

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

# THE **D**ARK **R**EPORT

**RELIABLE INTELLIGENCE, EXCLUSIVELY  
FOR MEDICAL LAB CEOs / COOs / CFOs**

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# Pathology PPM Attempts Public Offering Of Shares

*A bigger AmeriPath, Inc. intends to become first publicly traded pathology company*

**CEO SUMMARY:** *AmeriPath's efforts to become a public company make it the most visible management experiment in the pathology world today. Already considered controversial by many pathologists, should AmeriPath successfully pull off its proposed initial public stock offering, it will assume a leadership position in the industry which cannot be ignored.*

**P**ATHOLOGY MAY SOON have its first "800 pound gorilla." **AmeriPath, Inc.** of Riviera Beach, Florida announced its intent to sell common stock to the public.

A successful offering would make AmeriPath the first public pathology-based physician practice management (PPM) company. With consolidated annual revenues of \$122 million, no other pathology operation approaches AmeriPath's size and reach. Including three pending acquisitions, the company will operate 15 practices in seven states. There are 115 pathologists employed by, or affiliated with, these practices.

It is AmeriPath's second attempt at an initial public offering (IPO) this year. In March, AmeriPath was forced to withdraw its proposed stock offering because of bad market conditions and

terms offered by the underwriting syndicate which the company deemed unacceptable. (See TDR, January 27, 1997 and April 21, 1997.)

AmeriPath proposes to sell five million shares of common stock at a price between \$13.00 and \$15.00 per share. This would raise between \$65 and \$75 million. Proceeds will be used primarily to retire existing debt. Upon completion of the offering, there will be 16.5 million shares of common stock outstanding.

Company officials refuse comment on any aspect of the transaction, stating that SEC "gun jumping" rules preclude them from making statements which could be construed as promoting the company during the time prior to a public equity offering. Despite this "news blackout," AmeriPath executives will be exhibiting at the ASCP/CAP convention in Philadelphia next week.

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When AmeriPath began to aggressively pursue the acquisition of large pathology practices, the company assumed a high profile in the pathology industry. This high profile was intensified because AmeriPath was willing to pay unprecedented prices for the pathology practices it wanted to acquire.

Last March, as AmeriPath first attempted to tap public equity markets, it boasted annual revenues of \$82 million. This represented aggregate sales from AmeriPath's 12 pathology practices. To buy those practices, AmeriPath spent approximately \$144.5 million. This number includes the maximum payout if all acquired pathology practices meet their contingency profit objectives during the next five years.

A look at how AmeriPath paid the sellers is revealing. To acquire those \$82 million in annual revenues, AmeriPath paid the selling pathologists \$78.6 million in cash, \$4.5 million in subordinated notes and \$24.8 million in shares of common stock, with a weighted price of \$6.41 per share. A maximum of \$36.5 million would be paid to the selling pathologists during the next five years if their practices achieve designated profitability targets.

### Three Pending Acquisitions

Apparently pathologists involved in the three pending acquisitions will do even better. Total annual revenues at the three practices are \$35.3 million. AmeriPath will pay \$58.9 million in cash plus another \$19.2 million in common stock. Contingency payments could total an additional \$25.7 million if these three pathology practices hit their profit objectives during the next five years.

The three pending acquisitions are: **Unipath, Inc.** of Dallas, Texas; **Colab, Inc.** of Indianapolis, Indiana; and **Sturgis, Henderson & Proctor** of Jackson, Mississippi.

AmeriPath's aggressive acquisition of pathology practices during 1996 and 1997 was an essential element in the firm's business strategy. AmeriPath was specifically formed with the help of venture capitalists to become a public company. In order to achieve that, AmeriPath created a flow of revenue and operating profits by buying existing pathology practices.

AmeriPath's strategy is to acquire pathology practices, integrate them into existing operations, squeeze out cost savings, then try to expand the acquired pathology practice's business through local sales and marketing efforts.

In fact, AmeriPath's greatest challenge will be to increase the revenue base of individual pathology practices on a year-by-year basis. Competition for new business among local pathology practices is still a rare phenomena.

### Growth By Acquisition

On the other hand, growth by acquisition is much simpler. This was the same strategy followed by the national clinical laboratories during the 1986-1994 period. Because growth by acquisition is easier to accomplish, THE DARK REPORT expects AmeriPath to continue buying up pathology practices.

Because AmeriPath is the first pathology PPM to reach a large size and attempt a public offering, it will probably enjoy a position of strength for the next two years. But many pathologists question whether AmeriPath can sustain this market strength in the future.

Critics point out that pathology is still a local service, based on personal relationships. They question if a national company can effectively support its pathologists at the local level. This has certainly been a weakness with the national laboratories. In many cities, they often are viewed as inflexible and offering less service than a regional independent laboratory serving the same city.

