diagnostics Network

Manages inpatient testing for three hospitals.

1. Core lab at the largest hospital (Danbury). More than 90 percent of testing performed at WCHN hospital labs.

2. Outreach lab work performed at hospital labs run by Joint Venture.
CASE STUDY:
BUILDING AN EFFECTIVE HOSPITAL LABORATORY JOINT VENTURE
• 3M test/year (40% Outreach) with 40K surgical accessions
• 17 Board Certified Pathologists
• Central lab at Danbury Hospital includes microbiology, cytogenetics, immunology, flow cytometry, and molecular diagnostics
• Teaching mission with >60 year-old Pathology Residency Program
• Integrated Ruggles Biomedical Research Institute
• **Constitution** – Connecticut is the Constitution State; Also means composition or makeup as in healthy constitution

• **Diagnostics** – Not Laboratory

• **Network** – Interconnected group of people and institutions with shared resources, goals and incentives
Case Study:
Why Partner?

- Size and brand matter
- Institutional initiative to develop strategic alliances where feasible
  - Memorial Sloan Kettering
  - CT Children’s Medical Center
  - Mount Sinai
  - University of Vermont
Case Study: Why Sonic?

- Commitment to enhance, not dismantle / replace WCHN Laboratory Network
- Appreciation for Hospital Needs and WCHN Core Values
- Physician/Pathologist Led Organization
- Sonic’s Federated Model
- Stellar Reputations of Sunrise and CBLPath
- Deep Knowledge of our Region
- Collegiality and tone of negotiations
- Facilitates WCHN towards value-based laboratory offerings
• Joint ownership and operation of CDN Outreach testing business
• CDN shares in cost savings for inpatient/outpatient testing services managed /effected by CDN
• WCHN and SML retain lab licenses
• WCHN retains/provides most of staff for WCHN labs
• Sunrise hires/appoints manager who reports to CDN Board
Case Study:
CDN Structure: Governance and Ownership

- LLC structure
- CDN Board composition:
  - 50% WCHN / 50% Sonic
  - Physician / Pathologist leadership
- Key provisions require unanimous consent
- Board structure tailored to:
  - Sufficient “control” to maintain WCHN charitable mission
  - WCHN dominion over inpatient operations
- Ownership determined based on:
  - Combination of contributed capital and FMV of tangible and intangible Outreach business assets
Case Study:
Benefits for WCHN: Potential and Realized

- Cash infusion with continued active participation and input in all decision-making
- Preferred contracting and premium service from lab vendors
- Access to Expertise in:
  - Lab Medicine (consultation on procedures and reference ranges)
  - Lab Management
  - Population Health (test utilization)
  - Marketing and Communication
- Enhances Outreach IT – EMR integration.
- Competitive with Commercial labs
- Client Services
- Payer Relationships (prior authorization)
- Outreach-focused billing systems
Case Study:
Challenges

- Acceptance of CDN / Sonic by hospital departments outside of laboratory
- Hospital bureaucracy
- Clarifying Sonic’s role in the lab for CDN clients
Case Study:
Results to Date: Partnership/ WCHN View

- Consolidated testing at centralized core lab
  - Increased efficiency, TAT & lower costs, patient convenience
- Shared technology support for best practices in the areas of Chemistry, Hematology and Histology
- Enhanced Sales and Marketing through collateral materials, branding and website development
  - Dedicated Outreach sales and service personnel supported by Sonic professional sales management
  - Improved Outreach customer service and client support to community physicians
  - Improved Outreach client relations has led to increased new business opportunities
- Currently under development
  - Expand PSC footprint (two new locations are scheduled to open)
  - Improve Outreach billing and collections by converting to a more user-friendly process
  - Expand EMR connectivity options to Outreach clients
THANK YOU

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