

*From the Desk of R. Lewis Dark...*

# THE **RD** DARK REPORT

RELIABLE BUSINESS INTELLIGENCE, EXCLUSIVELY  
FOR MEDICAL LAB CEOs / COOs / CFOs / PATHOLOGISTS

*R. Lewis Dark:*

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## COMMENTARY & OPINION by...

*R. Lewis Dark*  
Founder & Publisher



### **New Jersey Suspends UnitedHealth's Fines for Docs**

THERE'S AN INTERESTING TWIST IN THE ONGOING KERFUFFLE between **Quest Diagnostics Incorporated** and **Laboratory Corporation of America** over the **UnitedHealth Group** business. Last Friday, news spilled out that the **New Jersey Department of Banking and Insurance** had asked the insurer to suspend its plans to fine doctors who continue to refer UnitedHealth patients to Quest Diagnostics for their laboratory tests.

The department issued a statement to explain that it was “not satisfied with the legality of these protocols.” UnitedHealth spokesperson Tyler Mason acknowledged that his firm would comply with the voluntary suspension, also noting it was temporary and his company expected the department’s review would likely prove favorable to UnitedHealth.

I invite you to read these tea leaves with me. What is the story behind this story? Government regulators generally take these types of actions for one of three reasons. Either, 1) there is a clear and obvious violation of law that cannot be ignored; or, 2) there is great public relations to be gained by “protecting the public interest”; or, 3) influential, powerful interests are pressuring the regulators to act. This latter can include public outcry that reaches an intensity which impels regulators to action.

I believe we can ignore the first two scenarios involving clear violation of the law and acting for public relations value. I’ll bet that some volume of formal complaints filed with the Department of Banking and Insurance created enough pressure for its regulators to publicly request that UnitedHealth suspend its plans to fine physicians \$50 anytime they refer a patient outside the laboratory provider network.

This pressure could include not just complaints from physicians and patients, but also pointed requests for action by large employers in New Jersey, as well as state legislators. Also, don’t overlook the fact that Quest Diagnostics employs a large number of people in New Jersey. It has a motive to marshal its supporters to act in ways that can help it deal with its exclusion from UnitedHealth’s national contract. What is true about this latest development is that a large number of physicians and employers are now thinking about the upsides and downsides of exclusionary provider networks versus “any willing provider” arrangements. Wouldn’t it be ironic if one consequence of this UnitedHealth contract is that it triggers a groundswell of support for open provider networks?

# Aetna Says: LabCorp Is Out & Quest Diagnostics Is In

➤ Effective July 1, 2007, Quest becomes the only national laboratory in Aetna's network

➤➤ **CEO SUMMARY:** *January 1, 2007 can be considered the start of a new epoch in managed care contracting for lab test services. News of Aetna's decision to favor Quest Diagnostics Incorporated with a five-year contract as its only national laboratory provider shows the direction this new epoch is apt to take. Eventually it may become increasingly more difficult for regional laboratories to renew contracts on favorable terms.*

IF NEGOTIATIONS FOR THE NATIONAL LAB TESTING CONTRACT with **Aetna, Inc.** were round two of the championship fight between the nation's two heavyweight lab companies, then **Quest Diagnostics Incorporated** outspurred **Laboratory Corporation of America**.

On March 1, LabCorp issued a statement, saying it "will no longer be a contracted laboratory provider for Aetna Inc. (NYSE: AET), effective July 1, 2007." Later in the day, Aetna acknowledged the contract decision in favor of Quest Diagnostics.

A reporter wrote that Allen Karp, Vice President of Healthcare Delivery for Aetna, had stated that, "Aetna's decision to change providers is part of a larger effort by insurers to trim costs without impacting the health services they offer. This is an

area where we can look at the total costs and use our leverage and size to drive better prices," Karp said.

In the days following the announcement, LabCorp said Aetna represents under 4% of its annual revenue. With 2006 revenue of \$3.6 billion, that means Aetna contributes no more than \$144 million per year. By contrast, LabCorp's revenue from **UnitedHealth Group** in 2006 was also in the range of 4%, or about \$144 million.

Quest Diagnostics now gains an exclusive national relationship with Aetna. The contract is for five years, beginning July 1, 2007. Aetna insures just under 16 million members. It is strongest in the Northeast, a region where LabCorp is working intensely to gain major market share from its rival, Quest Diagnostics.

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Loss of the Aetna contract complicates LabCorp's growth strategy. It was hoping to be a network laboratory for all the major health insurance plans in regions such as New York and Philadelphia.

### ► **Contracted With All Payers**

That way, when it approached physicians currently using Quest Diagnostics or a local laboratory, LabCorp could offer "one stop shopping." It would mean that the physician's staff could send all their specimens to LabCorp and would not have to differentiate specimens based on the patient's insurance plan and the laboratories contracted to serve that health plan.

Quest Diagnostics has countered that strategy by negotiating terms with Aetna that make it the sole national laboratory in Aetna's provider network. It can be expected that the two blood brothers will negotiate furiously against each when contracts with other national and regional payers come up for renewal. Each lab company will have a goal of negotiating to be a sole source provider. So the negotiations are likely to be intense, and payers are likely to find that, for them, it's a buyer's market.

In fact, THE DARK REPORT believes that the 10-year contract between UnitedHealth and LabCorp, which took effect on January 1, pushed the entire laboratory industry into a new epoch for managed care contracting. The five-year pact that Quest Diagnostics signed with Aetna provides us with the first evidence that each of the two blood brothers will negotiate with intensity to gain a sole source contract that excludes their primary competitor.