## AmeriPath, Inc.

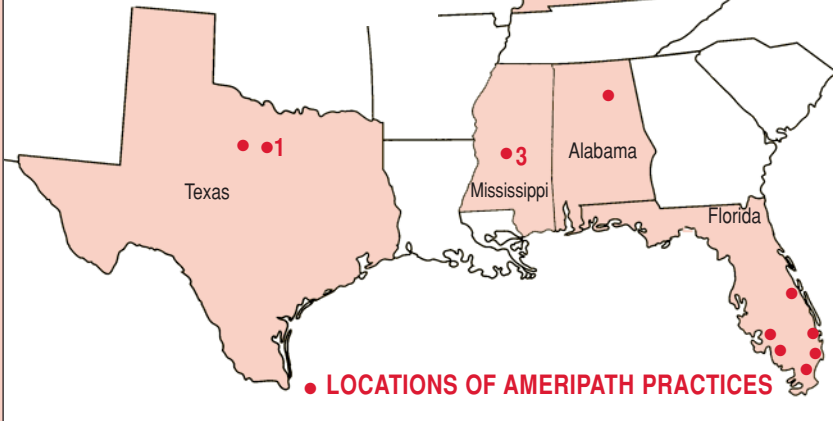
*Preparing For A Second Initial Public Offering*

<b>Stock Symbol:</b>	PATH
<b>Stock Exchange:</b>	NASDAQ
<b>Headquarters:</b>	Riviera Beach, FL
<b>IPO Offering:</b>	5.0 million shares
<b>Total Shares:</b>	17 million
<b>Employees:</b>	843
<b>Pathologists:</b>	115
<b>Annual Net Rev:</b>	\$122 million pro forma
<b>Net Income:</b>	\$12.4 million pro forma
<b>Outpatient Labs:</b>	14 company owned
<b>Hospitals:</b>	71
<b>Surgery Centers:</b>	20 outpatient centers

### **Pending Acquisitions:**

1. UniPath, Inc.
2. Colab Inc.
3. Sturgis, Henderson & Proctor

Source: AmeriPath, Inc.



Within the pathology world, AmeriPath's business activities will trigger a cascade of marketplace changes. (See related story, pages 6-8.) The way pathology services are organized, delivered and sold will be irrevocably changed by the activities of AmeriPath and its emerging competitors.

The most direct competitors to AmeriPath are **American Pathology Resources** and **Physician Solutions**, both based in Nashville. Both companies seek to create a pathology-based PPM. Yet neither company has advanced as far, nor grown as fast, as AmeriPath.

There are other interesting business models developing as well. Probably the most successful of these is **Pathology**

**Service Associates** (PSA) of Florence, South Carolina. Instead of a PPM, PSA is organized as a provider network of pathology practices. Its goal is to preserve local pathology practice autonomy, support pathology at the point of care and still bid for statewide managed care contracts.

With these competitors joining the marketplace, AmeriPath will have to work hard to maintain its early advantages. But by getting a head start, they have positioned themselves ahead in the race. AmeriPath's hardest work will come after the public offering. This is when the company must demonstrate its economic viability in the marketplace.

**TDR**

(For further information, contact AmeriPath, Inc. at 561-845-1850.)

# AmeriPath Grows By Acquisition

*With revenues from the three pending acquisitions added, AmeriPath tops \$122 million annually. This practice listing is ranked in descending order of annual revenue. It demonstrates how AmeriPath acquired larger pathology practices to build its system.*

PRACTICE	LOCATION	PHYSICIANS	PERSONNEL	CONTRACTS	LABORATORY NET REVENUE (IN THOUSANDS)
<b>Derrick and Associates Pathology</b>	Orlando	23	204	14	\$21,833
<b>UniPath, Inc. (Pending)</b>	Dallas	20	115	10	\$20,152
<b>American Laboratory Associates</b>	Fort Lauderdale	5	34	--	\$15,813
<b>Colab, Inc. (Pending)</b>	Indianapolis	15	19	8	\$ 11,789
<b>Gulf Coast Pathology Associates</b>	Cape Coral	5	28	3	\$ 8,686
<b>Drs. Seidenstein, Levine &amp; Associates</b>	Fort Myers	9	46	5	\$ 7,293
<b>Richfield Laboratory of Dermatopathology</b>	Cincinnati	3	39	—	\$ 6,201
<b>Volusia Pathology Group</b>	Ormond Beach	7	33	3	\$ 6,011
<b>Pathology Associates</b>	Lexington	7	58	17	\$ 5,080
<b>Cutaneous Pathology &amp; Immunofluorescence Lab</b>	Beachwood	3	19	—	\$ 3,979
<b>Freeman-Cockerell Laboratories</b>	Dallas	1	46	—	\$ 3,482
<b>Sturgis, Henderson (Pending) &amp; Proctor</b>	Jackson	5	216	—	\$ 3,341
<b>Florida Pathology Associates</b>	Miami Beach	2	241	—	\$ 2,762
<b>D&amp;P Pathology</b>	Fort Lauderdale	7	73	—	\$ 2,121
<b>SkinPath</b>	Birmingham	3	201	—	\$ 1,847
<b>Totals</b>		<b>115</b>	<b>843*</b>	<b>71</b>	<b>\$122,066**</b>

\*Includes corporate employees; \*\*Includes management fee revenues.  
Source: AmeriPath, Inc.

# How AmeriPath Will Alter Pathology Marketplace

*Arrival of pathology-based PPM portends far-reaching changes to pathology services*

**CEO SUMMARY: Few pathologists realize how much impact AmeriPath's business activities will have upon the profession of pathology. Regardless of AmeriPath's ultimate success or failure, it will bring about irrevocable change to the pathology industry. As the harbinger of such change, AmeriPath will receive more criticism than is their due.**

UNTIL NOW, most pathologists survived the arrival of managed healthcare with a minimum of turmoil or financial pain. However, that is soon to change.

