

From the Desk of R. Lewis Dark...

THE **RD**ARK REPORT

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

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COMMENTARY & OPINION by...

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Heeding the Lessons of Market Competition

COMPETITION FOR LAB TESTING DOLLARS IS THROWING NEW CURVEBALLS at both clinical labs and pathology group packages. Failure to spot these developments and respond to them now will have swift financial consequences.

In this issue of THE DARK REPORT, readers will notice how we've identified market threats to the status quo of laboratories across the country. Probably the most noteworthy development is the threat to anatomic pathology as specialist physicians build their own, in-clinic pathology laboratories.

That is why it is instructive to study the efforts of **Kettering Pathology Associates** (KPA), a five-physician group in Kettering, Ohio, to retain specimen referrals as each of three gastroenterology groups in town decided to open their own in-house pathology labs. (See pages 3-6.) As each GI group opened its lab, it requested a proposal from KPA. The first two times, KPA declined to do the work at the discounted rate the GIs were seeking. But after losing 40% of their outreach specimen volume to the first two new in-house labs, the pathologists at KPA decided to work with the third GI group when it opened its lab last month.

Next, we provide the assessments of consultants who actively work with both pathologists and specialty physicians. (See pages 7-9, 17.) Many of you are likely to be surprised by their observation that pathologists can do okay in a discounted fee arrangement—if they just show up, read slides, and get a monthly check from the specialists. That's because pathologists in these types of deals have no overhead or other costs.

In the clinical laboratory sector of the marketplace, our coverage of **Quest Diagnostics Incorporated's** South Florida business unit provides a serious early warning about how labs that use Six Sigma and Lean effectively can create competitive advantage while raising the bar on customer expectations. (See pages 10-16.) By fulfilling those needs with targeted and innovative services such as a scheduling system to allow patients make appointments for collecting their specimens, the lab was able to differentiate itself from its competitors and raise the level of customer service in the lab industry in Florida. The result was a return on its investment in quality improvement of almost \$10 for every \$1 invested and a prestigious quality award, which the business unit won this year.

These three articles show why it is imperative for pathologists and lab directors to respond to such changes nimbly in order to grab market share in today's competitive environment.

Path Group Closes Its Lab After GIs Do In-Clinic Lab

➤ Pathology group in Kettering, Ohio, responds to specialist docs building in-clinic pathology labs

➤➤ **CEO SUMMARY:** *Kettering Pathology Associates of Kettering, Ohio, built a thriving outreach pathology business in this Dayton suburb before three gastroenterology groups either sent biopsy work out of state or built their own lab, and asked the pathologists to provide contracted professional component services at a discount. How the pathologists responded to these developments illustrates new challenges to the pathology profession.*

WHAT HAPPENS TO LOCAL PATHOLOGISTS WHEN SPECIALIST PHYSICIANS in a community build their own pathology lab and bring this work in-house? Do pathologists have effective strategies to counter this situation? Are there win-win solutions for both pathologists and specialist physicians?

The trend of specialist physicians establishing their own histopathology laboratories and bringing anatomic pathology services in-house is a serious threat to the pathology profession. The consequences can be significant.

That is the case in Kettering, Ohio, where **Kettering Pathology Associates (KPA)** has watched specialist physicians either send biopsies out of state for discounted services or build pathology laboratories within their group practices. A

variety of strategies to cope with this situation have brought mixed results.

The story of what happened is a cautionary tale for all pathologists facing the threat of increased competition from specialist physicians opening their own labs. As the story of the Kettering pathologists demonstrates, there are no easy answers for pathologists reluctant to offer professional services at a discount, especially when other pathologists are willing to step in and do this work on those financial terms.

Kettering Pathology Associates is typical of community hospital-based pathology groups across the nation. It provides pathology services to 522-bed **Kettering Memorial Hospital**. The outreach business arm of KPA is **Regional Pathology Services (RPS)**, which was organized in 1994 and built an off-site lab in 2001.

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"It was 2002 when the first of several independent gastroenterology (GI) groups approached us about doing discounted work," recalled RPS Medical Director Richard L. Pelstring, M.D. "Before long, another GI group wanted to do the same thing. When one of them began talking about opening its own lab, that GI group approached us with a proposal for RPS to send pathologists to read the slides in their GI office for a discounted fee.

► Discounted Work

"RPS refused these first two offers," he continued. "But the volume of work lost was so much that we ultimately agreed to do discounted work for a third GI group."

These changes to its client base had a major impact on the pathologists' outreach business. Once a seven-physician group doing 18,000 outreach surgical specimens a year, RPS has since become a much smaller entity. It no longer operates its free-standing laboratory and has moved its outreach specimen processing back into Kettering Memorial Hospital.