### ► **Hospital Lab Outreach**

For independent lab companies and hospital outreach programs, this new epoch can have significant implications for their long-term access to managed care patients. This new epoch is also likely to result in an accelerated reduction in reimbursement for laboratory testing services, even if regional and local labs can preserve

access with their community's major health insurance plans.

If reimbursement declines, it will be because each of the two blood brothers, with their significant economies of scale, are willing to offer rock-bottom pricing to major managed care companies as a way to negotiate a sole source contract that excludes their national competitor. Many of these managed care contracts may also be designed to exclude local lab providers—or put the national laboratory in a preferred position. The lab network that Quest Diagnostics created for **Oxford Health Plans**, and that LabCorp now manages, is an example of this contract strategy.

Lab administrators and pathologists should recognize that this new epoch in laboratory contracting is a result of changes in the national healthcare marketplace during the past decade. Because of the different marketplace today, new business strategies become both attractive and feasible to managed care companies and the two blood brothers.

### ► **Now In Uncharted Territory**

LabCorp's brassy decision to put \$200 million on the table for UnitedHealth, on top of other contract concessions, in exchange for a 10-year exclusive contract and UnitedHealth's commitment to push physicians and patients to comply with network requirements is a case in point. Until now, no other lab company had been willing to introduce this strategy into the managed care marketplace.

The same can be said for UnitedHealth. It is presenting much public evidence that is willing to be tough with physicians who send lab testing out of network. It is also willing to be tough with patients by requiring them to pay significant co-pays, deductibles, and out-of-pocket charges whenever their lab tests are performed by an out-of-network laboratory. Until now, no major managed care plan has used a get-tough stance to pressure physicians and patients to comply in this way.

Not only do the actions of LabCorp and UnitedHealth represent a different attitude about the healthcare marketplace today, but these actions come with risk. Both companies could end up losing more than they gain.

In the case of UnitedHealth, its effort to limit the choice of physicians and patients comes at a time when employers are encouraging their employees to accept high deductible health plans (HDHPs) and Health Savings Accounts (HSAs). By intent, these plans must offer patients a choice of providers. That's because the goal is to encourage patients to shop for the best value in providers just as they shop for the best value in houses, mortgages, and life insurance. So UnitedHealth's effort to restrict choice of laboratories comes at the same time that employers are moving to buy health benefit plans that offer more choice.

### ➤ **Triggering A Bidding War**

For LabCorp, the risk comes from the potential for its deal with UnitedHealth to trigger a bidding war with Quest Diagnostics each time an important managed care contract comes up for bid. Another risk is that it loses its access to managed care patients because Quest Diagnostics is now motivated to negotiate contracts that exclude LabCorp as a provider.

In the eight weeks since January 1, LabCorp has successfully inked a contract with **Horizon Blue Cross Blue Shield of New Jersey** that excludes Quest Diagnostics and Quest has signed a contract with Aetna that excludes LabCorp. Not only do these moves illustrate the potential "tit for tat" that may come to dominate contracting for lab services, but they also show that either of the two blood brothers can gain and lose big chunks of business—depending on the outcome of a single managed care contract renewal decision.

THE DARK REPORT advises lab directors and pathologists in local laboratories to take affirmative steps to build their value propo-

## Consolidation Set Up New Managed Care Strategies

**C**ONSOLIDATION IS THE PRIMARY CULPRIT behind the willingness of large managed care companies and the two blood brothers to adopt new business strategies.

Over the past 10 years, consolidation has changed the managed care industry. Now the three largest companies are: **WellPoint, Inc.** (34 million beneficiaries), UnitedHealth Group (26 million beneficiaries), Aetna (16 million beneficiaries), and **Cigna Corp.** (9 million beneficiaries). Collectively, these four managed care giants insure 85 million of the 186 million Americans who have private health insurance. (See *TDR*, July 11, 2005.) This has concentrated the buying power of the nation's largest health insurers. It motivates them to try new strategies to more actively cut the cost of laboratory testing.

During the same decade, Quest Diagnostics and LabCorp consolidated much of the commercial laboratory sector. During that time, LabCorp has always played "Avis" to Quest Diagnostics' "Hertz."

Thus, LabCorp's bold move to seize the UnitedHealth business on a long-term, exclusive basis is a strategy to disrupt the existing market status quo and hope it can ride the ensuing turmoil to increased market share. That is certainly a valid business strategy. However, it comes with a downside. Anytime a company disrupts its market status quo, the outcome is uncertain. That's because new forces are set in play—forces which cannot be controlled by any single company.

sition with important payers within their communities. There are powerful indications that the new epoch in managed care contracting can end up making it more difficult for independent labs and hospital lab outreach programs to retain access and acceptable pricing to the important managed care plans in their markets. **TDR**

# Mobile Pathology Service Fuels Increased Revenue

► **Mobile anatomic pathology laboratory allows pathologists to deliver real time diagnoses**

►► ***CEO SUMMARY: When pathologist Raman Sukumar, M.D. founded a generalist pathology practice in 2003, he was convinced that local doctors would support his vision of pathology at the point of care. That vision was validated by rapid acceptance of his mobile pathology laboratory and a steady flow of new specimens. Doctors Pathology Services now employs 30 people and has enough work to support 3.5 FTE pathologists.***

**P**ATHOLOGY AT THE POINT OF CARE is precisely what fuels the profitable and steady growth of **Doctors Pathology Services (DPS)** of Dover, Delaware. It uses a mobile laboratory to provide pathology services on site to ambulatory surgery centers (ASCs), diagnostic imaging centers (DICs), physicians, and hospitals.

