

From the Desk of R. Lewis Dark...

THE **RED** DARK REPORT

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

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R. Lewis Dark

Founder & Publisher



Sales to Become the Secret Behind Successful Labs

SALES WILL BECOME A NECESSARY PART of every laboratory executive's management toolbox during the next few years. The unmistakable success of the nation's best-performing laboratories now rests on their effective use of sales and marketing programs.

This is not something that most hospital laboratory administrators want to hear. After all, creating a sales program is hard work. Creating a *profitable* sales program poses additional challenges. And the arrival of managed care only makes it more complex to execute a productive campaign to sell laboratory testing.

Anatomic pathologists are another segment of the lab industry which generally prefers not to think about sales and marketing. Traditionally, close links with their primary hospital was all that was needed to insure financial stability. It permitted them to ignore sales and marketing, and suffer no ill consequences as a result. Why is sales and marketing becoming a "must do" for laboratories? Our editor lays out the compelling facts on pages 9-14. I agree with his conclusion that *effective* sales and marketing programs will be a critical success factor for laboratories of all kinds during the coming decade. There are some additional points I'd like to add to his revealing insights.

I encourage hospital laboratory administrators to make the same commitment to understand sales and marketing techniques that they already apply to management and professional/technical knowledge. Those who possess this knowledge will have a career advantage over those that don't. I also recommend that anatomic pathologists reassess their traditional avoidance of sales. Pathologists must bring their businesses into the 21st century. It's time to budget money for marketing and sales campaigns that promote their pathology practice and generate specimen and revenue growth.

We consider sales and marketing to be so important that we are sponsoring the first-ever national gathering of clinical laboratory sales and marketing managers as part of our upcoming *EXECUTIVE WAR COLLEGE* on May 11-12. The early excitement among lab sales professionals indicates they expect the information exchange and networking to be at an extraordinarily high level. Both hospital lab administrators and pathologists will find the sales presentations to be both enlightening and full of practical information they can use in their own laboratory organization.

Movers & Shakers For '99 Demonstrate Leadership

This year's selections prove that individuals do make a difference in laboratory success

By Robert Michel

EACH YEAR IT BECOMES more difficult to make final selections for our annual Movers & Shakers awards. The reason is simple.

Today there are more examples of leadership in the laboratory than when we first started these selections three years ago. This is a good omen. It means that the crucible of the marketplace is forging a new generation of laboratory managers who possess sophisticated business skills not needed by the passing generation of laboratory administrators.

Further, we believe this new generation of laboratory managers will acquire power and influence at a rapid rate. As this occurs, it will spark a renaissance for both clinical laboratories and pathology practices. This renaissance will bring about increased financial stability and improved profits.

We see signs of this throughout the industry. Compare stories in the trade magazines this year with those appearing in 1995. A more sophisticated level



This beautiful award recognizes the achievements of our 1999 Movers & Shakers!

of management analysis is emerging within the pages of *Advance*, *CAP Today*, *Clinical Laboratory News*, and *MLO*, to name just a few.

Since these magazines write about subjects of interest to their readers, it is written evidence of the steady growth in the importance of

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R. Lewis Dark, Founder & Publisher.

Robert L. Michel, Editor.

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management and financial skills in the administration of clinical and pathology laboratories.

In making our selections this year, it could be said that we had a "surfeit of riches." It took time to work through the large batch of nominations submitted to us. The candidates were all worthy. We will not mention our runners-up by name, because a few of these individuals may well make our Movers & Shakers selections for 2000.

This year's crop of Movers & Shakers share an interesting characteristic. Although each is focused on improving the performance of their own laboratory organization,

their contributions are having a wider, and positive impact, on the entire laboratory industry. In motivating their own organizations to respond successfully to the evolving healthcare marketplace, they demonstrate to other laboratories that it is possible to thrive and prosper.

It is through their efforts, and those of other unrecognized leaders, that the profession and science of laboratory medicine will advance. In the next few years, the pace of change in laboratory medicine will accelerate beyond what it was in the 1990s. As that occurs, our industry will need leadership more than ever before.



Timothy J. Brodnik

President & CEO

American Medical Laboratories • Chantilly, Virginia

WHO SAYS TIMES ARE BAD in the commercial laboratory industry? Certainly not Tim Brodnik, President and Chief Executive Officer at **American Medical Laboratories, Inc. (AML)** of Chantilly, Virginia.

In May 1997, Tim was part of a team that purchased AML from its former owners. Since that date, American Medical Laboratories has become a beehive of activity.

Annual revenues at AML almost doubled in the past 20 months and AML is developing into a national esoteric laboratory. An emphasis on superior customer service is backed by management's support for employees who take initiative to do the right thing for AML's clients.

In the important sphere of sales and marketing, its sales team is making significant inroads across all market segments served by AML. Indications are that rapid revenue growth is accompanied by a solid increase in operating profits.

Tim is quick to credit the entire AML organization for the lab's impressive turnaround. But teams need leaders and it is leaders who establish the culture. **THE DARK REPORT** believes that Brodnik and AML both bear watching. Their strategic plan and management implementation demonstrate that good execution of a good plan does insure success.



Phillips Gausewitz, M.D.