"RPS was organized in 1994 specifically to do work for office-based physicians only," Pelstring explained. "Over the years, we built this outreach practice largely on doing work for gastroenterologists. There are three large gastroenterology groups in this area, and we did at least some of the work for all three of them. And that part of the work kept growing substantially.

► Flourishing Outreach Program

"At one point, RPS was doing about 18,000 surgical specimens annually in the outreach side of the business, compared to about 16,000 or 17,000 hospital surgical specimens," noted Pelstring. "The number of outreach cases had grown to exceed the inpatient cases generated by the hospital.

"About the time we opened our separate laboratory, one of the three GI groups asked us if we would do discounted billing for them so they could bill the full amount to their non-Medicare insurers," Pelstring

explained. "We weren't interested in doing that. Without much discussion, the GIs sent the work to a lab in Texas that agreed to do the work at a discount.

"Even though we lost that account, we were taking the high road," Pelstring explained. "We don't believe in offering professional services at a discount.

"Then, at about that same time, we started getting overtures from the largest of the three GI groups asking us to do the same thing for them," he continued. "Of course, the GIs in town all know each other. At this time, their reimbursement was falling and they were motivated to find different ways to offset that decline in their income. One way to do that is to bring the pathology work in house.

► Potential Problems

"We were very thorough in explaining to the GIs about the potential quality problems that could result from doing lab work in-house as proposed," Pelstring said. "We talked to them about the potential Stark, legislative, and compliance issues. That seemed to forestall their efforts for a few years. But eventually the largest GI group decided to bypass those issues and open their own lab.

"At the time, that particular GI group was splitting its work," he explained. "About half of that work came to us and about half went to a competing pathology group in Dayton. This largest GI group wanted both pathology groups to come to their offices and do the professional component at a discounted fee

"Once again, our pathologists decided that we weren't going to do that," stated Pelstring. "But, in a surprise move, our competitor decided that they would do it. The next thing we knew, the GI group opened its own lab and our competition had pathologists reading all of those slides in their offices at a discounted fee!

"As with the first case, we weathered that storm," Pelstring added. "At that time, our annual volume was about 18,000 surgical specimens and 30,000 Paps. Loss of

Can The Pathology Profession Find a Way To Establish Reimbursement Equilibrium?

MARKET DYNAMICS affect each pathology group differently. But when the price for pathology services falls precipitously, are pathologists at fault? That's the question asked by Richard S. Pelstring, M.D., Medical Director for Regional Pathology Services in Kettering, Ohio.

"Our pathology group thought we could weather the storm by losing work from some of the groups we had as clients," he explained. "But we couldn't afford to lose business from all three gastroenterology groups in town. They made up 70% of our volume at one point. But, we still have to generate income every day. When the work keeps going away, you reach a point where you're willing to do the work for less.

"However, in many ways, the pathology community is largely at fault here," Pelstring commented. "If, as pathologists and professionals, we weren't willing to do work on these terms, then it wouldn't happen. But obviously there are those pathologists willing to offer services at a deep discount. That

opens the door so that now, if your pathology group won't do this work for less, there are other pathologists who will.

"It's a tough managed care market in Ohio," Pelstring continued. "**Anthem** and **UnitedHealthcare** are the big payers. But, the specialist physicians—who are our own colleagues—offer less than what Anthem or UnitedHealthcare pay.

"That raises the question I am unable to answer: Why would an insurance company allow these arrangements?" Pelstring asked. "Why would they pay GIs with pathology codes? There's nothing to gain. Pathologists must be credentialed. So, insurers know who we are. But when they pay a GI or urology group for pathology services, they have no idea who is reading these cases. How does that benefit their patients?

"There's a patient care risk in operating that way," he added. "Once the dollar drives who reads the slides and where they are being read, then it can create the potential for a patient care risk."

the two GI groups dropped our surgical pathology volume to about 12,000 annually and, of course, we continued to do our hospital work.

"But then last year, the third and last GI group in town decided to build its own lab," he continued. "Were we to lose those specimens, outreach volume at RPS would drop to about 8,000 surgical specimens a year. With specimen volume at that level, the economics of the off-site laboratory changed. We asked ourselves whether it made more sense to return this work to the hospital.

"That's when things started to change within our pathology group," he added. "Some members of the group were concerned about losing all this work. The group was divided on the issue of providing discounted professional services.

"There were some—including me—who said, 'We have held this line all this time. Why stop now?' But others in the group said, 'We can't continue to let work go out the door. Even though it's at a discount, we have to do it,'" related Pelstring.

"In a partnership, it's important to listen to each other," he added. "Some pathologists were willing to go to this client's office and read those slides at a discount. So, that's what we decided to do. When the final GI group opened its in-office lab last month, two or three members of our group decided to go there and read slides at a discount. And two or three members of the competing pathology group will also provide pathology professional services under a discounted arrangement. We're going to do alternate weeks. That's how it unfolded.