The most visible symbol of this change is **AmeriPath, Inc.** of Riviera Beach, Florida. AmeriPath intends to create a national pathology organization which is publicly traded, competes in multiple markets and provides a full menu of pathology services in direct competition to local pathology practices.

THE DARK REPORT believes that AmeriPath's arrival coincides with a new and intensely competitive era for pathology. No longer will pathology be seen as a somewhat clubby profession of individual pathology practices serving individual hospitals. Gone will be the unspoken gentlemen's agreement against "stealing contracts" from local pathology practices.

In its place will come a system of intense competition where service, price and "value-added" determines who gets the anatomic pathology contracts. The transition from the traditional pathology world into the new era will be traumatic for those pathologists who remain com-

fortable with the old healthcare paradigm of fee-for-service.

It is important to recognize that AmeriPath is not responsible for the changes about to unfold. Market forces, economics and politics are driving the transformation of both pathology and our existing healthcare system.

**THE DARK REPORT predicts that AmeriPath will launch a new and intensely competitive era for pathology.**

If AmeriPath is not responsible for the coming changes to pathology, then why is this company important? Three reasons make AmeriPath important to the pathology profession.

One, AmeriPath's business model represents a radical change to the way pathology services are organized and delivered. It is a new approach to meeting the challenges of managed healthcare.

Two, AmeriPath has size and clout to be influential in a number of markets where it has acquired large pathology practices. AmeriPath's per-

formance in these particular markets will demonstrate whether the AmeriPath business model can be successful.

Third, AmeriPath is well-financed and well-led. This gives them the money and the management expertise to pursue business opportunities which competing pathology practices cannot.

Compared to the other emerging models of pathology business organizations, AmeriPath has influence, money and momentum. Like **General Motors**, **IBM**, and **Intel**, all market leaders in their own industries, AmeriPath will attract attention because it is the largest.

Competing pathology business models have been described in earlier issues of THE DARK REPORT. **American Pathology Resources** of Nashville, **Physician Solutions** of Nashville and **Pathology Service Associates** of Florence, South Carolina are some of the better-recognized organizations hatching new business models for pathology. But none of these companies has created as large a revenue base and critical mass as AmeriPath.

### Three Major Outcomes

What are the changes which THE DARK REPORT believes will be triggered by AmeriPath? We predict three major outcomes from the business activities of AmeriPath. Each will have a different impact upon pathology, but all are interrelated in critical ways.

First, the most direct impact will be to introduce open competition into the market for pathology services. Traditionally, each hospital had an established relationship with one pathology group. Only in rare circumstances did a hospital pull the contract from that pathology practice.

But widespread hospital mergers, acquisitions and joint ventures create an environment which encourages administration to change traditional pathology relationships. New administrators don't

have long-time personal relationships with the existing pathologists. It is easier for these new administrators to scrutinize existing pathology arrangements and consider alternative sources of pathology services for reasons of lowering costs, solving problems with internal politics or gaining enhanced pathology expertise and service over the existing practice. Consolidation of pathology services across the member hospitals of a developing system might also be a reason to consider changing existing pathology arrangements.

### Soliciting New Hospitals

AmeriPath can exploit this fundamental shift in hospital administration thinking. It intends to actively solicit contracts from hospitals where it is not a provider. It will be motivated to do so despite political consequences for one reason: Wall Street's incessant pressure for increased earnings.

Thus, over time, AmeriPath will be an outside supplier bidding to provide pathology services to new hospitals. New contracts mean increased revenues. Increased revenues mean higher share prices. Higher share prices mean job security of AmeriPath's executives. The fact that AmeriPath must give Wall Street ever-increasing earnings will motivate AmeriPath to aggressively market its pathology services.

Second, AmeriPath will probably be the first company to seriously address the issue of productivity. Notwithstanding arguments about quality and clinical expertise, the pathology profession has never tested the limits of individual productivity.

### Pushing Glass

Yes, the profession of pathology is concerned about the specter of overworked pathologists pushing glass at a frantic rate and compromising patient care. But in reality, managed care cannot afford to compromise patient care. Managed care requires an eventual

balance of productivity, quality and cost. This means that the entire pathology profession will soon be forced to push the boundaries of productivity.

AmeriPath will simply be the first company driven to explore that boundary. Any successes that improve pathologist productivity will give it a competitive advantage. Any failures will provide invaluable lessons, teaching others what to avoid. Increasing the productivity of pathologists is a sensitive subject, but AmeriPath will be forced to address it because of the financial pressure that comes with operating as a public company.

Third, AmeriPath represents the first manifestation of a new marketplace phenomena: the creation of a market for the buying and selling of pathology practices. Before AmeriPath came along, if a pathologist was interested in selling his practice, his only option was probably selling to another pathologist.

That is rapidly changing. The arrival of pathology-based physician practice management (PPM) companies is creating a market for pathology practices. Each sale of a pathology practice establishes valuation benchmarks which affect every pathology practice in this country.