Since its founding by pathologist V. Raman Sukumar, M.D., DPS has used a unique strategy to grow its business. It brings the pathology laboratory to the customer. This strategy not only brings Sukumar into the care continuum, but it helps his physician-clients become more profitable.

Recently, THE DARK REPORT profiled Doctors Pathology Services ([www.dpspa.com](http://www.dpspa.com)) and its remarkable growth story. Organized to be an office-based, generalist pathology practice in 2003, it has grown and now has the equivalence of 3.5 full-time pathologists to service its clients. (See TDR, November 27, 2006.)

This intelligence briefing analyzes the cornerstone of Sukumar's success: his patent-pending, mobile pathology laboratory. He calls his "I come to your office"

service the Mobile Intraoperative Consultation Service™ (or MICS™). It provides a case study for a new model for generalist pathology, one based outside the traditional community hospital setting.

## ► **Seizing The Opportunity**

"Our MICS service is a pathology laboratory built in a van about the size of a typical delivery truck," noted Sukumar. "I can work about 30% more efficiently in the mobile laboratory than I can in the office. Plus, not only is it more efficient, but the operation impresses the surgeons, nurses, operating room staff, and even patients who see how we run tests and produce results on the spot."

"The simple act of driving up in the mobile laboratory and providing pathology services to client surgery centers and hospitals is the most powerful marketing we can do," explained Sukumar. "Surgeons who come into the van become a captive audience—for all the right reasons! While surgeons wait for the diagnosis, we can market our services to them. We can discuss our range of services and show them how our pathology-at-the-point-of-care

can help them increase patient volume and revenue.

“In this way, we have favorably turned the tables for pathologists,” he added. “In a typical hospital, the pathologist is at the ‘beck and call’ of the surgeons. But in our mobile pathology laboratory, we are much more a part of the healthcare team. We’re like them, in part, because we wear scrubs and work in the operating room. But more important than that, we are present at the point of care, which gives them an economic advantage. They can bring many more cases to the ASC or DIC because there’s a pathologist on site, allowing them to generate income. Without us, they have to do these procedures in the hospital, which means a loss of revenue and is less efficient.

“It is common, when we go to a DIC or an ASC, for physicians to ask us, ‘Can you stay for one more case?’ Or, they’ll say, ‘The patient has cancelled. Can I get you lunch while we wait for the next case?’” he noted.

“This is why I say the tables have turned in ways that are favorable to pathologists,” Sukumar explained. “We provide a channel of pathology services around which surgeons begin to shape their practice. It makes us an integral part of the surgeons’ clinical practice and revenue stream.

### ➤ Limited Test Menu On Site

“When working in the van, our menu is limited to only five or six tests,” he continued. “We do frozen sections, fine needle aspirations, STAT IHC for sentinel nodes, and facilitate collection of specimens for muscle biopsies, genetics tests, and cultures. Normally, to get these simple tests, most physicians must depend on the hospital for minor procedures.

“Without having a pathologist at their site, they are left with the option of either sending some tests to the local hospital or to a national commercial lab with the risk that the specimen might be rejected for improper collection,” observed Sukumar.

“And when surgeons and other physicians who own the ASC send the tests to the hospital, the hospital might ask, ‘Why should we provide laboratory services to you when you’re a competitor?’

“The truth is that our limited test menu is the linchpin for these surgeons,” Sukumar said. “These tests allow the physicians to cut the cord from the hospital and operate their surgery center independently. By using our mobile services, they can generate income and thumb their nose at the hospital. In essence, we give surgeons what they want, and that gives us competitive advantage over other pathology competitors—both regional and national.

### ➤ Physicians With Laboratories

“Besides these clients, we also serve another growing market niche,” he continued. “Our mobile pathology service makes us an in-house pathology consultant for many of these ASCs. We help them set up their own in-house laboratory, handle CLIA certifications, and prepare SOPs. The POLs facilitate better patient care and are profitable even if insurers cease paying for in-house lab work.

“In Delaware, we have seen more and more endoscopy and urology groups lose money after opening their own surgery centers,” continued Sukumar. “Here’s an example: A large urology group with eight urologists built its own ASC and used an out of state lab for pathology work. But health insurers served notice that they would stop payment to the urologists for many of their procedures. The urologists had to merge with a general surgery ASC which uses us exclusively for all their pathology work because of what we bring to the table. Now we receive all of their uropathology specimens.

“Our business is just like any other,” Sukumar said. “We give our customers what they cannot get from other sources and they give us all of their work. Our mobile pathology laboratory travels to a different surgery

## Mobile Pathology Laboratory Is Welcomed By Surgery Centers and Office-Based Docs



◀◀ At left is an exterior view of the mobile pathology laboratory designed and operated by Doctors Pathology Services of Dover, Delaware. This van visits ambulatory surgery centers (ASCs), diagnostic imaging centers (DICs), and physicians offices to provide pathology services at the point of care.

At right is a photo of the interior of the mobile pathology laboratory. It is equipped with the equipment necessary for cutting, staining, and reporting to support the on-site service menu. Primary services provided are frozen sections and adequacy for fine needle aspirations (FNAs). The mobile pathology laboratory is driven to the client's site by a pathologist, who performs all testing while on site. ▶▶



center every day. On average, we perform about four tests a day, or about 100 various procedures every month

### ► Physician Productivity

“Most days we go to one surgery center in the morning and to another in the afternoon,” he stated. “On rare occasions, we go to one ASC in the morning and stay there the whole day. By scheduling in advance, surgeons line up all of their frozen sections for the day. That increases the productivity of the surgeons and is better for patients.

