



Long-Term Health System Strategy: Are You Optimizing Your Lab as a Strategic Asset?

Buy, Sell, Merge, or Outsource

Clinical labs affect 70 percent of medical decision making and touch every aspect of healthcare, according to the leader of a lab management and consulting firm. Underutilized capacity within hospital and health system labs have the potential to be a strategic asset that can drive revenue and growth. Optimizing the lab as an asset can provide a consistent revenue stream at a healthy margin. Alternatively, some hospitals and health systems may also contemplate selling their lab or partnering with a private lab company, which comes with tradeoffs.

During a roundtable session at Becker's Hospital Review's 12th Annual Meeting sponsored by Accumen — which partners with executives at U.S. hospitals to address complex issues in lab, patient blood management, and imaging — BG Porter, CEO of Accumen, led a discussion about assessing the potential of hospital laboratories with a group of lab experts:

- Jeff Downs, Vice President of Strategic Relationships, Accumen
- Christal Contini, Partner, Mergers and Acquisitions Practice Group, McDonald Hopkins
- Tom Hirsh, Senior Advisor, Coronis Health
- Joe McGann, Vice President, and General Manager of Laboratory Operations

Key Takeaways

1. Low-hanging fruit. Why would a hospital want to enter the competitive arena of providing lab services to their community based employed physicians (the In-reach market) or the affiliated/independent physicians in the community (the Outreach market)? There are multiple factors that include already having a lab in place, running a 24/7 operation with underutilized assets (especially on 2nd and 3rd shift) and excess capacity, having contracts with major payers in place and being able to focus on meeting the specific lab needs of the health system's patients. "If you're successful, you can enjoy good margins, even with declining reimbursement of 25 to 30 percent," Mr. Hirsh said.

TO LEARN MORE, CONTACT US AT:
info@accumen.com

ACCUMEN.com



Key Takeaways (cont'd)

2. Key success factors. The biggest challenge facing hospital labs today is operational execution. Three areas to excel at in making a lab a core competence for both the "in reach" market of employed physicians and the "outreach" market of independent physicians in the community are lab clinical leadership, IT excellence, and a vision and support from senior leadership.

3. Know the value of your market. "If you have 100 employed physicians, are you getting all their lab work?" Mr. McGann asked. What percentage of the market do you have? "The value of a long-term revenue stream and the margin from employed physicians can be very healthy."

4. Arrangements with commercial labs. There are four basic types of arrangements that hospitals strike with commercial labs: a straightforward purchase, where the commercial lab purchases all of the hospital lab's in-reach and outreach business; a purchase with hospital management involved; outsourced lab management; and a new joint venture between the hospital and commercial lab. "Most lab service agreements are for a 10-year term," Ms. Contini said. "The laboratory services agreement is the most important document, because you have to live with that."

5. Pros and cons of arrangements with commercial labs. For hospitals and health systems, advantages of partnerships with commercial labs include a significant one-time cash infusion, leveraging of hospital assets, increased consumer-oriented capabilities, greater testing capabilities through reference labs and happy payers. "This cash infusion could be allocated to other hospital projects, or it could reduce costs," Mr. McGann said.

Cons include a loss of control, non-compete agreements, a loss of talent and difficulty in re-entering the market if the arrangement goes sour. Joint ventures can sometimes bring the best of both worlds, allowing for talent retention, more control and work kept locally.

Underutilized hospital labs can drive revenue growth with good margins. Senior leaders should consider the opportunity from an operational, financial, and legal perspective.

TO LEARN MORE, CONTACT US AT:
info@accumen.com

ACCUMEN.com