## Challenge Assumptions

What does all this mean to individual pathologists, and the profession of pathology? It is too early to declare specifics about impending changes. But is it not too early to understand what forces are driving change.

AmeriPath is up and running. Regardless of whether their stock becomes public or not, they will continue to seek acquisitions. They will also begin to canvas their market areas for new pathology contracts. Pathology practices located in cities where AmeriPath operates will be forced to respond in a competitive manner.

## AmeriPath To Pursue Five Basic Strategies

AmeriPath is telling Wall Street precisely how it intends to compete against local pathology groups to capture additional business. Here is a summary of their key strategies to increase their key anatomic pathology business:

### 1. **Focus On Anatomic Pathology:**

To develop an internal consulting network and specialized expertise.

### 2. **Acquire Leading Practices:**

AmeriPath intends to acquire prominent pathology practices in markets throughout the United States.

### 3. **Expand Sales And Marketing Efforts:**

Introduce professional sales and marketing to sell pathology services. Solicit AP specimens across larger geographical areas.

### 4. **Increase Contracts With Hospitals:**

Besides gaining new contracts by acquiring practices, AmeriPath feels it can convince hospital systems to contract with them.

### 5. **Achieve Operational Efficiencies:**

AmeriPath will centralize billing and collections. It expects to harvest other efficiencies in the management of the acquired pathology practices.

There are still many unanswered questions about AmeriPath. Is its business plan viable? Can its management team implement the business plan? Will providers buy AmeriPath's services? Can AmeriPath grow without acquisition?

Only the marketplace will provide accurate answers to these questions. But THE DARK REPORT wants to warn all pathologists: AmeriPath is real. AmeriPath will stimulate changes to the way the business of pathology is conducted.

**TDR**

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



## Leadership Makes The Difference

# Providing Direction Leads To Happier Docs, Lower Costs, And Outreach Success

**CEO SUMMARY:** *Some of the best stories in laboratory management are found in the unlikeliest of places. In this case we travel to the Olympic Peninsula in Washington state, where a 120 bed rural hospital has developed an energized laboratory team. It wasn't easy and it didn't happen quickly. But since the laboratory was revamped, it has become a source of pride for the hospital... and a valuable financial asset as well. In this first installment the turnaround takes place. Coming in the next installment: laboratory outreach proves successful in a rural setting.*

**L**ABORATORY ADMINISTRATORS who work at rural hospitals probably have the most difficult working environment in the laboratory industry.

The reasons are simple. Rural hospitals generally don't have lots of money, so laboratories are often underequipped and understaffed relative to the services they are asked to provide. Because rural hospitals are geographically remote, sharing services with neighboring hospitals is difficult, if not impossible.

### Limited Resources

Simply put, laboratory administrators in rural hospitals are often times allocated limited resources, then asked to do more than they are equipped to handle.

Given the daily stress of holding together this kind of laboratory operation, it is not surprising that many laboratory administrators fall into the mind set of focusing internally. They

can overlook opportunities for growth and service enhancement.

Yet laboratory directors at rural hospitals have the potential to transform their laboratories into both a high-performance service center as well as a cash flow asset. Any hospital laboratory which accomplishes this creates a win-win situation.

For the rural hospital, services are enhanced and additional operating profit flows into the hospital. For the laboratory, job security of the med techs is enhanced at the same time that funding for capital projects is generated from the laboratory's increased cash flow.

"It doesn't take much to make this happen given clear vision and strong commitment to change," stated Eric Cook, Director of Laboratory Services at **Olympic Memorial Hospital** in Port Angeles, Washington. "Three years ago, virtually the entire laboratory staff did not believe it was possible for us to achieve what we have.

Now, these same people are excited, motivated and pushing the laboratory to accomplish more!"

Considering where Olympic Memorial Hospital is located, these accomplishments are considerable. Olympic is situated at the edge of one of the largest and most isolated old growth forests remaining in the continental United States. Primeval is a good adjective to describe the nearby scenery.

### Lab Services Improve

Yet in three years, a once rudderless laboratory was reorganized and remotivated. Laboratory services to the hospital improved from a point of near ineffectiveness to an admired ancillary service provider. Even more remarkable, Olympic Memorial Hospital operates a thriving, growing laboratory outreach program in a geographically remote area. Regular growth in specimen volume has required consistent additions to lab staff.

The success of Olympic Memorial's laboratory can be duplicated. The success secret at Olympic was that both hospital and laboratory administration applied proven management principles to their problems and opportunities. They kept the strategic plan simple and helped the laboratory team implement it with confidence.

The catalyst for change at Olympic was Eric Cook. "I was hired to be the laboratory director in the beginning of 1993," he said. "At the time I arrived, the laboratory had been without a director for more than six months. Morale was poor and hospital administration recognized that problems in the laboratory needed immediate attention.

"The laboratory had just completed a rough CAP inspection," he continued. "The inspection identified a high number of issues which needed resolution. This became my first operational priority. But I quickly realized that there were deeper problems which required attention at the same time, otherwise the laboratory would never function effectively."