“When the surgery center schedules a number of patients in one day, they do so with well worked-up cold cases, not emergencies,” Sukumar added. “Then, they

work on all of the patients requiring frozen sections in sequence, one after the other.

“When they work with this type of schedule, they often use two operating rooms,” noted Sukumar. “The surgeon removes a lesion and the pathologist works on the frozen section. While that patient waits in the first room, the surgeon goes into the second room and removes a lesion from a second patient in that room.

“After 20 minutes, we deliver the diagnosis on the first patient and we start work on the second frozen section,” he explained. “This work flow means that these surgeons don’t waste time. Anesthesia is running and surgical procedures proceed smoothly and efficiently.



Our van is designed to allow us to work in this manner all day.

“Here’s another example of how our mobile laboratory can change surgical work practices,” observed Sukumar. “In some surgery centers, especially in plastic surgery, the surgeon is operating on eyelids or very critical areas of the face.

### ➤ **Performing Frozen Sections**

“Typically, they will remove enough tissue ahead of time and the margins are hardly ever positive for tumor. So, they start closing the patient while we do a frozen section,” he said. “Nine times out of ten, we find the margin is clean and by then, they have closed the patient. In this way, they get their answer, and no time is wasted. But in one case out of 10, we find the margin is positive, and the surgeon has to go back to work on the patient. Because the patient is still under anesthesia, this work is accomplished in the same surgical session.”

THE DARK REPORT notes that by being mobile, Sukumar is positioned to be an integral part of the healthcare team. By providing diagnoses on site, DPS has all the advantages of being an in-house service but with none of the conflict-of-interest questions that a surgeon-owned lab might raise.

### ➤ **Physician-Friendly Pathology**

What’s more, because physicians using the services of DPS’s mobile laboratory can schedule patients selectively, the mobile lab improves the efficiency of their operations and helps them get the most out of their investment in an ASC. In addition, insurers view the mobile lab as a way to cut expenses and allow DPS to be a participating provider even if they have exclusive contracts with a commercial lab. Meanwhile, Sukumar’s mobile laboratory allows him to take advantage of a need in the marketplace that had previously gone unmet. **TDR**

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## Mobile Pathology Vans Used by Florida Paths

**D**URING THE 1990s, several anatomic pathology groups in Florida developed mobile pathology vans. This was a response to intense competition for physician referrals.

Because of the high volume of case referrals generated by dermatologists in Florida, mobile pathology services were generally organized to serve this particular medical specialty. By contrast, in Delaware, Doctors Pathology Services is using its mobile pathology laboratory to service a range of medical specialties, including dermatology, urology, and gastroenterology, among others.

One pathology group using a mobile pathology van was **Palm Beach Pathology**, based in West Palm Beach, Florida. THE DARK REPORT provided an intelligence briefing on how Palm Beach Pathology was using its pathology van to compete for new business and reinforce existing client relationships. (*See TDR, January 22, 2002.*)

The mobile laboratory van used by Palm Beach Pathology was designed to accommodate both a histotechnologist and a pathologist working at the same time. During the day, while waiting for on-site specimens to be processed, the pathologist would read other cases to maximize his or her productivity while on site at a client’s location.

►► **CEO Summary: Coding, billing, collections, and compliance continue to grow in complexity, making management of the lab's revenue cycle ever more difficult. One by one, a number of the nation's largest laboratories are taking steps to automate management of their revenue cycle by utilizing "Software as a Service" (SaaS). Intrigued by this new market trend, THE DARK REPORT spoke with Lâle White, the entrepreneur who is behind this new approach to AR management.**

## IMPROVING MANAGEMENT OF THE LAB REVENUE CYCLE

# Pumping Up Performance Of Lab Billing & Collections

**B**ILLING, CODING, COLLECTIONS, AND COMPLIANCE are essential functions in every clinical laboratory and pathology practice. Small improvements in each of these areas can translate into a significant increase in net collected revenue.

Recently **Mayo Medical Laboratories** (MML) of Rochester, Minnesota, contracted with **XIFIN, Inc.** of San Diego, California. MML will use XIFIN's automated, Web-based system to support laboratory accounts receivable and financial management operations. It is likely that MML's goal is to improve productivity and performance, and to have the detailed information needed to react quickly to future changes.

XIFIN is now in use at four of the nation's largest 11 laboratory companies. This collective endorsement of XIFIN's revenue cycle management system and services by a number of the lab industry's largest firms caused THE DARK REPORT to investigate XIFIN and ask its Founder and Executive Chairman, Lâle White, why these larger laboratories are turning to "Software as a Service" (SaaS) as the foundation of their efforts to continuously improve the performance of their accounts receivables team.

According to White, the nation's largest lab companies are responding to unfolding changes in payer practices and more complex compliance requirements. Her insights

include advice on how clinical laboratories and pathology group practices can boost the effectiveness of their billing, coding, collections, and compliance efforts.

"There is probably no other medical specialty—nor even an industry outside healthcare—that has the revenue cycle complexity of clinical laboratories," observed White. "Not only are coding and billing requirements complex and different for every one of the 2,000 or so types of tests offered by most labs, but each payer constantly changes their requirements for coverage and reimbursement.

"When a laboratory fails to track these changes, it is likely to make mistakes that

performance need to intelligently automate all billing, coding, and compliance processes. But this is just one step in a total management approach to raising performance.

### ► **Measuring and Managing**

"It's true throughout healthcare, and it's especially true in billing and accounts receivable (AR): You can't improve what you can't measure," she declared. "Labs should look for systems that allow them to measure and manage accounts receivables (AR) in more detail than they could do before.

