Rethinking Lab Testing Services at Your Hospital or Health Network – Helping Your CEO Understand the Opportunities and Pitfalls of Keeping versus Selling/Outsourcing the Hospital Laboratory

Linda S. Flynn
Re-Think Lab - Healthcare Environment

• Shift from volume to value-based care
• Management of population health
• Increasing influence of consumerism
• Need for reduced clinical variation
• Increasing need for capital
• Unknown impact of consolidation
Re-Think Lab: What is the “New” Reality?

How Does Lab Outsourcing Impact the New Reality – Boon or Bane?
Success in business is built with a balance between in-home talent and outsourcing. As you outsource it allows you to focus where you need to while relying on the experience of others.
Re-Think Lab: Think Like a CEO

• Understand how a CEO/CFO is evaluated

• Think strategic
  – Know the hospital/health system strategic plan (read the annual report)
  – Structure lab strategies to support the hospital strategic plan
  – Focus lab capital requests to support the enterprise

• Easier to communicate
Re-Think Lab: What Drives CEO Decisions?

- Quality, patient safety and outcomes
- Physician relations
- Strategic financial management
- Community health and partnerships
- Board relationships
- Advocacy and fundraising

“How are CEOs Evaluated?
AMA Study
Re-Think Lab: What Drives CFO Decisions?

- Managing cost reduction
- Managing impact of changing payor mix
- High bond ratings
- Access to capital
- Positive cash flow
- Debt repayment

“How are CFOs Evaluated?
GreenLight Medical
Re-Think Lab: C-suite View of the Workforce

Lab Workforce

Be Visible!

C-Suite View
- Low profile
- Cost center
- Mid-level participants
- Not big picture – specialists
- Tired of hearing – “we aren’t like anyone else”
THE GENERATIONS IN THE WORKPLACE

Based on a survey of 1,200 workers across different generations measuring their strengths & weaknesses.

<table>
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<tr>
<th></th>
<th>Executive Presence</th>
<th>Generating Revenue</th>
<th>Adaptability</th>
<th>Cost-Effectiveness</th>
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<tr>
<td>EXECUTIVE PRESENCE</td>
<td>28%</td>
<td>32%</td>
<td>10%</td>
<td>34%</td>
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<tr>
<td>TECH SAVVINESS</td>
<td>4%</td>
<td>11%</td>
<td>17%</td>
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<tr>
<td>RELATIONSHIP BUILDING</td>
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<td>34%</td>
<td>26%</td>
<td>20%</td>
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<tr>
<td>PROBLEM SOLVING</td>
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<td>53%</td>
<td>57%</td>
<td>53%</td>
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<td>COLLABORATION</td>
<td>78%</td>
<td>57%</td>
<td>41%</td>
<td>34%</td>
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**BABY BOOMERS**

- Born: <1963
- Pros: Productive, hardworking, team players, mentors
- Cons: Less adaptable, less collaborative

**GEN X**

- Born: 1963-1980
- Pros: Managerial skills, revenue generation, problem solving
- Cons: Less cost-effective, less executive presence

**MILLENIALS**

- Born: 1980-1995
- Pros: Enthusiastic, tech-savvy, entrepreneurial, opportunistic
- Cons: Lazy, unproductive, self-obsessed

UXC professional solutions

To find out where we got this information drop us a line: contactus@uxcps.com.au
Re-think Lab: Taking Advantage of Workforce

• Gen Xers Moving into Leadership Roles
  – Career Ladders
  – Mentoring Programs
  – Staff Transition Planning

• Millennials are Tech-Savvy
  – Communication Skills (or lack of)
  – Mobile - Not Afraid to Change Jobs
    o Constant recruiting and training
  – Automation
  – IT Tools
    o Auto-verification
    o On-line QC computer rules
    o Connectivity
Re-Think Lab: C-suite View of Lab Regulatory Issues

C-Suite View
- Moderate risk
- Don’t understand particulars
- Not willing to spend $, unless there is a problem
- Distraction – can we outsource the problem?

Be Inspection Ready!
Re-think Lab: Regulatory Reality

- Lab inspections are “tougher”
- Resource and time commitment have increased
- Expectations/responsibilities of C-suite have increased
- Tracer methodologies “make” hospital departments work in tandem
- Involve staff in the inspection preparation
Re-Think Lab: C-suite View of Providers

Health System Providers

Connect to Provider EMRs!