"But the rates this GI group offered for the discounted service were substantially below what Medicare pays," Pelstring said. "That's one issue that troubles me about these arrangements. When a physician colleague says, 'I'm going to open a lab and take the responsibility for that work and I can make a profit on it,' that's one thing. But when they say, 'I am going to make a profit on it by doing the technical side inexpensively and by offering you a fraction of Medicare rates to do it,' that's hard to take."

"Insurance companies don't treat us like that," he observed. "We don't have an insurance contract that pays us below Medicare rates. However, now we have this new arrangement with a GI group that is significantly below Medicare."

Kettering Pathology Associates is absorbing the business lessons from these events. But it is now a different pathology group than it was one year ago. "Despite all this turmoil, it does not mean the end of Regional Pathology Services," Pelstring declared. "Remember, we started in the hospital as a subsidiary of our main corporation and we have always billed globally. When we did it at the hospital before, we billed globally and then paid the hospital for the TC."

"We have entered back into that arrangement with the hospital again," he stated. "We are also down to five physicians now, instead of seven. No one was let go. We lost pathologists through attrition and have not replaced them."

► Business Comes Full Circle

"We have come full circle with our business," Pelstring said. "Our pathology group is still a viable entity. We're fortunate in that our relationship with the hospital has worked out well and now the hospital is more interested in outreach. Further, the volume of 8,000 specimens annually is something they can handle."

"On the other hand, today, we do work only for one GI group and we're doing it at a discount," he added. "It's not an easy pill to swallow when your physician colleagues say,

'We love your services and there are no quality issues. But we are going to take this work and internalize it solely because it is a profit center.' It sends a message that the value they place on your professional service may not be what you think it is."

► Quality And Patient Care

"More and more specialty physicians are viewing pathology services as a commodity," he said. "Economics aside, that view is unfortunate because there are intangible benefits to having an independent pathology group process and read these biopsies. That level of quality and patient care gets lost when it gets internalized into a big practice."

"All physicians are getting squeezed on reimbursement," he added. "We hear that from urologists and GIs. Yet, pathologists are being squeezed as much as anyone else."

"The contradiction is that urologists and GIs, as well as everyone else, want a competent group of pathologists who are well trained and have diverse subspecialty interests," Pelstring noted. "However, for a practice like ours to have that kind of subspecialty diversity and attract people into the practice, we need enough case referrals to support all these people."

"When specialist physicians scrape this work off the top, they undermine the subspecialty expertise we can offer because we are forced to become a smaller group. We formerly had pathologists with subspecialty boards in cytology, hematology, dermatopathology, and neuropathology. We did not replace our dermatopathologist nor our neuropathologist when each relocated due to other professional opportunities."

Pathologists across the country will recognize the common themes in the events that unfolded in Kettering, Ohio. As Pelstring noted, there are no easy answers when specialist physicians want pathologists to provide professional services at a deep discount.

TDR

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An Economic Perspective On Discounted PC Deals

➤ **Financial analysis of providing path services to specialist physicians shows some benefits**

➤➤ **CEO SUMMARY:** *By opening their own in-office pathology laboratories, specialist physicians are undermining a long-established referral relationship with the pathology profession. Pathologists are debating the merits of this market-based trend and its effect on their profession. However this debate often fails to include an objective assessment of how contracting for professional services can provide financial benefits to pathologists.*

ONE SURE WAY TO STIR UP a spirited debate among pathologists is to mention doing pathology professional services at a discounted rate for specialist physicians who have built an in-office histology laboratory.

Some pathologists will say that providing the professional component (PC) in someone else's office at a deeply discounted rate sets a bad precedent for the pathology profession. Other pathologists will argue that doing such work at a discounted rate is acceptable for two reasons.

➤ **Two Advantages**

First, in doing the contract work at the specialist physicians' office, pathologists incur no overhead or other costs. Thus, a discount rate can actually provide acceptable income. Second, doing this work allows a pathologist to maintain the relationship he or she has long had with specialty physicians—preserving access to the most difficult cases and other special staining work, which the specialist physicians are likely to refer to an outside lab.

In fact, the pathology profession's debate about discounted service arrangements for professional component services to office-

based specialist physicians tends to center around a primary argument: does the pathology profession want to establish the precedent that it will perform work, on a discounted basis, in a manner that allows office-based physicians the opportunity to mark up that service and make money from the pathologists' professional service?

This intelligence briefing explores another dimension to this debate. Setting aside the issue of precedent, are there circumstances where the economics of such arrangements are financially acceptable to a pathologist? After all, the American healthcare system is money-driven.

Debate on this topic needs to include the financial pros and cons—as well as recognition that local pathology groups have competition. Many national and regional pathology laboratories are eager to bid, at discounted rates, for the specialist cases in almost every community across the country.