### Morale And Attitude Problems

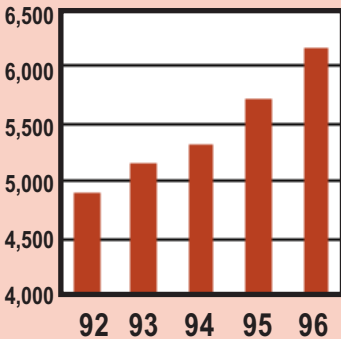
Cook is referring to morale and attitude problems with the laboratory employees, acerbated by animosity from nurses and physicians. "Frankly, the service level from the laboratory was probably causing nearly as many problems as it was solving. The situation had deteriorated so much prior to my arrival that hospital administration had hired personnel consultants to work with the laboratory staff. The lab people nicknamed them 'exorcists.' This illustrates how morale was suffering in the laboratory.

"From a management perspective, I established three personal priorities. One, working relationships with physicians and nurses required immediate improvement. Two, laboratory operations needed to be straightened out. Three, the laboratory staff had to be molded back into a productive team."

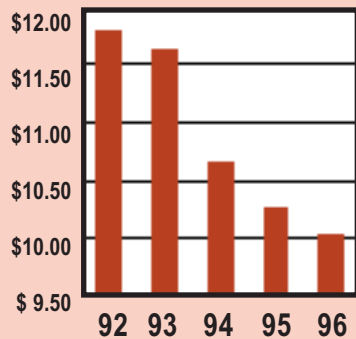
None of these priorities were achieved quickly. "Take relationships with physicians, for instance. I made myself available at every opportunity. If there was a problem,

## Olympic Memorial Hospital Laboratory

Procedures Per FTE



Variable Operating Exp. Per Procedure



These two charts illustrate the improvements in productivity and reductions in variable cost at the laboratory during the previous four years.

I went to personally see the doctor. My follow-up measures were extreme because I wanted to demonstrate our new attitude of service. I built personal relationships with the medical staff and nurses. It was months of intense effort before improvement in their outlook toward the laboratory became visible.

“My measure of success in this effort was when doctor complaints about the laboratory began to slack off,” he continued. “This happened after about six months. As this occurred, I took the initiative with physicians on staff to find out how we could better meet their needs.”

### Earlier Turnaround Time

“Earlier turnaround of lab results in the morning turned out to be an important physician satisfier,” explained Cook. “At this time, early morning results were not getting out until about 9:00 a.m. Here was a great opportunity to improve our service to the clinicians.”

Cook’s three management priorities intersected on this goal. To improve turnaround times, he would have to orchestrate cooperation and support from nurses and physicians outside the lab and from the demoralized lab staff themselves. Everyone would have to work together as a team.

“Our goal was to have results posted into patient records and available to the physicians by 7:00 a.m.,” noted Cook. “I started this project by meeting with the laboratory staff and opening up communications. Regular meetings created the opportunity for them to ask questions, air complaints and learn what the goals for the laboratory were.

“I got help in this process from our medical director, Richard Schiefelbeim, M.D. He was a strong supporter of these efforts, because he had already experienced the doctor complaints during the six months when there was no laboratory administrator.

“To get test results out by 7:00 a.m. each morning, we had to change work schedules for phlebotomists, med techs and others. Although this doesn’t sound like a big deal for the people involved, scheduling them to come in several hours earlier each day was a major change in their life.

“We had a lot of people issues to work through to accomplish the schedule changes and generate test results earlier,” recalled Cook. “The emotional atmosphere and the hours of management time devoted to coaching people through these changes should not be

underestimated. We did not even try to start this process until some nine months after my arrival. It took that long to establish trust and create an improved atmosphere of cooperation with the staff.

“Of course, delivering test results earlier each morning would affect the nursing staff, so we had to build bridges with them, identify their concerns and make it easier for them to adapt. We discovered that the nurses would be happy if we could deliver test results to the patient file and print what we call a ‘ward report’ for the nursing staff.”

## Posting Results

“So we said ‘how about if we do both?’ The solution was to post results on our computer which the nurses would chart, as well as deliver to them a separate ward report needed for the change of shift nursing conferences,” Cook said. “This system has worked well. Since that date we’ve upgraded our HIS and LIS, permitting us to further refine this process. This was a milestone for goal-setting. A recent quality assurance TAT study confirmed that the laboratory’s morning TAT ranks in the top 20th percentile of those laboratories surveyed.”

Achievement of that goal took physicians by surprise, and created much goodwill. “Let me tell you where we started from. When I first arrived, I had one doctor tell me ‘who do I have to fight to get my test results?’ Imagine! Here is a doctor who expected some kind of struggle just to get lab results.”

Although Cook is proud that the laboratory team successfully achieved this goal, he tends to underplay many of the management challenges it took to accomplish such a major change.

“There were some additional management challenges which required attention,” he responded. “I did not mention that we have a union here. Until coming to Olympic, I had never

## Olympic Memorial Hospital:

*Located On  
The Edge Of  
The Primeval  
Forest*



Olympic Memorial Hospital is located in Port Angeles, Washington, population 18,500. The hospital has 120 beds and an occupancy rate above 65%.

before managed in a union environment. To be frank, it made me overly cautious during the first months. We took longer to make changes because I wanted to respect the needs of our staff and learn how the union played a role in day-to-day management decisions.”