Chairman & CEO

Pathology Medical Laboratories • San Diego, California

EVERY LABORATORY NEEDS a Rock of Gibraltar like Phillips Gausewitz, M.D. In four decades of laboratory management, he has weathered all the storms and kept his commercial laboratory profitable and thriving.

Phil founded **Pathology Medical Laboratories (PML)** in 1984. Based in San Diego, it is probably the most successful private laboratory still operating in California.

In no small part, this is due to Phil Gausewitz's business savvy and keen sense about market trends. For example, as capitated managed care contracts arrived in California in the early 1990s, PML was notable in its refusal to use marginal cost pricing to capture such contracts as a first step in the mythical "pull through" sales strategy. Few competing laboratories in California had similar pricing discipline.

Early on, Phil realized that independent laboratories and hospital systems would find mutual strength in consolidation. Thus, PML forged links with the **Scripps Healthcare System** and created one of the first combined commercial lab-hospital system off-site core laboratory ventures. As he approaches working retirement, it is timely to recognize him as among our industry's most successful laboratory executives.



Jerry Goldsmith

Vice President, Marketing Programs

American Association for Clinical Chemistry • Washington, DC

HERE IS ONE LAB LEADER with infectious enthusiasm and energy. More importantly, he's an individual known for creating positive change that benefits the laboratory industry.

Jerry Goldsmith is the Vice President of Marketing Programs for the **American Association for Clinical Chemistry**. He is also an advisor to the board of the **Biomedical Marketing Association**.

Jerry combines three talents uncommon among laboratory executives: far-sighted vision, an innate drive to tinker, and leadership skills capable of impelling people around him to action. In simplest terms, Jerry spots opportunities, then takes the necessary risks to convert vision into reality. In most cases, the entire lab industry benefits from his talents.

Jerry is the mastermind behind the AACC's respected "Diagnostics Day" Program for financial analysts at the AACC's annual convention. Wall Street money managers attend an exclusive briefing about the diagnostics industry, then spend the next several days on the exhibit hall floor connecting with executives from the leading diagnostics companies.

Jerry's innovations and ideas are too numerous to list. Expect him to continue his high-energy onslaught of converting good ideas into reality.



Gene Pawlick, M.D.
Regional Director of Laboratories

Kaiser Permanente-Northern California • Berkeley, California

WORKING INSIDE THE NATION'S largest not-for-profit HMO creates challenges seldom seen by most hospital-based and commercial laboratory executives.

But Gene Pawlick, M.D., Regional Director of Laboratories for **Kaiser Permanente-Northern California**, seems to have adapted with great success. He played a key role in revitalizing and operating what is known as the **TPMG Regional Laboratory**. It serves 2.9 million Kaiser plan members and processes 17,000 specimens per day. It is one of the largest lab operations in California.

What is equally intriguing is Gene's contributions to the concept that laboratory data, when properly assessed and presented, can make a positive difference in both healthcare outcomes and the cost of care.

Kaiser's Northern California division is a fertile testing ground for all sorts of diagnostic technology. Kaiser is a leading participant in clinical trials covering a variety of technologies. Clients of THE DARK REPORT are familiar with Gene's contributions in evaluating new technologies for Pap smear preparation and screening.

Gene's successful role in mediating so many "conflicting" lab activities and moving the science of laboratory medicine forward earns him recognition as a 1999 Mover & Shaker.



Al Sirmon
Chief Financial Officer

Pathology Service Associates, LLC • Florence, South Carolina

HERE'S OUR PICK FOR THE GUY with the toughest job in pathology: handling the money and finances of a national pathology network.

Al Sirmon is Chief Financial Officer for **Pathology Service Associates, LLC (PSA)**, the umbrella company for pathology networks operating in nine states. With 78 practices and 386 pathologists participating, it is Al Sirmon's job to keep the money straight. He also has a responsibility to help practices increase their cash flow as a result of their participation in PSA.

That's a tall order for any individual. Yet Al Sirmon seems to combine the diplomacy of an ambassador with sophisticated financial skills. As he travels the country working with PSA's member pathology practices, he has an uncanny knack of unlocking additional cash flow from individual pathology practices.

Al validates our belief that people make the difference. He's the right individual for a tough job, and he's gained the respect of pathologists from coast to coast for his integrity, skills, and trustworthiness. Of equal importance, he demonstrates to pathologists that good business skills are essential for financial stability and prosperity.

Not resting upon prior laurels...

Our Past Movers & Shakers Continue Shaking Things Up

Michael Snyder, M.D.

*Director, Clinical Labs and Pathology
UMASS Health Systems Laboratories
Worcester, Massachusetts*

This 1998 Mover & Shaker recently helped create an off-site core lab which serves a newly-merged combination of several hospitals. His lab is considered a strong regional player in Central Massachusetts and is being courted by several commercial labs for joint venture opportunities.

William Hagstrom

Chief Executive Officer

UroCor, Inc.

Oklahoma City, Oklahoma

After almost a full decade of sustained growth in revenues and profits at UroCor, 1998 was the year that Bill Hagstrom found intractable challenges on his doorstep. Profits are under siege and UroCor is reassessing how market dynamics are changing the way urology services are delivered and reimbursed. Don't count this 1998 Mover & Shaker out too early. Change is the game in healthcare today and Bill Hagstrom is dialing in new strategies for UroCor.