Consultants who work with specialty physicians suggest that pathologists can benefit by accepting work from urologists and gastroenterologists (GIs) who offer the professional component even at discounted rates. These consultants will point out that, while the rates are low, the costs to the

pathologist of providing the professional service are also correspondingly low. That's because the specialist group must provide the working space, microscope, computer equipment and software, liability and other insurance, staff support, and bear both the expense and risk from coding, billing, and collection. Thus, any fees paid to the pathologist are offset by overhead costs not borne by the pathologist. Further, the pathologist gets paid even if the group practice is denied reimbursement.

► **Falling Reimbursement**

One consultant with decades of experience in clinical laboratory and anatomic pathology services observes that specialist physician interest in pathology is driven by the falling reimbursement experienced by all physicians, including pathologists. Another factor is that practice consolidation in many communities has created large specialist groups that now have enough patient volume to support in-office pathology labs.

"Specialty docs are no different than pathologists in that they are all under reimbursement pressure," said Joe Plandowski, President of **Lakewood Consulting Group** in Lake Forest, Illinois. "Specialty physicians are looking for ways to maintain and increase their income. Realizing those tissues have value, specialty physicians ask themselves, 'Why don't we do the testing in-house?'"

"What's more, many gastroenterology and urology groups have gotten quite large over the years," he added. "The nation's largest GI group has 65 physicians. There are many groups of urologists and GIs that have 15 or more physicians. They all realize that consolidation creates more clout for them when negotiating with managed care plans for how their clinical services will be reimbursed."

"Even five or six urologists or GIs in a group will generate plenty of volume to sustain their own lab," explained Plandowski. "The pathology work from the referrals of five or six specialists can easily generate \$1 million in collections per year.

Profit on that will be 40% to 50% after paying all expenses, including the pathologist. So, a specialty group that generates \$1 million in pathology revenue can expect \$450,000 in pretax take-home pay. These numbers become even more attractive in groups with 30 or more specialists, because, at these case volumes, income from pathology services becomes significant.

"It should be noted that in-house pathology laboratories are 'revenue neutral' situations for Medicare," observed Plandowski. "The specialty group is paid no more for the pathology work than Medicare would pay any pathologist."

Bernie Ness, President of **B.J. Ness Consulting Group, LLC**, in Toledo, Ohio, advised some GI groups in the Kettering, Ohio, area as they developed their in-house pathology labs. "These GI groups wanted to continue working with the pathologists in Kettering," observed Ness. "It is why they first turned to their local pathologists and offered them the professional component."

► **RFP For Pathology Services**

"It was made clear to each of the two local pathology groups providing services to the GI practice that it was an 'all or nothing' deal," he recalled. "Only one of the two pathology groups was going to win the business at each GI practice."

"The GI groups explained their intention to operate the histology lab and globally bill for the cases," explained Ness. "Both local pathology groups were offered the opportunity to continue providing professional services and the GIs were prepared to pay competitive market rates."

"In response to the request for proposals (RFPs), one group wanted to charge 50% more than Medicare would reimburse the GIs for that work," Ness said. "A practice will not take that rate because they would lose money on each specimen. That is simple economics for any practice with 40% Medicare patients."

"Given the opportunity to bid for the professional service, the GI group was disappointed that the local pathology group

Specialist Physicians Need Pathologists to Provide Professional Component Services

PATHOLOGISTS CAN VIEW WORKING for in-house specialty physicians as a profitable venture, says Joe Plandowski, President of the Lakewood Consulting Group in Lake Forest, Illinois.

"You would be working for another physician and it would be only for the professional component," Plandowski said. "That would be the downside. But you could view the arrangement as a money maker because such an arrangement would have several benefits that shouldn't be overlooked.

"First, the work can be done for a level of reimbursement that's worthwhile to the pathologist—even if seems to be too low at first," he added. "It would be worthwhile because the pathologist providing the professional services incurs no costs. The specialty group must assume all costs. Second, the pathologist would maintain the relationship he

or she has with the specialists and so would retain access to the more challenging cases and associated special staining that would allow the pathologist to do both the technical and the professional component.

"Third, the pathologist would want to determine exactly what his or her costs would be and then bid a reasonable rate based on the time involved in doing this work," he continued. "Once you agree on a rate, you will have the contract with no competition and a steady stream of income.

"What is different is that the pathologist is now working at that medical group's in-office lab," Plandowski concluded. "That's not much different than rotating among several hospitals. Most importantly, a pathologist has the income and continues to enjoy an ongoing professional relationship with the specialty groups in the community."

had offered a money-losing rate," he noted. "Further, the GIs had shopped the national laboratories and were aware of the aggressive prices some of these labs were prepared to bid to win this business. My point here is that there are competitive rates for contract pathology professional services in the marketplace and specialist physicians are aware of these options."