"For example, after a lab installs a best-in-class AR system, it should be able to get

can prevent it from collecting significant amounts of money," she continued. "Other mistakes can be made during negotiations, by accepting contracts without understanding the full implications of every clause, and when coding and billing for lab testing services. Invariably, these mistakes become costly, because they often last during the entire contract term."

"The problem with the lab industry is that, while it represents only about 2% of all healthcare spending, it generates almost one third of all claims filed!" White said. "That means labs produce a great volume of mostly smaller bills. This is a reason why clinical labs and AP labs seeking to achieve "world class"

its exact net sales—regardless of the size of the operation," she explained. "It also will reveal how much of what the lab previously assumed was contractual allowances is, in fact, bad debt. That's a significant distinction for any laboratory.

"Once an accurate assessment is made of what's allowable and what's bad debt, then the readily collectable items are obvious," she said. "Decisions about how aggressively to pursue collections can't be made until one knows the actual dollar amount that should be paid to the laboratory.

"Such collections are complicated," added White, "because the actual value of the claim is not the gross billing. So, you

need a system that can determine these amounts quickly. When your lab has that information, you can choose to write it off or decide whether it is actually collectable.

“Once the decision is made to collect that money, can you consolidate all the information that you need from a given physician or patient?” she asked. “If so, then you can make one call to obtain all the data you need to successfully bill that item.

“Labs should have that kind of information at hand,” said White. “These automated systems can improve workflow and take manual decision-making out of the process—as much as possible. That’s good management for an important reason: having clerical staff make manual decisions is probably the biggest failure of most billing systems. Many billing departments are organized in such a way that they produce too many pieces of paper for billing clerks to review.

“Keep in mind that this is a clerical staff working in a complex industry,” White explained. “You don’t want them looking at explanations of benefits (EOBs), front-end rejection reports, and a variety of pieces of paper to make decisions. If they are, then their decisions will be neither timely nor will they be handled in the same standardized format each time.

### ► Standardized Decisions

“What’s more, having clerks making these decisions creates compliance problems,” she said. “Most labs don’t even realize the specific compliance issues within their laboratory that need to be addressed. That’s why a well-designed billing, coding, and compliance system will have rules in the system so that the same issue can be handled in the same manner every time.

“The best systems can create automated requests for information,” continued White. “It’s a complicated process, which is why your system requires rules, settings, and configurations. This will ensure that your billing and collections are

done in a standard format—not by an individual clerk constantly making new decisions.

“All labs today need revenue cycle management. However, they also need extensive financial analytical information,” White noted. “They need an accounts receivable system that goes way beyond simply generating a bill. The AR system should provide the lab with enough feedback to run its business efficiently. Most labs today want better operational and financial information. The goals are improved cash collections and a reduction of operational costs.

### ► Following Early Adopters

“The laboratory industry shares the problem that exists across healthcare,” observed White. “In general, healthcare lags other business sectors in its embrace of new information technologies. Healthcare in America moves slowly and adopts new concepts slowly. That means there are only a few market leaders who are innovators.

“Within the lab industry, these innovators run the top laboratories and have strong growth strategies,” she explained. “A number of them are public companies. To support strong rates of growth, these labs therefore want to leverage the information they have and use it to optimize how they make decisions.

“These companies embrace technology because they understand what is required to stay ahead of the curve,” stated White. “They are financially savvy and have a higher demand for good strong financial data. They want timely and accurate information that they can use to respond to changing market needs. Of course, one reason the national players have a much bigger demand for information than local and regional players is because they work in multiple markets and have hundreds of payer contracts.

“That means all laboratories can learn from the largest labs because they tend to

be innovators,” she explained. “These innovators recognize that they need a billing, coding, collections, and compliance system that will provide a return on investment and also allow them to maximize the productivity of staff.

### ➤ Look For Three Results

“There are three basic outcomes that labs should look for from a revenue cycle management system,” White added. “First, regardless of the lab’s size, the system should generate a direct improvement of between 5% and 10% in third party cash flow in the first year. Second, it should produce labor efficiencies.

“There are several strategies that can accomplish this. My experience in working with a number of laboratories led me to organize XIFIN using the ‘Software as a Service’ (SaaS) model. This makes the billing, coding, collections, and compliance software accessible via the Web. Essentially, the software vendor becomes the billing IT staff for the client laboratory. This arrangement creates certain advantages and can contribute to continuous improvement.

### ➤ Benefits To This Approach

“The most important benefit to the laboratory is that the software vendor maintains and upgrades the system, which can happen monthly or even more often,” noted White. “As soon as software is installed into any location, it’s almost obsolete the next day. That’s one reason why labs want to use software as a Web-enabled service. With one site to maintain, vendors of these systems can add dozens of new pieces of functionality to the software each month. That means the laboratory is always using the most advanced version of the software system.

“When a laboratory uses this approach in billing, the vendor assumes responsibility for the IT functions of the billing department. That frees up the lab’s billing staff and allows them to concentrate on

## Data to Support Contract Talks

**W**HEN NEGOTIATING MANAGED CARE CONTRACTS, pathologists and lab directors need detailed information to negotiate the best reimbursement and terms possible. A sophisticated revenue cycle management program can provide the enriched data sets needed to support contract negotiations.

“The major payers represent 80% of all claims filed and they follow Medicare rules closely,” stated Lâle White, Founder and Executive Chairman of XIFIN, Inc., in San Diego, California. “If your laboratory contracts with large payers, such as **Cigna**, **UnitedHealth**, **Aetna**, and **Blue Cross Blue Shield**, you want to analyze profitability by payer. For example, how long it takes each payer, on average, to pay on an electronic claim? How many times do they return a claim for whatever reason? What are the reasons they give for returning claims?