Louis D. Wright, Jr., M.D.

Chairman

Pathology Service Associates

Florence, South Carolina

While the pathology PPM (physician practice management) movement got big play in 1998, Louis Wright was quietly moving the PSA organization forward. A Mover & Shaker on our 1997 list, Louis helped create a series of statewide pathology networks that give pathology practices the option of retaining independence while bidding as a consortium for managed care contracts.

Robert Hamon

Vice President, Marketing

Premier, Inc.

Charlotte, North Carolina

Selected in 1997 when he was at Presbyterian Laboratory Services, Bob Hamon moved to Premier last summer to develop its clinical laboratory services group. Although its been quiet at Premier in recent months, look for Bob Hamon to launch some provocative services that benefit laboratories at Premier's member hospitals.

Robin Felder, Ph.D.

*Professor of Pathology & Director of
the*

Medical Automation Research Center

University of Virginia Hospital

Charlottesville, Virginia

Robin Felder continues to advance the cause of laboratory automation. Each January, his San Diego conference attracts more exhibitors and attendees. Selected as a Mover & Shaker in 1997, Robin is widely respected for his willingness to support emerging technology. He is active in helping manufacturers demonstrate the effectiveness of their products, then move them into the marketplace.

Ken Freeman

Chief Executive Officer

Quest Diagnostics Incorporated

Teterboro, New Jersey

Quest Diagnostic's bold move to acquire SmithKline Beecham Clinical Laboratories is consistent with predictions we made when Ken Freeman was selected as one of 1997's Movers & Shakers. Watch events as they unfold at Quest Diagnostics, because there's more to

Lab Industry Briefs

AMERIPATH REPORTS RECORD YEAR & LOSES ITS CHAIRMAN

MIXED SIGNALS RECENTLY EMERGED from AmeriPath, Inc., the country's largest pathology PPM. It finished the year with strong financials and lost its chairman.

On one hand, it finished its first full year as a public company with strong revenue growth and adequate profits. As CEO James New commented, "We consistently met or exceeded both Wall Street's financial expectations and our internal budgets."

AmeriPath reported 1998 revenues of \$177.3 million, a 64% increase over the \$108.4 million generated in 1997. Net income jumped 154%, from \$7.3 million in 1997 to \$18.7 million in 1998.

On the other hand, AmeriPath reported the departure of its Chairman, Thomas S. Roberts. President James New was appointed as Chairman in his place. Roberts is a General Partner at **Summit Partners**, the Boston-based venture capital firm that helped to launch AmeriPath.

Usually venture capitalists do not relinquish active control of their most promising or most successful investments. AmeriPath did not disclose the reason why Roberts was leaving its Board of Directors.

One Wall Street analyst familiar with the PPM (physician practice management) industry, told THE DARK REPORT "there is recognition that the acquisition model for PPMs has not fared well in today's healthcare marketplace. Robert's departure from the board is probably a sign that he feels his time is better used in other ventures where Summit has investments."

AmeriPath did report strong growth in same practice revenues. Observers familiar with the anatomic pathology marketplace have questioned the ability of any pathology PPM to deliver sustained "same store growth" of 5% to 15% per year for its member practices. AmeriPath reported 10% growth in same practice revenue, of which 2% resulted from Medicare increases which took effect on January 1, 1998.

Finally, AmeriPath announced the appointment of a new medical director. Dennis M. Smith, Jr., M.D. is now Senior Vice President and Medical Director for AmeriPath. He is also managing director of AmeriPath's Florida Region.

CYTYC RIDES WAVE OF INCREASED REVENUES, GAINS ANALYST SUPPORT

Cytc Corporation proudly disclosed its first quarterly profit. For fourth quarter 1998, it had net income of \$3.7 million on revenues of \$14.7 million.

For all of 1998, Cytc's revenues totaled \$44.3 million, with a net loss for the year of \$11.7 million. This is a significant improvement over 1997, when the new company lost \$22.1 million.

Cytc developed a Pap smear monolayer preparation system known as ThinPrep®. During the last few years, it has worked hard to expand ThinPrep's use in the preparation of Pap smears. In its year-end financial release, it states that ThinPrep is "currently used in 500 laboratories in the United States...At year's end, 125 insurance companies, representing more than 100 million insured lives, cover the ThinPrep Pap Test..."

Cytc announced that it would expand its sales force. The company

intends to put another 75 sales people into the field during 1999. This move, and Cytec's fourth quarter performance, excited many investment analysts. Several upgraded their ratings of the company.

CANADA APPROVES NEOPATH'S AUTOPAP FOR 50% PAP SCREENING

NeoPath, Inc. got a boost when Canada granted it a license to market its AutoPap® Screening System at "up to 50% no further review screen rate combined with location guided screening."

It means that Canadian laboratories may allow a maximum of 50% of the slides to receive AutoPap review only. These slides would be reported and archived as normal. The remaining 50% of the slides would undergo manual screening, supplemented by location guided screening.

AutoPap can generate reports containing full-sized images of each slide processed. This report, called PapMap, can identify up to 15 specific cellular areas of the slide that are most likely to contain abnormality. These reports can cue cytotechs to give those areas of a slide increased scrutiny and attention. According to NeoPath, location guided screening is already available for use in Japan and parts of Western Europe.