➤ Physicians See The Benefits

Specialist physicians view pathology as an ancillary service that benefits their practice by enhancing patient care, supporting better, faster clinical treatment, and doing it in a patient-friendly way. Many pathologists tend to overlook these additional advantages to an in-house laboratory for a larger group practice.

"This trend is not going away," predicted Plandowski. "As a matter of fact, we see more and more of it every day. Without question, regulations are tough on these ventures, but it is possible for

specialist physicians to start these in-house operations and be successful financially. While this trend does take work out of reference labs, it also creates an opportunity for pathologists to make some money without having to spend money.

"From the local pathologists' perspective, having specialty physicians open in-house labs represents an opportunity because the specialty practitioners cannot read those specimens!" Plandowski said. "They must have pathologists read them.

"However, most pathologists are not interested in pursuing that work because they think these specialty physicians are competing against them," he said. "But specialist physicians cannot compete against pathologists because *they can't read the cases*. Only a pathologist can read them.

"The sticking point is that pathologists usually believe they will get healthy professional fees for the work in a specialist physician's office," he added. "Forget that because Medicare dictates the use of market rates.

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Six Sigma & Lean Methods Spark Innovations

Quest South Florida Wins Governor's Award for Quality

►► CEO Summary: It's an important milestone for the clinical laboratory profession. Quest Diagnostics Incorporated South Florida, based in Deerfield Beach, Florida, earned the 2007 Florida Governor's Sterling Award for quality. This is only the second laboratory in this country to win a state quality award. But that's just part of the story. Guided by the philosophies and methods of Six Sigma and Lean, and the goal of meeting customers' expectations, Quest Diagnostics South Florida has developed value added services, such as patient appointments at Patient Service Centers.

FOR ONLY THE SECOND TIME IN HISTORY, a laboratory has won its state's top quality award. Deerfield Beach, Florida-based **Quest Diagnostics South Florida** earned the prestigious Florida Governor's Sterling Award for 2007.

This award recognizes organizations and businesses in the state that demonstrate exceptional management and operational performance. The Florida quality awards program was started in 1993. Quest Diagnostics South Florida is only the second non-hospital healthcare provider in the past 15 years to earn the Florida Governor's Sterling Award.

With this recognition, Quest Diagnostics South Florida joins Tempe, Arizona-based **Sonora Quest Laboratories** (another Quest Diagnostics business unit) as the only two laboratories in the United States to win state quality awards. Sonora Quest Laboratories earned the Arizona Quality Programs "Governor's Award for Quality" in December 2005. (See TDR, February 6, 2006.)

► Transforming The Lab Industry

Both of these state quality awards to laboratories demonstrate how "first mover" laboratory organizations are transforming the lab industry. They are evolving from the traditional

management paradigm to a new paradigm that emphasizes quality improvement methodologies such as Lean and Six Sigma.

The cornerstone of Quest Diagnostics South Florida's achievement is the use of Six Sigma and Lean quality improvement processes across every aspect of the organization. These management techniques helped the laboratory earn a "world class" rating in employee satisfaction and dramatically improve customer satisfaction, among other accomplishments.

"Another notable achievement is that our quality improvement program is a financial winner," stated Jim Panzer, Managing

Director of Quest Diagnostics' operations in South Florida. "In 2006, the return on investment was almost \$10 for every \$1 invested in our quality improvement program.

"Winning the Sterling award is a testament to our company's vision and its commitment to building a business that excels in every major area of organizational competence, from patient service and employee relations to process management and leadership," observed Panzer. Panzer and his team are preparing to showcase the unit's quality improvement efforts on October 18. The Florida Sterling Award winners will discuss their experiences and successes at an all-day, by-invitation seminar in Miramar, Florida.

► Independent Examiners

The Florida Governor's Sterling Awards for 2007 were announced in June. These awards are given to organizations that score well on a range of criteria, including leadership, strategic planning, customer focus, and business results. A panel of independent examiners reviews a 50-page application, assesses company documents and interviews managers and employees to identify businesses that fulfill the award criteria.

"Examiners spent five days at Quest Diagnostics South Florida, reviewing every aspect of our operation and our quality improvement program," recalled Panzer. "They did one-on-one interviews with 175 of our employees, in addition to group meetings and team reviews. The examination is an intense and exhaustive process."

Quest Diagnostics South Florida is a sizable laboratory organization. It operates full-service laboratories in Deerfield Beach and Miramar, supported by 42 patient service centers (PSCs). Its 920 employees perform testing for as many as 16,000 patients daily. Services are provided to physicians and patients in the four counties of Miami-Dade, Broward, Palm Beach, and Monroe. The 55,000 square foot lab in Deerfield Beach is certified as ISO-9002 compliant.