“It is important to understand what payers are paying, how much they’re paying, and whether they stick to the contract,” she added. “With this information, you can push back against payers when it is time to negotiate contracts. It gives your laboratory tremendous clout.”

White’s observations about the use of accounts receivable data to support managed care contract negotiations demonstrate how laboratory management becomes more sophisticated as the healthcare market changes. This is another area of laboratory operations where access to more detailed information becomes a critical success factor.

## Extensive Experience In Revenue Management

**A**N EXPERT IN MEDICAL FINANCIAL MANAGEMENT and regulatory compliance, Lâle White has more than 25 years of successful executive leadership in information systems development and medical billing.

White is currently CEO of XIFIN, Inc. She held senior management positions with several of the largest independent reference laboratories. She was a principal contributor in working with the OIG to develop the initial "OIG Model Compliance Program" for laboratories.

In the 1990s, White was Vice President, Finance, for **National Health Labs** and subsequently **Laboratory Corporation of America**. She managed national coding, billing, collection, and compliance activities. In 1997, she left LabCorp to develop a national consulting practice in laboratory billing and collections.

Around this time, White raised venture capital and launched a company to design a laboratory billing system organized around the model of "Software as a Service" (SaaS). That company, XIFIN, Inc. of San Diego, California, began serving its first laboratory customer in 2003. XIFIN has grown steadily since that date. Among the laboratory companies that it serves are LabCorp, **BioLabs Inc.**, and **Myriad Genetics**. It also recently signed an agreement to provide its services to Mayo Medical Laboratories.

production items. It also eliminates the need for them to handle multiple pieces of paper and make a decision about how to follow up each one.

"It is important that such a system deliver a return on investment to the client laboratory," advised White, "Ideally, in the first year after their investment, labs should target a \$2 return for every dollar they spent on this type of system. Further, the laboratory should see improvements and measurable returns no later than six months from the go-live date.

"Software as a service is generally priced on a transaction basis, much like the reagent rental arrangements laboratories have with instrument manufacturers," noted White. "In the current market environment, this arrangement would cost around \$1 per transaction—and that's for preparing and submitting a single patient's claim, regardless of how many times it is billed.

### ► Achieving Best Practices

"In addition to these three basic outcomes, labs should also want their billing, coding, collections, and compliance system to include management tools," she said. "The goal is to achieve best practices. Take the goal of timely billing, for example. You want your system to immediately submit a claim that is complete and ready. If part of a claim is waiting for a diagnosis, then the system should immediately bill for what it can. It should then be able to bill the balance later, when missing diagnosis codes and other needed information has been provided.

"Another feature that makes a difference is the system's ability to identify and flag any inactivity beyond what's expected," she added. "That's a powerful management tool, since most electronic systems basically let claims age within the system. When that happens, the billing staff never knows when to touch them again. The best billing and collection systems actively review and manage submis-

sion deadlines. They then flag problems, such as when a payer should have paid and how much.

### ➤ **Avoiding Failure to Comply**

“While billing, coding, and compliance systems can improve processes in all of these ways, few pathologists and lab directors recognize another valuable benefit,” observed White. “The best of these systems also can help labs address issues related to the changing nature of the lab services market itself. It helps them understand how changes rippling through the industry directly affect their revenue cycle management. These changes can include payer pricing pressures that result from increased competition.

“For instance, look at the tremendous amount of competition among the larger labs as a result of the **UnitedHealth** contract,” White explained. “That single national contract has generated significant downward pressure on prices. Eventually, all smaller labs will feel this pressure on their revenue management cycle. One consequence of this competitive pressure is that it will be more difficult for labs to make up any revenue shortfall by billing the patient.”

White says that patient expectations are changing, in ways that affect billing for laboratory services. “It is common for some laboratories to send out bills which show nothing but a balance due them,” she stated. “The bill fails to provide details to the patient about what was submitted to the patient’s different insurance companies.

### ➤ **Sending Detailed Bills**

“This approach no longer works in the market,” offered White. “Now it is necessary for your laboratory to identify which part of the patient’s bill is coinsurance, which part is the patient’s deductible, what insurance company received the bill, and what payment has been received by the lab. This new level of detail is needed on every bill today.

“Payers are pushing laboratories and other providers to include that level of detail because of the growth in consumer-directed health plans (CDHPs),” she added. “Patients need to know the exact amount of their bill to submit to health savings accounts (HSAs) and flexible spending plans for reimbursement. The large independent labs are cognizant of these issues, but some smaller labs don’t understand the detail in laboratory bills that is necessary today.

“Similarly, labs can’t automatically just kick a bill to collections when it has gone unpaid for a certain time,” she continued. “It’s hard to believe, but often providers have their systems set up so that, when an insurer doesn’t pay after 60 days or 90 days, the patient is automatically billed at full price. A number of state attorney generals have targeted this exact issue and are charging penalties for this behavior.

“Because of these situations and ongoing changes in billing and collection practices, it is no longer good enough for labs to react passively with ‘work arounds,’” advised White. “For good customer service and effective compliance, laboratories need a system that is sophisticated enough to understand the differences and to support the revised procedures needed for proper compliance.

### ➤ **Adopting Best Practices**

White believes it is useful for clinical and AP laboratories to track how the nation’s largest laboratories are responding to ongoing changes in coding, billing, collections, and compliance. “Within our industry, these are the lab companies that have a good strategic sense about what is changing and how to respond,” observed White. “They understand why it is important to tightly manage their revenue cycle. And usually, their innovations and responses can be copied and put to successful use by other laboratories.”