## Professional Staff

“As it turns out, I found it to be not much different. Maybe it’s because our staff are professionals. Maybe it is the small town setting,” he added. “But the union here generally supports our efforts to improve the laboratory and pursue outreach testing.

“One specific area where we are cooperating with the union is in creating different job descriptions. At the time we decided to start a laboratory outreach program, we had about 32 employees. The need to develop client service functions, couriers, and similar job responsibilities meant the union needed to support this project. That support has occurred.”

Since Cook’s arrival four years ago, the laboratory has achieved significant things. Variable operating expense per procedure has declined 14.5%. Procedures per FTE grew by 24%. In-house testing to support clinical needs has increased.

## To Be Proactive Or Reactive: Lab Administrators' Dilemma

FOR LABORATORY ADMINISTRATORS, the experience at Olympic shows the other side of the management coin. Many laboratory administrators hesitate to initiate radical change in their laboratory. Why? For many reasons, but perhaps chief among them is the worry they will have to lay off people. They are also uncomfortable with changing traditional job assignments and schedules for their staff.

It is widely-recognized that most laboratory administrators fail to take initiative. As a result, when outside pressures force radical change to their laboratory, staffing cutbacks are generally more severe. The surviving staff endure wrenching change to job assignments and schedules.

In such a scenario, did the passive laboratory administrator really serve the best interests of the laboratory staff? Did the inaction of these lab administrators improve the job stability of their employees? The answer is no. Change was inevitable. When it arrived, the laboratory administrator had much less control over its implementation and impact. The pain and dislocation to loyal employees was actually greater than if the

laboratory administrator had introduced changes proactively, over time.

Yet, at Olympic Memorial Hospital, the laboratory administrator's willingness to be proactive, to risk introducing change demonstrates the benefits of decisive management leadership.

He recognized the limitations of the status quo. By challenging his laboratory staff to better meet the needs and expectations of physician staff and nurses, he restored the laboratory's respect as a valuable ancillary service.

But look at the other positive consequences. There is an increased commitment to service within the laboratory. People like coming to work and meeting the needs of their customers. Outreach expansion has opened new career opportunities. Outreach testing has created more job stability for existing staff. Aren't these the benefits every lab administrator wants to provide their staff? Certainly!

The experience at Olympic is not unique. Proactive laboratory administrators have comparable success stories. It is this collective body of success stories that should cause all laboratory administrators to rethink their choice to remain passive instead of becoming proactive.

Quality management measures show regular improvement and client satisfaction is up.

The experience of Olympic Memorial Hospital provides two great examples of management success. The first example comes from the effectiveness of using proven management principles to transform an unmotivated laboratory into a high-performance asset. These management principles were accompanied by leadership and vision. It took all three to create what exists today.

But it is the second example which THE DARK REPORT finds equally exciting. Despite its status as a relatively small, rural hospital, Olympic demonstrates that opportunity exists even in the most remote locations of the United States. Here is a thriving hospital labo-

ratory which is expanding inpatient service capability, operating a flourishing outreach program and binding the hospital closer to the community it serves.

Popular wisdom would say that it is difficult, if not impossible, for rural hospitals to accomplish all of these things. However, the laboratory at Olympic continues to grow and improve. As it does, it proves that even rural environments can support more growth and success than is generally acknowledged. This is good for the laboratory, good for the hospital and good for the community.

**TDR**

*(For further information, contact Eric Cook at 360-417-7778.)*

**In the next installment: how and why Olympic started a laboratory outreach program in a rural area.**

# Path Income Strategies Subject Of Symposium

*Unprecedented workshop offers techniques to preserve and enhance pathology income*

**CEO SUMMARY: Public discussion of pathology income and compensation has been taboo for a good reason: the reality is one of contract cutbacks and declining reimbursement for pathology services. THE DARK REPORT is inviting a select group of astute pathologists to Scottsdale on November 8 to identify, articulate and share winning strategies for the preservation and enhancement of pathology income.**

**W**IDESPREAD REDUCTIONS to pathology compensation and income is probably the single greatest threat facing pathologists in today's world of managed healthcare.

Hospital administrators, private payers and even IPAs are slashing pathology reimbursement at every opportunity. Offsetting these reimbursement cutbacks is difficult because there are fewer ways to contract for additional anatomic pathology work.

Yet in the midst of such cut-backs, a select number of pathology practices are prospering. These pathologists understand and use business techniques which preserve and enhance their pathology compensation.

To identify, articulate and share winning strategies for protecting and enhancing pathology income, THE DARK REPORT is convening the 1998 *Pathologist Income Symposium and Workshop* in Scottsdale, Arizona on November 8, 1997.

"Until now, the subject of pathology compensation at a public meeting has been taboo," stated Boone Emmons, President of **Emmons And Associates**.

"This stricture denies pathologists the opportunity to learn about useful ways to preserve income. In travels throughout the United States, it can be observed that a select number of astute pathologists seem to sustain and increase their revenue and income despite the inroads of managed care."

***"This private symposium on pathology income is probably the only opportunity to learn the power money strategies used by the most financially successful pathology practices in the United States today."***

**—Boone Emmons**

"It was time to break that stricture and bring together a select group of savvy pathologists who actively want to preserve and enhance their income."