"It was former Chairman and CEO Kenneth Freeman who, in the late 1990s,

introduced Six Sigma and other quality improvement methods to Quest Diagnostics,” said Panzer. “Our South Florida business unit was quick to apply these methods to operations. We achieved ISO-9000 certification in 2000. In 2002, I was one of the first managing directors to earn a Six Sigma Green Belt. Since then, every director-level employee in South Florida has earned a green belt.

“In this business unit, we have a Master Black Belt, three black belts, and 48 green belts,” Panzer said. “All current senior staff have completed extensive Green Belt Six Sigma training that includes 72 in-class study hours. Black belts have completed 40 in-class hours as part of their training. All 920 employees have been introduced to Six Sigma methodology. We are currently implementing Lean methods in our labs.

► Reducing Variation

“Six Sigma techniques help us reduce variation in processes,” explained Panzer. “We’ve done Six Sigma projects in anatomic pathology and cytology. We are preparing Six Sigma projects for the high volume core laboratory.

“Lean methods are designed to eliminate waste and speed up work flow,” he noted. “We have completed several Lean projects and three Kaizen projects. Kaizen events are focused Lean efforts in which a project is tackled over a five to six day effort.

“Our company mission is to put the patient first in everything we do,” stated Panzer. “Customer satisfaction surveys are one way to track how well we succeed in this dimension of our business.

“This year, we won the company’s customer satisfaction survey award for the third straight year, which no other business unit has ever done,” Panzer said. “So we knew we were doing something right. But we also know we can do better! And, we were aware of how Sonora Quest, another Quest Diagnostics business, had won the Arizona Governor’s Award for Quality.”

To sustain ongoing improvement across the laboratory, Panzer decided to raise the stakes. “We were clearly doing well, when measured against other business units of our company. But how good would we be when benchmarked against other businesses?” he asked. “To pursue ‘world class’ performance, it is necessary to measure our achievements against other companies and industries.

► Benchmarking Efforts

“The Florida Sterling Award Program is one way to accomplish that,” Panzer added. “After the examination, there was a meeting with the examiners. They recognized the things we do well. They also identified areas where we can improve. We learned a great deal from the examination and review process. Now, as award winners, we are still learning as we participate in the conferences and exchanges that are part of the Sterling Award program.”

Panzer’s comments accurately describe the quality management techniques his team uses to improve services and meet customer expectations. However, the real lessons for other laboratories are the performance gains achieved by the effective use of Six Sigma and Lean techniques. One major innovation is in patient scheduling for specimen collection at the patient service centers (PSCs).

► Patient Scheduling

“Use of Six Sigma methods helps us to be innovative in how we improve customer service,” said Panzer. “One big success is in patient scheduling. We watched as a couple of other Quest Diagnostics business units developed a call center-based program that allowed patients to schedule appointments at patient service centers.

“We recognized that many patients like this service. We also saw the advantages of patient scheduling,” he continued. “We decided to develop a scheduling system, organized as a Six Sigma project, to identify and eliminate sources of errors in

Close Attention to Employee Surveys Helps Increase Staff Satisfaction

EMPLOYEE SATISFACTION SURVEYS are a serious and continual endeavor at Quest Diagnostic Incorporated's South Florida business unit. "Employee participation rate for these surveys is 68% and we analyze the results in every way possible," said Jim Panzer, Managing Director of the company's Florida operations.

"To help us understand the thinking of our employees, every survey has specific questions tailored to current issues and priorities," Panzer explained. "The results from the employee satisfaction surveys are dissected and analyzed. The findings are used to develop an action plan to further improve employee satisfaction. Our team at every level—director, manager, and supervisor—participates in developing and implementing the action plan.

"The company's ability to fulfill its commitment to patients is based largely on the skill, enthusiasm, and diversity of its 920 employees in South Florida, so achieving high levels of employee engagement is an important business goal. In 2006, the company's operations in South Florida received an employee satisfaction score of 78%, which is considered 'world class,' based on an independent analysis by the **Gelfond Group**. In South Florida, minorities comprise 78% of the workforce, and hold half of the business unit's supervisory and management positions."

Panzer offered an example of what the company learned about employee advancement through its employee surveys. "We did a Six Sigma project on what people consider to be 'advancement,'" he said. "Management's idea of advancement is moving up from the line to supervision to management, for example. Or to move from an accessioning position to a higher-grade position.

"However, the surveys told us that our concept of advancement was not always the same as our employees' concept of advancement," explained Panzer. "To illustrate, a phlebotomist didn't necessarily want to go from being a phlebotomist 1 to being a phlebotomist 2. Rather, phlebotomists wanted to improve their situation by working in a more desirable site. A technologist 1 was not always interested in being a technologist 2, but may have been more interested in going from the night shift to the day shift.