**TDR**

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# Siemens Executive Speaks On Integration Strategies

► **First presentation to laboratory audience reveals plans for *in vivo* and *in vitro* testing**

►► **GEO SUMMARY: Siemens has a vision of tight integration of *in vitro* and *in vivo* diagnostics with informatics to support a single goal with two themes: enhancing work flow in health-care. Theme one is that these technologies can support better productivity of clinical, operational and administrative processes. Theme two is the advancement of “knowledge medicine” to improve health outcomes.**

**F**ROM THE DAY LAST SUMMER when the world learned that Siemens was acquiring both **Diagnostics Products Corporation (DPC)** and **Bayer Diagnostics**, there has been great curiosity about how Siemens intends to integrate its new *in vitro* diagnostics businesses with its existing imaging and healthcare informatics businesses.

That is why it was a scoop when Dr. Frank Anton, President, Sales and Service, for **Siemens Medical Solutions**, of Erlangen, Germany, gave a speech on this very topic at *Frontiers in Laboratory Medicine* (FiLM), the lab management gathering in Birmingham, England, co-produced by THE DARK REPORT and the **Association for Clinical Biochemistry (ACB)**. Frank’s speech, delivered on January 31, was the first time he had spoken to a clinical laboratory audience about Siemens’ plans for integrating imaging, *in vitro* diagnostics (IVD), and informatics.

Frank declared that the key to understanding Siemens’ strategy is one word: efficiency. Siemens intends to integrate these three healthcare resources in ways that will foster improved efficiency in

both clinical services and the operational workflow of healthcare.

“What is the most important megatrend that controls the markets in which our company operates?” Anton asked. “The most important trend is demographic change. As people age, the number of people receiving healthcare increases steadily. At the same time, there is more ability to pay for healthcare now and in the future. But the rapidly rising cost of healthcare is challenging healthcare systems across the globe.

## ► **Capturing Efficiency**

“In healthcare, it is not a question of the availability of money, it is more a question of how to realize the potential of increased efficiency in healthcare systems,” observed Anton. “Many years ago, our company decided we were in the business of improving efficiency in health care.

“But how? Where are the growth opportunities for improving efficiency?” he asked. “Mainly, the opportunities are in improving workflow—by making early diagnoses, for example. One way we can improve workflow is by focusing less on technology itself, but on knowledge that

aids in diagnosing and treating disease. Our term for this is ‘knowledge medicine.’ Siemens is in the business of making knowledge-based decisions accessible for providers of healthcare and by integrating our key systems.

### ➤ Seeking To Improve Quality

“We want to generate product solutions that increase the quality of healthcare delivery and decrease costs at the same time,” Anton said. “To accomplish this, our company must deliver innovative products and optimize the processes of providing healthcare. Another way to say ‘optimization of processes’ is to say we need to improve workflow in all areas of care delivery. In fact, the goal of technology innovations should be to improve workflow.

“To address workflow, you have to address diagnostic technologies, such as X-ray, CT, and ultrasound. You also need the ability to network because information technology systems need to be connected throughout the hospital and across the healthcare continuum,” explained Anton. “It is essential to complement these with molecular technologies on the diagnostic side.

“That is Siemens’ strategy. We seek to be the first integrated diagnostics company,” he said. “Through our recent acquisitions, we aim to serve the entire continuum of care. In recent years, we have done quite a few acquisitions to complement our product portfolio.

“In 2000, we acquired **Shared Medical Systems**, which was the biggest IT company in the medical application provider area in the United States and Europe,” stated Anton. “In March 2005, we acquired **CTI Molecular Imaging, Inc.**, the world’s leading provider of PET imaging equipment and services. Last spring, we entered the *in vitro* diagnostics market by acquiring Diagnostic Products Corporation, followed by our purchase of Bayer Diagnostics to expand our position in molecular diagnostics.

“Molecular and *in vitro* diagnostics are the most interesting extensions of our spectrum of services and our capabilities regarding our strategic possibilities,” Anton explained. “We want the company to cover the whole chain of patient care events: from early prevention, to specific diagnosis, and to specific therapy for individual patients. We view each from a disease orientation—and not just as a technology assessment, but as a needs assessment.

“To do a needs assessment from a disease orientation perspective, we require two elements,” he continued. “First is IT integration. In our view, we want to collect information from the IT system, mine that data, and extract knowledge. We then want to add that knowledge and information to already available knowledge in ways that support knowledge-driven healthcare. Second, and of equal importance, Siemens wants to use *in vitro* diagnostics and molecular imaging to extend our specific diagnostic capabilities in ways that also improve workflow.”

### ➤ Three Areas of Growth

Anton pointed out that Siemens believes it is now a player in healthcare’s primary growth opportunities. “We believe three fields will drive the coming growth and innovation in healthcare,” he said. “First is *in vitro* diagnostics. Second is molecular imaging. Third is knowledge-driven healthcare.

“In each of these areas, we deal with electrical systems and that’s why these are important businesses for us,” continued Anton. “For example, we deal with assays and biomarkers in both *in vitro* diagnostics and molecular imaging. Our intent is to integrate these two different areas.

“This integration has to happen,” he emphasized. “We cannot continue to focus only on molecular imaging without integrating all of the knowledge that comes from assays and biomarkers. With the acquisition of DPC and Bayer Diagnostics, we have acquired knowledge-



able and capable companies that fit very well into our overall strategy and that will be adapted into the overall IT system we are developing.