MORPHOMETRIX WILL RESEARCH THE DETECTION OF TUMOR CELLS IN BLOOD

AUTOMATED CYTOLOGY TECHNOLOGY will play a key role in a forthcoming research project soon to take place in Canada.

MorphoMetrix Technologies Inc. will participate with the **University of Toronto** and the **Sunnybrook & Women's College Health Sciences** in a collaborative research project.

The goal of the research project is to see if breast cancer cells can be

diagnosed in the blood of patients with clinically-diagnosed disease. The researchers want to determine if MorphoMetrix's cytology technology can be used to detect circulating tumor cells within the standard microscope slide format.

Currently reverse-transcriptase PCR is the most sensitive technique available. Researchers believe that MorphoMetrix's technology can lead to pathologist confirmation of disease and quantification of the tumor cell number.

THE DARK REPORT has repeatedly pointed out that automated cytology technology will evolve beyond its current use in Pap smear screening. As such technology develops in sophistication, it will be applied to more areas of cellular diagnosis. In the process, it will increase the value of pathologists and cytotechnologists to both clinicians and patients.

The involvement of MorphoMetrix, one of the companies working to develop automated cytology technology, demonstrates that research into such applications will be on the increase.

AUTOCYTE FORGING AHEAD WITH ITS TECHNOLOGY

EXPECT TO HEAR MORE from **Autocyte, Inc.** during 1999. The company is progressing on several fronts as it awaits FDA action on its applications for Pap smear prep and screening technology.

Since the first of the year, four separate papers were published on clinical research involving AutoCyte's PREP® and SCREEN® technology. All four studies concluded that this technology offered improvements over manual screening methods.

For 1998, AutoCyte reported revenues of \$4.8 million and a net loss of \$9.1 million. Its products are still in the development stage, so these numbers were expected by analysts.

An Underutilized Management Resource...

Sales & Marketing Is Critical To Success Of Labs & Pathologists

CEO SUMMARY: Careful study of the most successful laboratories operating today reveals a common characteristic: the effective use of sales and marketing methods to boost specimen volume, revenue, and operating profits. This is true whether it's a hospital lab outreach program, a commercial laboratory company, or an anatomic pathology practice. These laboratories are dynamic, expanding, and financially solvent. Here's a look at why effective use of sales and marketing is fast becoming a critical success factor for all labs.

TODAY'S MOST PROFITABLE clinical laboratories and pathology practices share one thing in common. They understand the value of professional sales and marketing and use it to their best financial advantage.

Effective sales programs generate revenue growth and increased profits. This is true whether it's a hospital-based laboratory outreach sales program, a commercial laboratory, or a pathology practice offering services to physicians.

It's the opinion of THE DARK REPORT that effective sales and marketing will become a critical success factor for *all* clinical laboratories and pathology practices. This definitive prediction is based

on two characteristics of the laboratory testing marketplace.

First, the operational structure of laboratories makes it easier to lower the average cost per test by increasing specimen volume than by internal cost reductions. A laboratory sales and marketing program gives the lab a way to increase specimen volume.

Second, the arrival of customer-driven management philosophies means that laboratories must pay close attention to their clients. An increasing number of labs will adopt the goal of "meeting and exceeding the expectations of its customers."

To accomplish this, the lab will need to interact intimately with its client base. Sales

and marketing tools can accomplish this with maximum efficiency. By definition, it is the function of sales and marketing to regularly interact with both existing customers and new client prospects.

Taken together, these two market characteristics demonstrate why effective sales and marketing programs will be a critical success factor for laboratories and pathology practices.

Naysayers exist within the lab industry. These are individuals who cannot see a relevant role for sales and marketing in their particular lab. On the surface, that view might seem to be true for labs organized to serve an internal base of customers, such as hospital laboratories.

However, when any hospital's senior management creates a performance measure of "meeting and exceeding customer expectations" for all ancillary services, it will require the laboratory to interact with its internal customers.

This means the lab must interview clinicians, nurses, hospital staff, and patients to identify what expectations they have. The lab must then create and implement services designed to meet and exceed those expectations. Finally, the lab must go back and assess whether new services successfully meet the needs and expectations of the lab's customers.

These steps certainly describe an effective marketing and sales campaign from start to finish. It's why THE DARK REPORT believes that effective sales and marketing programs will be a critical success factor for *every category* of clinical laboratory and pathology practice during the next few years.

Dynamic, Thriving Labs

Our definitive prediction is supported by events currently under way in the marketplace. In recent years, THE DARK REPORT chronicled the stories of many dynamic, thriving laboratory organizations. Remember **Presbyterian Laboratory Services** of Charlotte, North Carolina? Their outreach lab revenues grew from \$3.5 million to \$22 million between 1992 and 1997. (*See TDR, October 27 and November 17, 1997.*)

It was a similar story at 120-bed **Olympic Memorial Hospital** in Port Townsend, Washington. During a three-year period, the number of tests performed climbed 25% because of a sustained lab outreach sales effort in the rural Olympic Peninsula. It showed how even rural hospital laboratories can sell lab testing to physician offices and harvest major financial benefits. (*See TDR, October 6, 1997.*)

During the last two years, **PacLab Network Laboratories**, a regional lab network of nine hospitals and one commercial lab in Washington state, demonstrated that a regional laboratory network could become more than the sum of its

parts through effective sales and marketing. Total specimen volume grew 25% in the first two years of operations while average cost per test declined 18% for member labs. (See *TDR, October 19, 1998.*)

Similar stories abound from the podium of our annual *Executive War College*, held every May in New Orleans. Last year, **Dynacare Hermann Laboratory Services** from Houston detailed how it aggressively sold the new combination of commercial lab-hospital lab joint venture to the local physician community. From 1996 through the end of 1998, outreach specimen volume grew from 20,000 per year to 180,000 per year!