"We used employee feedback from these surveys to craft advancement policies that better meet their expectations and needs," observed Panzer. "We also have a goal sharing program in which employees can get a bonus of up to 6% of salary at year end. This bonus is a key motivational tool and it helps to focus employees on our mission, our core values, and our strategic priorities."

the scheduling system. When we launched, we started by scheduling 500 patients per day!

"It took us about six months to develop the protocols and the software," recalled Panzer. "Our patients responded favorably when offered the option of scheduling an appointment for their specimen collection, thanks to careful planning."

"To achieve this level of patient acceptance, he continued, "we had to do an analysis of all 42 of our PSCs in South Florida. We had to determine, how do we train

everyone? What are the steps involved in communication? How do we inform and educate patients about this new system? This Six Sigma project caused us to review every process and each step in how we served our patients. We literally changed the entire system."

Quest Diagnostics recently launched the diagnostic industry's first nationwide patient scheduling system. Patients can now schedule appointments through the Internet or by calling a toll-free number with interactive voice recognition (IVR).

The nationwide system builds on lessons learned by South Florida and other business units that adopted patient scheduling service models in recent years. Today, approximately 35,000 patient appointments are scheduled each month using the new system at South Florida patient service centers.

► Patients Like Appointments

“Acceptance has been steady and now 35% of all of our patients who come in through our South Florida PSCs make appointments in advance of their collection,” stated Panzer. “We’ve learned how to educate patients about the opportunity to schedule their specimen collection. When word got out to all patients, their use of scheduling appointments took off.

“This triggered an amazing shift, which we expect to continue using the new Internet and IVR system, in how our laboratories and PSCs interact with patients” Panzer said. “Besides the obvious increase in patient satisfaction, we had two significant operational results from patient scheduling.

“First, appointments made it possible to level the work load in the PSCs. That makes our phlebotomists more productive,” noted Panzer. “For example, instead of seeing a flood of patients arrive at 6 a.m., many of these patients now book an appointment later in the day and come at their appointed time. Further, because we have an appointment book, we can better match phlebotomist resources to the hourly needs of each PSC.

“Second, patient scheduling and the Six Sigma mindset created new opportunities to significantly improve our courier scheduling and logistics,” Panzer continued. “Since we have two laboratory facilities, it’s important to maintain a balanced load between them throughout the week. We closely monitor turnaround times from each lab site because we are committed to having all reports out to the physicians by 8 a.m. Right now, we get 97% or better of our work reported by 8 a.m.

“For the improvement project in our courier and logistics department,” he continued, “we applied Lean methods, with an eye to reducing the time that it took specimens to go from collection to receipt in the laboratory. Before patient scheduling, our 135 couriers went to the PSCs at 4 p.m. to pick up the day’s specimens.

“After patient scheduling was implemented, we asked the PSCs if we could pick up specimens at 2 p.m.,” Panzer noted. “That required them to start preparing specimens at noon. They did it, and 30% of our work arrives hours earlier in the laboratory.

“These specimens get to accessioning and the technical department earlier,” said Panzer. “It is the Lean concept of single piece and small batch work flow. All our specimens now move faster through the laboratory, leading to improved turnaround times. It is a great example of how Lean helps us compress the time allotted to meet and exceed our service targets.

“In addition, it’s helped the laboratory run more smoothly at night,” he commented. “Because more specimens arrive earlier each day, we have staff come in earlier, which means our processes are more efficient.

► Earlier Finish At Night

“Activity now picks up in our lab at about 6 p.m.,” Panzer explained. “By 8 p.m., specimen processing has a full workload and is passing work on to the lab. By 10 p.m., about 90% of the work has arrived in the laboratory for processing.

“Supplies is another service area where Six Sigma helped us improve customer service,” stated Panzer. “Through our Six Sigma customer satisfaction surveys, we knew that some physicians weren’t receiving supplies from us in time.

“We believed this was because they weren’t getting enough supplies. But when we applied a Six Sigma project to our supply systems, we found the delivery of supplies to be adequate, but that our system added time to the ship date, primarily because many of

Quest Diagnostics South Florida

➤➤ At-A-Glance

Laboratories Two full-service laboratories in South Florida; Deerfield Beach (55,000 sq. ft.) and Miramar (80,000 sq. ft.)

Quality Certification Deerfield Beach facility was the second clinical lab in the U.S. to be ISO:9002 certified.

Daily Tests 16,000

Patient Service Centers . . . 42

Six Sigma ROI In 2006: 9.8 to 1

Employees 920. About 50% of all supervisors are minority and/or female.

Staff Trained in Quality:

1 Master Black Belt, 3 Black Belts, 48 Green Belts. All current Senior Staff have Green Belt Six Sigma training (72 in-class study hours). Black Belts have Lean training (40 in-class hours). All employees introduced to Six Sigma methodology.