C-Suite View
- Essential to success
- High sphere of influence
- Moving to ACO leaders
- High demands
- More community partnerships
Re-Thinking Lab: Reality - Providers Are Changing

• More health system owned physician practices (over 80%)
• Salaried with less risk
• Computer literate and expect on-line help
• Single click order-sets, expected JIT results
• Need workable connectivity solutions
Re-Think Lab: More Retail Providers

- Patients opt for alternative outlets
  - The Little Clinic
  - ANY Test Now
- Stand alone urgent care
- Wait times in physician offices
- Price transparency
- Consider partnerships with these new providers
Health System Payors

Be Part of Contract Negotiations!

C-Suite View
- Lab is not competitive
- Payors have exclusive contracts
- Payor mix is less favorable
- Cost shifting to patients
- Risk shifting to hospitals
Re-Think Lab: Reality - Shifting Payors

- Decreasing fee-for-service
  - Fewer contracts are based on a % of charges
  - Impacts how CFO “views” the lab
- Increasing Medicare – Baby boomers
  - Medicare Advantage
- States increasing Medicaid programs
- Increasing self-pay - High deductible plans
- Laboratory benefits managers
Re-Think Lab: CEO View of Outreach

Laboratory Outreach

Conduct a Profitability Analysis!

C-Suite View
- Not competitive with national labs
- No to multiple fee schedules
- MC exclusive contracts
- Drains IT Resources
- Lose $ on % of fee schedule business

"Nickels and dimes"
Re-Think Lab: Reality - Outreach

• Improved patient medical record of lab results
• Important source of revenue
  – Margins are high, even with PAMA, 16-18%
  – Be smart about the business – not all business is good business
  – Understand which markets support the hospital’s strategic plans
• Lowered cost per test for all patient types
• But, C-suite may not support or want another option
  – CFO and Managed Care are common obstacles
  – Can lead to the out-sourcing or partnership discussion
Re-Think Lab: Reason to Outsource - Opportunity

- Need for cash to support hospital
- Laboratory quality/regulatory issues
- Lack of laboratory leadership
- Inability to recruit qualified staff
- Limited capital for lab technology
- Limited IT connectivity
- May provide revenue if structured in
Re-Thinking: Reasons Not to Outsource - Pitfalls

- Loss of control
- Loss of data integrity
- No choice in instrument selection
- Loss of revenue
- Cost “creep”
- TAT “creep”
- Limited test utilization management
Re-Think Lab: What Happens in Outsourcing?

- Lab staff become employees of the outsourcing entity
  - Salaries, benefits, pension changes
  - Management change
  - Titles and job functions change
- Test menu is reduced
- Instrumentation change
- Test catalogue updated
- LIS may change
- Bottom-line mentality
Re-Thinking Lab: Exiting the Relationship

• Most lab outsourcing relationships dissolve within 5-7 years
  – Perceived lower quality and service
  – Unacceptable turnaround times
  – Increased provider complaints

• Costly and time consuming to exit
  – Re-employ staff
  – Develop new management team
  – Acquire equipment
  – Set-up supply chain/purchasing
  – Handle regulatory
  – Abide by non-compete (2-5 years)
Re-Think Lab: The Discussion Starts

• How Does the Discussion Start?
  – New C-suite with experience in lab outsourced model
  – Commercial lab sales representative “calls on” the C-suite
  – Board member suggests the option be explored
  – Reference lab partner approaches the C-suite
  – Lab doesn’t hit its KPIs
  – Hospital joins a health system with an outsourced lab model

Once You Start Down the Path__________?
Re-Think Lab: Avoiding the Outsource Discussion

- Consistently meet your KPIs
- Have a good technology plan
- Ensure lab is “inspection ready”
- Interface with other hospital departments
- Score well on provider satisfaction survey
- Score well on employee satisfaction survey
- Avoid being a “management headache”
Re-Think Lab: Are There “Smarter” Models?

Typical Partnership Models

01. **Full JV**
   Between hospital and commercial lab; commercial partner provides management and resource support; employees may be JV staff; hospital buys testing from JV

02. **Outreach JV**
   Between hospital and commercial lab; JV owns the outreach; partners share revenue equal to their % ownership or investment

03. **Reverse Test Model**
   Model is based on contractual arrangement where hospital is paid (discounted fee schedule) to do testing; commercial partner bills payors

Consider all options before a decisions is made for you!
• Communicate with the C-suite
• Contribute to the hospital/health system strategic plan
• Be involved with managed care contracting
• Interface with other hospital departments
• Leverage lab resources, test menu, equipment
• Be “inspection ready”