Successful Outreach Sales

Much the same type of growth in specimen volume and revenue was generated at **UMASS Health System Laboratory** in Worcester, Massachusetts (*War College-1998*) and **Centrex Clinical Laboratories** in New Hartford, New York (*War College-1997*). Both are hospital-owned labs with successful outreach sales programs.

Each organization listed above recognized a simple fact about operating a laboratory: if the number of specimens remains flat or declines, then cost per test will increase from year to year.

These labs' administrators and pathologists understood the consequences of that simple arithmetic—to stand still is to wither and go broke. Basic survival required them to increase the volume of specimens coming into their laboratories.

The business options they weighed are familiar: 1) buy someone else's lab and add those specimens to your lab; 2) consolidate specimens from several laboratory sites to increase volume at the core lab; 3) send out testing to a cheaper source; and 4) use sales and marketing to compete for specimens now flowing to other labs.

Look at the pros and cons of each option. Buying another laboratory to

close it and divert specimens to the acquiring laboratory is a strategy that was never totally successful in the past. Clients of the acquired laboratory tended to switch their lab work to competitors in response to service breakdowns that occurred during the acquisition process.

Hospital Lab Consolidation

Option number two is lab consolidation. That is the most common strategy used by hospital systems when they rationalize lab resources across the multiple hospitals. It is also the formula used by the three national laboratories in recent years to lower their cost per test in the face of declining reimbursement.

It is certainly a business strategy that cuts costs. But it comes at great pain to employees, clients and the community. Main labs and satellite labs are closed to shift specimens to the core lab. Med techs and staff are laid off. Services are cut back or eliminated, antagonizing physicians and clients. Even though costs are reduced, it is not a happy process for anyone involved in the downsized laboratories.

Sending Out Tests

The third option, sending out lab tests to cheaper testing sources, certainly can lower costs. But it also comes with consequences. Turnaround time is increased while service to clients is reduced. The savings which result from sending work to cheaper laboratories must be realized by terminating experienced staff. As with consolidation, these are not positive consequences for the lab, its administration, employees, and clients.

Using sales and marketing to boost specimen volume is the fourth option. On the plus side, a sales program that produces regular increases in the volume of specimens means that average cost per test will decline. Increased specimen volume generally means, at worst, that staff remains constant or can be reduced through attrition. At best, it may require additional staff to be hired.

Increased specimens from the sales program may allow the lab to internalize testing formerly referred elsewhere. The improved turnaround time and service may strengthen that lab's competitive position in the local marketplace. It might even make it easier to gain more managed care contracts.

Another benefit is that the laboratory can direct the sales people to pursue only those tests which have maximum value to the lab, either because of existing excess capacity, ample reimbursement or other factors.

Despite the "pros" in favor of a sales program, there are certainly "cons." The sidebar at right lists six significant challenges which must be addressed before any laboratory sales program can succeed.

List Of Sales Negatives

Many laboratorians reading this list of sales negatives will nod their heads in full agreement. It's true that creating a sales program is expensive, complicated, time consuming, and frequently unproductive. Sales people have a justifiable reputation for being difficult, causing problems, and failing to produce enough sales volume to make quota.

These arguments against a sales program can be difficult to refute. Yet, an effective sales program offers laboratories a business option not matched by the other options listed earlier. That is control. An effective sales program gives the laboratory control over its destiny.

Control over one's business destiny is the holy grail for all laboratories. If managers have control, they can provide a good working environment for their staff. They can offer clients and patients a significantly higher level of laboratory services. There is enough profit margin so that owners, be they hospitals or shareholders, consider the laboratory an asset and continue to make investments in new technology and expansion of laboratory services.

Sales Programs Have Their Own Challenges

Even though a laboratory sales program can deliver positive benefits, it certainly comes with its own set of management challenges. Here's a partial list.

- **First**, it is expensive to design and implement a sales program. There are significant up-front costs.
- **Second**, it takes competent sales representatives to generate sufficient sales volume to recover costs and contribute operating profits.
- **Third**, sales people require active and diligent management, by someone knowledgeable about sales. Most lab managers lack this particular skill and experience.
- **Fourth**, the marketplace is always changing, many times for the worse. That means the "perfect" sales plan of January may be a "money-loser" by September. Effective sales programs must evolve with the market.
- **Fifth**, sales people will often sell unprofitable business. They can do this by offering discounted pricing, giving away too much in services (courier pick-ups every two hours), or signing up a client whose patients represent poor reimbursement prospects because of their payer mix.
- **Sixth**, sales is a "people process." Sales reps are notoriously unpredictable. They are emotional, willing to take chances that upset established practices, and can often be excellent at dodging responsibility for their actions, and their lack of sales success. Simply put, managing sales people is challenging at best, frustrating at worst.