The event promises to be an unusual day of learning. "Attendance will be limited to just 100," stated Emmons, who will lead a workshop on strategic planning at the symposium. "Only pathologists and

their business advisors are invited. By excluding the people you negotiate contracts with, we guarantee candid, frank exchange of information and ideas on the vital subject of compensation and income.

"We expect a number of unrecognized pathology innovators will be participants," he continued. "This is often the source of the most powerful knowledge. Combined with our experts in pathology contracting, finance, law, and strategic planning, this private symposium promises to be the sleeper event of the year."

To insure free-wheeling, useful dialogue, the event is scheduled for one day at the plush Sunburst Resort. This permits busy pathologists to fly in, work hard, enjoy the surroundings and be back at the lab for Monday morning. An all-inclusive fee for the private symposium

covers lodging, meals during the program, audio tapes of the proceedings, written materials prepared by the experts and a special proceedings summary prepared on-site as the event unfolds.

"Getting to brass tacks, this private symposium is about the money you make... and the money you keep," added Emmons. "Any pathologist with concerns about how his pathology practice will maintain an adequate revenue stream should consider this a 'must-attend' event.

"This private symposium is designed to provide pathologists with effective tools for safeguarding and enhancing pathology compensation," he continued. "It will be a day of hard work and participants should expect a huge pay-off in professional fulfillment and improved financial results."

**TDR**

## 1998 PATHOLOGIST INCOME WORKSHOP

*JOIN A SELECT GROUP OF YOUR PATHOLOGY COLLEAGUES and their business managers for this unprecedented private symposium and workshop on pathology compensation and income.*

*Learn from experts in pathology contracting, finance and law. Meet pathologists who are successful in dealing with managed care in their local markets. Discover proven strategies to protect pathology compensation and increase take-home income. This private symposium is perfect for pathologists seeking to learn from experts and gain insight from successful peers.*

**When:** Saturday, November 8, 1997

**Where:** Sunburst Resort, Scottsdale, Arizona

**Time:** Day-long working session, 8:00 a.m to 5:00 p.m.

**What's included:** This is a package program and includes two night's lodging, meals, transcripts of workshop proceedings, summaries of presentations and workshop sessions. A special action plan will be developed and provided to all participants, plus optional Sunday Brunch and *Strategic Income Planning* session with key experts.

**FOR INVITATION  
AND DETAILS,  
CALL**

**800.860.6363**

# LabCorp Hosts DARK REPORT For Burlington Site Visit

*Recent capital infusion provides money and motivation to reshape national laboratory*

**CEO SUMMARY:** *During the years of sustained bad financial news that dogged the major laboratories, there was a reluctance to speak publicly about any aspect of the laboratory business. That era seems to be ending, as LabCorp and the other national laboratories become friendlier and more accessible. A trip to LabCorp's headquarters in Burlington, North Carolina demonstrates the new attitude of openness.*

**D**URING A RECENT VISIT to laboratories in North Carolina, THE DARK REPORT was invited to visit corporate headquarters at **Laboratory Corporation of America** in Burlington.

Clients of THE DARK REPORT know our publication has regularly taken management of the national laboratories to task for a variety of poor business decisions made in recent years. Thus, an invitation for a red carpet tour of LabCorp headquarters and access to senior executives was unexpected.

Whether due to southern hospitality or a genuine interest in building good bridges with the laboratory public, LabCorp executives provided THE DARK REPORT with an extensive tour and candid answers to a variety of difficult questions.

## Background Understanding

Information shared provides background understanding to many activities under way at LabCorp. In future stories and assessments of the laboratory industry, our readers will benefit from the insights provided to THE DARK REPORT during this site visit.

“Our convertible preferred stock offering was more than just an infusion

of capital,” stated Brad Smith, Executive Vice President and General Counsel. “It was a sign of support by our shareholders. Not only did we raise the \$500 million, but it was oversubscribed by another \$200 million.”

## Turnaround Year

According to Smith, LabCorp believes that 1997 is their turnaround year. “We see indications that our financial performance will demonstrate regular improvement,” he explained. “We are exerting better discipline in contract pricing for tests. There is evidence that further declines in private pay reimbursement will be minimal in many markets. If this proves true, then operating margins at LabCorp should improve.”

Assuming that Smith's observations prove accurate, that is good news for the entire laboratory industry. It is widely recognized that capitated rates under \$1.50 PMPM (per member per month) fail to cover the full cost of providing laboratory testing. Any success by the national laboratories at firming up pricing levels will help restore financial solvency to the entire laboratory industry.

In Burlington, LabCorp operates probably the largest laboratory in the world. It accessions approximately 30,000 specimens per night in a building of 200,000 square feet. Although transport robots deliver specimens and supplies throughout the facility, advanced automation has not yet been installed. "We are studying full laboratory automation and automated instrument modules," said Pam Sherry, Investor Relations Director. "Given our view of the current benefits of complete automation, such projects are not an immediate priority."

### Esoteric Testing Laboratory

Next THE DARK REPORT visited what LabCorp considers their crown jewel: the esoteric testing laboratory at Research Triangle Park near Raleigh, North Carolina. It is located about 50 miles from Burlington. Steven Anderson, Ph.D., Director of Oncology and Infectious Diseases, showed THE DARK REPORT a variety of cutting-edge assays performed at the facility. It was particularly fascinating to watch how the **Affymetrix** GeneChip® performed DNA probe arrays and PCR-based assays for HIV genotyping.