“This brings me to the third field, which is knowledge-driven healthcare,” he continued. “With knowledge-driven healthcare, we can integrate medical information that will enable healthcare providers to make knowledge-based decisions.

“Siemens is the first company to integrate *in vitro* and *in vivo* diagnostics and the whole spectrum of therapy,” he explained. “It gives us all the necessary elements to deliver a comprehensive service for diagnostics and therapy for our customers. And, again, the idea is to improve workflow.

“Molecular medicine and IT are the primary factors driving growth and innovation in healthcare,” Anton stated. “The challenge is, first, to handle all the data and, second, to interpret the data in the right way. It’s not always easy to get a quantitative assessment using only simple images. Some images are not easily explained. Sometimes it’s hard to get information out of certain images and that is where computer-aided detection plays a role.”

### ► Supporting The Radiologists

Anton then displayed an image of a lung and described how computer-aided detection helped to identify cancerous nodes. “In the first step, the system identifies the nodes,” he said. “In the second step, the system quantifies the nodules, and in the third step, the system compares the current image with that from an earlier exam. This can all be done automatically as a way to support radiologists. It is not a substitute for the radiologist’s knowledge. It assists with quantitative assessment.

“In this way, technology creates new challenges in healthcare,” he continued. “The example demonstrates how technology can improve workflow and be a part of the solution to healthcare’s problems.

“Siemens believes that technology improves workflow because it can be

involved in the whole continuum of care,” added Anton, “including the clinical cycle, the therapeutic cycle, and the administrative cycle. From the time when the patient comes into the healthcare system until the patient leaves, all the information has to be collected and combined, because you don’t want to enter information more than once.

### ► Integrating Information

“Then, the clinical information, the therapeutic information, and the administrative information should be linked in such a way so that wherever the patient goes, the information required for the next step is already there. Even if the next step is an intervention or if the next step is printing the bill,” he added.

“That’s why healthcare systems need an integrated IT solution,” Anton said. “In the long run, you will not survive by trying to integrate a number of different systems into one. Such a system will become less competitive compared with a system that covers the whole continuum of care. Once you have such a system, it will be a huge step toward improved workflow.

“In these systems, you need a workflow engine and a rules engine,” he continued. “Rules are like the notes on a page for an orchestra. Next is the workflow, which is like the music sheets. Then comes the workflow engine, which is like the conductor who drives the performance. The workflow engine enables decisions. You do not expect the workflow engine to *make* decisions. It simply *enables* decisions.

### ► Orchestrating Change

“The only reason to use innovative technology is to improve workflow,” Anton explained. “I admit that, in the past, technology companies simply introduced new systems because the technology was available. But we should now develop technology only if it improves workflow. We could debate this issue for many hours, but I will say the best use of technology in healthcare is to improve workflow.”

# INTELLIGENCE

**LATE & LATENT**  
 Items too late to print,  
 too early to report



It's the first opportunity to see how a New York-area laboratory is doing at grabbing **UnitedHealth** business. **Bio-Reference Laboratories, Inc.** (BRLI) of Elmwood Park, New Jersey, announced earnings for its first quarter (ending on January 31) in its 2007 fiscal year. Bio-Reference was pleased to report that its revenues increased by 25% for the quarter, from \$42.9 million in 2006 to \$53.7 million. It attributes this to a 15% increase in patient volume, split almost equally from new account gains in the New York metropolitan region and increased specimens from its esoteric testing.

## **MORE ON: BRLI**

In fact, esoteric testing continues to be a strong growth area for Bio-Reference. It says that esoteric testing increased from 36% of its revenues in 2006 to 43% for the current quarter. Bio-Reference also linked gains in esoteric testing to its higher revenue per requisition. For Q1-2007 it was \$63.21, compared to \$58.26 for the same quarter in 2006.

## **POLITICS TARGETS GENETIC TESTING**

Many of you saw the *Dark Daily* e-briefing last week about Senator Ted Kennedy's (D-MA) introduction of his bill to regulate "home brew" laboratory tests. ([www.darkdaily.com](http://www.darkdaily.com).) This is the second bill in the senate concerning genetic testing. Last August, Senator and Presidential contender Barack Obama (D-IL) introduced a bill entitled the "Genomics and Personalized Medicine Act of 2006" (S.3822). The interest of the two senators in introducing legislation about genetic testing demonstrates that politicians see political capital in molecular medicine. For the laboratory industry, there's more bad news than good news in this development.

## **ADD TO: Genetic Tests**

The bad news is the potential for politicians to focus on the scam artists and unethical businesses which lie around the fringe of the healthcare system and offer services of little or no clinical value to desperate people. In regulating genetic test-

ing to control their actions in the market, politicians often unintentionally add significant burdens to legitimate and conscientious healthcare providers. Thus, although a bill like Obama's wants to encourage advancements in genetic tests, bills like Kennedy's can offset those gains in extremely harmful ways. This is why laboratory managers and pathologists should keep a watchful eye on the parade of politicians wanting to use regulation of genetic testing as a way to accumulate political capital.

## **HPV TEST MARKET HEATS UP**

In recent years, **Digene Corporation** has held a dominant market share in HPV testing. However, this lucrative market is attracting the attention of competitors. **Roche Holding AG** is working on HPV tests that will identify up to 13 different HPV strains. Last week, Roche said a filing with the FDA on these tests was imminent. **Gen-Probe** and **Third Wave Technologies** are also known to be developing their own HPV assays.

*That's all the insider intelligence for this report.  
 Look for the next briefing on Monday, April 2, 2007.*

**Preview #4**

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