The rewards of an effective sales program outweigh the risks and inconvenience. Moreover, an increasing number of laboratory executives and pathologists realize that a "do nothing" strategy for their laboratory guarantees

failure in today's healthcare marketplace. Keep the status quo and your laboratory will slowly disappear.

Given the options of 1) acquisition; 2) consolidation; 3) send out; or 4) sales, it becomes easy to understand why today's most financially successful laboratories and pathology practices chose sales as the key driver to survival.

...an increasing number of laboratory executives and pathologists realize that a "do nothing" strategy for their laboratory guarantees failure in today's healthcare marketplace.

First, successful organizations want control over their destiny. An effective sales program can deliver that. Second, successful laboratories want adequate profit margins to support state-of-the-art testing capabilities and good employee benefits. Targeted sales programs make that possible.

Third, successful organizations want to stabilize their market position and gain clout with HMOs and physicians. Good sales programs create clout in the marketplace and strength at the managed care contracting table.

Weigh The Facts

Lab executives and pathologists will soon have to weigh the facts and make their own decision. Are the many "cons" of a sales program really daunting? In the face of the laboratory sales successes demonstrated by Dynacare Hermann, PacLab, Olympic Memorial Hospital, Centrex, and UMASS mentioned earlier, can concerned managers continue to ignore the power of sales and marketing to give their laboratories stability and financial strength? Probably not.

For those laboratories that decide to pursue a sales and marketing strategy, the next question becomes "How do we maximize our chances of success?" That question has a simple answer.

Pursue Excellence

Laboratories should pursue excellence in sales and marketing with the same vigor and commitment that they pursue a superior quality of test results. This requires them to do several things.

One, commit to dealing with, and solving, the people issues necessary to manage sales reps. It's a "messy" process, but it has great rewards.

Two, hire professional sales people with a demonstrated record of past success. This usually means your existing med techs are your worst candidates for the sales rep position.

Three, get access to a professional sales manager. Sales managers know how to manage sales people and help them achieve quota—or find a new job. Contract or part-time sales management is used by a number of hospital laboratory outreach programs.

Four, appreciate the distinction between sales and marketing—give each its fair share of resources.

Five, develop a good sales incentive plan. Pay not on gross revenue, but on net profit earned by the laboratory.

Six, benchmark "world class" laboratory sales programs. Go on site visits. Learn and borrow from the best. Let winning labs teach you how to succeed with your own lab sales program.

Every laboratory which makes a definitive commitment to sales and marketing excellence will find the path to be difficult and challenging. But effective sales and marketing is the critical success factor. In the coming market cycle, it will be what separates winning labs from losing labs. **THE**

For further information, contact THE DARK REPORT at 800-560-6363.

First-Ever Nat'l Gathering Of Lab Sales Managers

Winning lab sales strategies to be shared by some of nation's best sales professionals

CEO SUMMARY: *Here's a news-making event for the clinical laboratory industry: a first-ever national meeting of the country's best sales and marketing managers. Scheduled as a new addition to the EXECUTIVE WAR COLLEGE on May 11-13, it's an unprecedented opportunity for the nation's brightest minds in laboratory sales and marketing to share knowledge, learn winning sales methods, and build personal networks.*

Laboratory sales and marketing professionals will have their first national meeting in history when the *Executive War College* convenes on May 11 at the New Orleans Sheraton.

"In addition to the full *War College* program on lab and pathology management, we've added a special lab sales and marketing track," said Robert Michel, Editor of THE DARK REPORT and host of the *War College*. "It fills a huge void in the professional training of laboratory sales and marketing professionals."

Lab Sales Program

"It surprised me to learn that the laboratory industry has never had a national gathering for its sales and marketing professionals," observed Kerry Kaplan, President of **Health Care Connections** of Wellesley, Massachusetts. "That's why I volunteered to lead a full day program following the *War College* tailored specifically to the needs of sales managers and marketing directors."

Kaplan's company develops and manages marketing and sales programs for HMOs, integrated delivery systems, and similar healthcare providers. He was a highly-rated speaker at last year's *War College*.

"This sales and marketing track is designed to be a must-attend event for any laboratorian serious about operating a financially successful sales program," noted Kaplan. "Our faculty presenters will share the secrets of how their sales programs are boosting revenues and profits at their laboratories."

Kaplan also stressed that personal networking would be an important part of the sales program. "Sales and marketing people generally get their best information from informal conversations with peers working in different cities. That's why there will be plenty of networking opportunities over the course of this event."

The *Executive War College* will take place on May 11 and 12. This year's program features over 30 presentations, including case studies by

such laboratory organizations as **Bay State Reference Laboratories**, **LabNet of Middle Tennessee**, **Tenet/SmithKline Beecham** in Los Angeles, **American Medical Laboratories**, **Dynacare Kasper Medical Laboratories**, and **Auckland Healthcare System** of New Zealand.

"This is a great addition to the *Executive War College* program," said Michel. "Increasingly we are attracting lab executives and pathologists from other countries besides the United States. The high level of infor-

mation which is shared and the networking combine to make this a powerful program. Adding sales and marketing is a natural complement to the management tools available to laboratory executives.