"We recently acquired this technology," noted Anderson. "It is one of the earliest applications where a biosample is placed on a silicon chip, the test is performed on the chip, then the silicon chip reports the results to the lab information system."

### Overall Impression

With \$1.6 billion in annual revenue, LabCorp is still a competitor to be reckoned with. Given the time spent with LabCorp executives and the visits to various company facilities, it can be said that a different management attitude is taking root within this company. The clinical laboratory industry can expect to see LabCorp evolve in unexpected ways.

## LabCorp CEO Backs His Bets With Action

*ONE VALUABLE INSIGHT INTO THE CHARACTER OF LabCorp CEO Tom Mac Mahon relates to his willingness to pursue his vision of business opportunity.*

"Most people do not realize that, at the time when PCR (polymerase chain reaction) technology was new and unproven, Mac Mahon was an early advocate for PCR technology," explained Brad Smith, Executive Vice President and General Counsel at LabCorp. "He took the risk of championing this technology before its tremendous potential was recognized by the diagnostic world, leading the effort to encourage **Roche** to obtain exclusive rights to PCR technology.

"Mac Mahon pushed this in the late 1980s," he continued. "It proved to be a wise business decision for Roche. The explosion in PCR testing applications in recent years now benefits Roche in a variety of ways."

Many laboratory executives are unaware that Mac Mahon's career background is outside the clinical laboratory. Starting with Roche after graduation from college in the late 1960s, Mac Mahon moved through various executive assignments involving Diagnostics. As a member of Roche's Worldwide Diagnostics Executive Committee from 1988 to 1995, Mac Mahon had over-sight responsibility for **Roche Biomedical Laboratories** (which became LabCorp).

Mac Mahon's willingness to back his vision with action, combined with management experience gained outside the laboratory industry, may provide LabCorp with the kind of fresh management thinking which is uncommon within the clinical laboratory industry.

The willingness to improve public communication is just one sign of the changes taking place. THE DARK REPORT predicts that some innovative joint ventures announced during the next 18 months may reinforce the different management philosophy now emerging at LabCorp.

**TDR**

(For further information, contact Pam Sherry at 910-584-4855.)



# INTELLIGENCE

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



Here's another sign of financial improvement in the clinical laboratory industry. **WDI Capital Markets** publishes a quarterly list of healthcare industry earnings. Through 1995, "laboratory services" was always included. But consistently diastrophic results in the laboratory industry caused WDI to drop that category almost 18 months ago. Thus, it was interesting to see WDI's second quarter earnings summary include laboratory services again. Laboratory service company earnings were up 6.3% for the second quarter

## *ADD TO: ...LABORATORY EARNINGS*

Hospital earnings were up 15.6%. Diagnostic company earnings increased 63.8%. The big gainer was "imaging devices." Earnings rose 466% in this category. At the bottom of the list were surgical devices and generic pharmaceuticals, down 31.3% and 33.2%, respectively.

## **TELEPATHOLOGY GETS A BOOST?**

Medicare is set to begin reimbursing doctors for services delivered through telemedicine systems. Funding and authorization was in the recent balanced budget bill for fiscal 1999. HCFA authorized a three-year demonstration project supporting telemedicine in 1996. Increased telepathology activity would be a logical outcome from these developments. Adding to the momentum is a **Federal Trade Communications Commission** (FCC) authorization for subsidies of up to \$400 million per year. The money is funded from telephone companies and consumers. It will be used to upgrade telecommunications networks serving hospitals in rural areas.

**Presbyterian Laboratory Services** (PLS) Charlotte, North Carolina recently held an open house for employees. The site was the new off-site core laboratory facility near the Charlotte airport. Build-outs at the facility are about to begin, and PLS wanted staff to become familiar with the facility and its location.

Edward Bukstel, president of **Bukstel & Halfpenny**, reports that the company's "Dr. Chart" software is a finalist in competition to win a *Microsoft Industry Solution Award* for 1997. Winners will be announced at a meeting in Las Vegas this week.

**NeoPath, Inc.** of Redmond, Washington submitted its amendment to the PreMarket Approval Application for the AutoPap® System to the **Food And Drug Administration** (FDA). The company hopes to gain approval to use the AutoPap System as a primary screener for Pap smears. The FDA has not yet announced a hearing date on NeoPath's application.

**Universal Standard Medical Laboratories** of Southfield, Michigan announced a name change. Effective August 25, the laboratory will be known as **Universal Standard Healthcare, Inc.** The financially troubled laboratory wants to emphasize its managed care services division instead of clinical lab services.

*That's all the insider intelligence for this report.  
Look for the next briefing on Monday, October 6, 1997*



## ***UPCOMING...***

- Next Installment: Rural Hospital Launches Successful Laboratory Outreach Program.***
- AmeriPath's Initial Public Offering: Did It Succeed? What Happens Next?***
- Beckman And Coulter Tie The Knot: Major Changes Ahead For Diagnostics.***
- Emerging New Models Of Capitation Bring Additional Challenges To Labs.***