"Early buzz and activity surrounding this year's *War College* indicates that it will be probably the best lab and pathology management program we've presented to date!" **TDR**

For further information, contact Robert Michel at 503-699-0616.

These Sales & Marketing Topics Added To This Year's War College Program

Here is the roster of sales and marketing presentations scheduled for the *Executive War College* on May 11-13 at the New Orleans Sheraton Hotel.

- **Creating & Managing Productive Lab/Pathology Sales Programs**—Myles Standish, Regional Marketing Director, Dynacare-Laboratory, of Pathology
- **Sales Compensation Plans That Motivate... and Bring in the Business**—Randy Marfin, Business Development-Clinical Diagnostics, Luminex Corporation
- **Selling Anatomic Pathology Services to Physician Offices: Using the Pathologist on the Marketing Team**—Bruce Dziura, M.D., Medical Director, Bay State Reference Labs
- **How Rural Hospitals Can Build a Thriving Lab Outreach Business**—Eric Cook, Referral Program Manager, University of Iowa Hospitals and Clinics
- **Outsourcing Hospital Lab Outreach Services and Sales**—Joseph McCauley, Lab Director, West Hills Medical Center
- **What Lab Sales/Marketing Managers Should Know About the Service Needs of HMOs and Managed Care Plans**—John Monaghan, Director, Network Development, HMO Blue of BC/BS New Jersey
- **Using Sales and Marketing to Boost Profitability of Clinical Labs and Pathology Practices**—Kerry Kaplan, President, Health Care Connection
- **Market Plans & Market Studies: How to Do Them and Win**—Randy Marfin, Luminex Corporation
- **Strategic Marketing of the Clinical Laboratory To Physicians' Offices**—Jack Finn, CEO, Centrex Clinical Laboratories
- **How to Recruit and Train Top Lab Sales Reps**—Myles Standish, Regional Marketing Director, Dynacare-Laboratory of Pathology
- **Sophisticated Sales Compensation Plans for Managed Care Contracting**—Randy Marfin, Luminex Corporation
- **Marketing Anatomic Pathology Services to Physicians' Offices**—Bruce Dziura, M.D., Medical Director, Bay State Reference Laboratories
- **Positioning Your Lab With the Major Managed Care Players: Choosing Your Strategies, Knowing Your Strengths, Developing Your Plan**—Kerry Kaplan, Facilitator

For information or to register, call 800-560-6363

The Dark Index

Three Blood Brothers Release Year-End Financial Performance

FINANCIAL REPORTS RELEASED by the three national laboratories for the fiscal year 1998 reveal a definite improvement in their financial performance and cash flow.

One sign of this improvement is the fact that none of the three blood brothers disclosed any huge write-downs similar to those experienced in 1995, 1996, and 1997. Another sign is that revenue per accession increased modestly at both **Laboratory Corporation of America** and **Quest Diagnostics Incorporated**. **SmithKline Beecham, PLC** did not report the change in revenue per accession for its laboratory division.

Of course, the biggest development affecting the three national labs is the impending acquisition of **SmithKline Beecham Clinical Laboratories (SBCL)** by **Quest Diagnostics**. (*See TDR, February 22, 1999.*) It is expected that, subject to shareholder approval and regulatory clearance, the acquisition will occur sometime this summer.

When that acquisition is completed, the commercial laboratory indus-

try will find itself dealing with new competitive forces. Hospital laboratory outreach programs and independent commercial labs may find new opportunities to improve their market share at the expense of the remaining two blood brothers.

LabCorp's Progress

At **LabCorp**, the battle to convert the legacy billing systems from the former **Roche Biomedical** and **National Health Labs** into one workable system seems to be progressing. The company reclassified a significant amount of "net sales adjustments" into "bad debt," requiring a restatement of financials extending back into 1997. This means they are writing off uncollectible claims which resulted from billing problems during the past 24 months.

Annual revenues for 1998 increased 2% over 1997, to \$1.62 billion. Although specimen volume decreased by 1.2% during the year, **LabCorp** saw a 3.2% increase in revenue per accession.

Quest's Operating Profit

At **Quest Diagnostics**, revenue per accession was also up. For fourth quarter, revenue per accession increased 4.2% over the same quarter in 1997 even as specimen volume declined by 4.7% during the same time period.

Annual revenues at **Quest Diagnostics** were \$1.46 billion. This is a reduction of 4.6% over 1997. But both **EBIDTA** and net income increased for the year, to \$158.6 million and \$26.9 million, respectively.

Revenues & EBIDTA

Annual revenues at each of the three national laboratories are in the range of \$1.5 billion dollars. **EBIDTA**, a measure of cash flow, increased over 1997 levels

	<u>1998 Revenues</u>	<u>1998 EBIDTA</u>
LabCorp	\$1.62 billion	\$210.4 million
Quest	\$1.46 billion	\$158.6 million
SBCL	\$1.55 billion	Not disclosed

Because SmithKline Beecham is divesting its laboratory division and its pharmacy services division, it has yet to release full details on the financial performance of both businesses. It did disclose that SBCL's 1998 revenues were \$1.55 billion and operating profit at the lab division was \$179 million.

Lab Pricing Hits Bottom

Collectively, the financial data for 1998 provides evidence that pricing for clinical laboratory services may have hit bottom. Two of the three national labs report increases to the average revenues per accession which are significantly better than the inflation rate in 1998.

This can be interpreted in several ways. One, pricing discipline at LabCorp and Quest Diagnostics is helping to curb the practice of "marginal cost" pricing used by many laboratories to capture incremental business.

Two, managed care companies increasingly have fewer laboratories that are willing to provide testing services at the rock bottom capitation rates of just three years ago.

Collectively, the financial data for 1998 provides evidence that pricing for clinical laboratory services may have hit bottom.

Three, the market process that converts fee-for-service testing into highly discounted or capitated contract arrangements is slowing because the rate of penetration by managed health-care is also slowing.

Four, the internal pain suffered by the three national labs when they actually commit to "marginal cost" pricing arrangements acts as a further check on this type of pricing strategy.

It can be expected that the Quest/SBCL union will further improve

pricing for laboratory services in many cities around the United States. However, it will take several years for the full impact of that acquisition to ripple through the marketplace. Repricing laboratory tests occurs most easily when contracts come up for renewal.

If THE DARK REPORT's assessment of improved financial capabilities at the three blood brothers is correct, then competing laboratories will want to reassess their sales strategies.

There still is overcapacity of laboratory resources in most cities of the United States. The three national laboratories will continue to whittle away at their network of regional, satellite, and rapid response laboratories. They must bring their lab infrastructure into alignment with the incoming flow of specimens if they are to become cost-effective.

Strong Local Competitors

As the three national labs remove local laboratory resources, this opens up an opportunity for local lab competitors. Physicians and patients tend to prefer a local laboratory provider. Hospital labs with professional outreach programs and a well-placed system of draw sites and rapid response labs will find themselves in a strong competitive position.

THE DARK REPORT predicts that the twin market trends of stronger lab pricing and continued consolidation of the national lab's internal testing system will increase the competitive capability of locally-based lab providers.

Ironically, even as the national laboratories improve their financial health, the very actions necessary to accomplish that strengthen local laboratory competitors. Hospital and independent laboratories should position themselves to take maximum advantage of the opportunities they are being presented. **TDR**

For further information, contact THE DARK REPORT at 800-560-6363.

INTELLIGENCE

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



As expected, the wave of hospital mergers and acquisitions is slowing. During 1998, the number of mergers and acquisitions fell 28% from 1997. This is the first time since 1993 that the number of transactions declined. As reported by the *Hospital Acquisition Report*, only 144 transactions were done during 1998, compared to 197 purchases in 1997. This will slow the pace of laboratory consolidation in the hospital industry.

ADD TO...HOSPITAL MERGERS
Columbia/HCA Healthcare Corp. and **Tenet Healthcare Corp.** slowed their own acquisition programs. That's allowing non-profit transactions to dominate the market, accounting for 75% of all mergers and acquisitions since 1995.

LabOne Inc.'s improved financial performance has encouraged its parent, **Lab Holdings, Inc.**, to purchase the 19.5% of the stock it currently doesn't own and collapse the holding company structure. The goal is to give **LabOne** maximum capability to maintain growth.

MEDICARE HMOs GET BIG BOOST IN REIMBURSEMENT

Politics continues to mix with medicine. HCFA announced that payments to Medicare HMOs would increase by a significant amount for 2000. The increases range from 2% to 12.9%, depending on the particular county. In California, Fresno County will see a 12.9% increase. Overall Medicare payments to HMOs will rise by 5.4% for the year 2000, according to Clinton administration officials.

MORE ON...

MEDICARE HMOs

Many analysts believe that **PacificCare Health Systems Inc.** will reap the greatest benefit from increased Medicare HMO reimbursement. This is based on the location of Pacificare's Medicare enrollees. Any development which helps HMOs maintain adequate profit margins will indirectly benefit clinical laboratories. If HMOs are profitable, it is easier for them to improve reimbursement for laboratory testing from year to year.

Beckman Coulter, Inc. and **Immunomedics Inc.** disclosed that their partnership, **IBC Pharmaceuticals, LLC**, received venture capital funding and will start operations shortly. The joint venture intends to develop a two-step process to irradiate cancer cells. Step one is to inject a bispecific antibody that targets the cancer. Step two is to inject a radiolabeled carrier that will bind with the antibodies. This project shows how diagnostic technologies are being adapted for therapeutic and monitoring applications. As these research initiatives succeed, they will generate increased testing for clinical laboratories.

Clinical laboratories looking for testing niches that can boost revenue might consider providing testing to employers in support of their wellness programs. Studies by **Hewitt Associates** in 1992 revealed that just 14% of the firms surveyed offered incentives or disincentives to employees to promote corporate wellness. That number jumped to 39% in 1998.

*That's all the insider intelligence for this report.
Look for the next briefing on Monday, April 5, 1999*

THE **REPORT**

UPCOMING...

- ***Hospital GPOs to Shake-Up Existing National Reference Testing Contracts.***
- ***Is the Pathology PPM Movement Dead? Why These Companies Are Now “Low Profile.”***
- ***Regional Laboratory Networks Gain Power Once They Overcome Internal Politics.***
- ***Hospital Laboratory Consolidation: New Management Strategies Ease the Pain.***