Management Team:

Sharon Anderson, Compliance Officer
Jesse Flippo, Master Black Belt, Lean Six Sigma
Jorge Hernandez, Sales Director
George Lloyd, Director, Field Operations
Guy Mitchell, Lab Operations Director
Carlos Moltalvo, Information Technology Director
Joe Niblett, Controller
Jim Panzer, Managing Director
Pearl Simon, Human Resources Director
Anthony Simonetti, M.D., Medical Director
Betsy Swider, Client Services Director
Tuan Vo, Black Belt and Sterling Project Manager

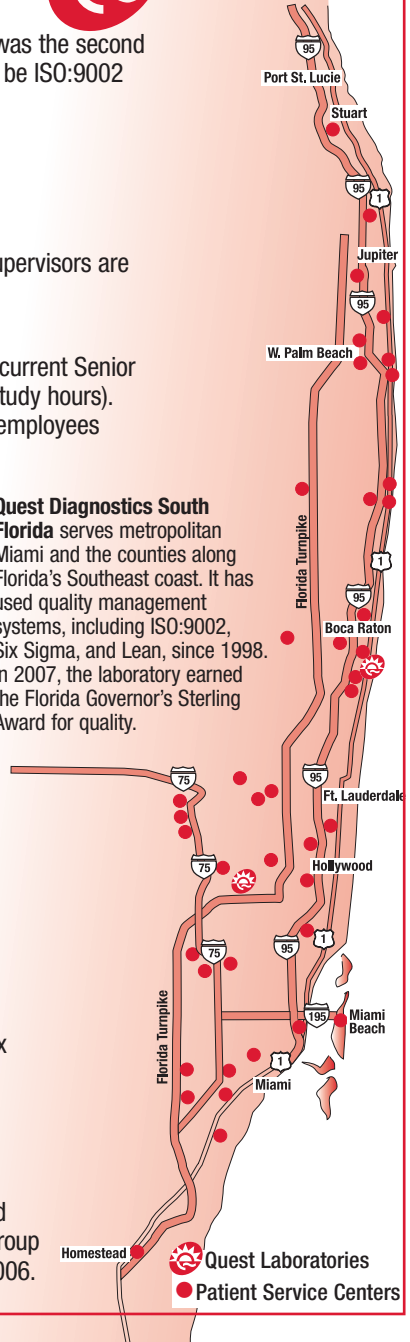
Six Sigma Program Results:

- 98.1% Patient Service Center Patient Satisfaction. (Highest within Quest Diagnostics in 2006.)
- Highest Physician Customer Satisfaction Survey index in Quest Diagnostics—2005 (21.3), 2006 (22.2), and 2007 (22.2). (maximum score is 25.)
- \$9 million savings over one year through process improvement.
- 77.7% Employee Satisfaction Survey Index Score and above “World Class” as determined by the Gelfond Group survey of Fortune 500 companies, for 2004, 2005, 2006.



Quest Diagnostics

Quest Diagnostics South Florida serves metropolitan Miami and the counties along Florida's Southeast coast. It has used quality management systems, including ISO:9002, Six Sigma, and Lean, since 1998. In 2007, the laboratory earned the Florida Governor's Sterling Award for quality.



Quest Laboratories

● Patient Service Centers

our accounts wait until they are almost out of supplies to reorder—and their supply orders tend to come with the specimens, later in the day,” stated Panzer.

“Using Six Sigma methods, we moved the entire supply process from the day shift to the evening shift,” he said. “Now we take orders up to 8 p.m. each night. These are filled by the evening shift and are ready for the couriers to deliver to clients in the morning. Six Sigma helped us understand how to accept the customer’s way of doing business, then design an improved system that both eliminated supply shortages for our client physicians and made it easier for them to order supplies.

➤ **Quality Management Methods**

Quest Diagnostics South Florida demonstrates how quality management methods can help a laboratory meet many of the challenges in today’s healthcare marketplace, while continuously improving the service it provides to patients and referring physicians. It is an important example of how these new management principles are already at work transforming the entire clinical laboratory profession.

In at least four ways, the accomplishments of Quest Diagnostics South Florida demonstrate how and why the competitive bar for laboratory testing services will be raised by those laboratory organizations that embrace the philosophy of modern quality management. First, such laboratories are organized to understand the needs of their customers, to define the quality expectations of these customers, and then organize all aspects of its operation to fully meet client needs and expectations.

Second, such laboratories measure processes and outcomes in great detail. They understand precisely how the organization is performing—both at the level of individual work processes, as well as the final products or services delivered to their customers. In other words, the quality of services provided is deliberate, not accidental.

Third, regular and detailed surveys of customers trigger two benefits that provide competitive advantage. These surveys allow the laboratory to quickly identify problems and issues—and proactively fix them before the customer switches to another lab. Similarly, knowledge about customer needs and wants helps the lab identify opportunities to boost service levels and add greater value to customers.

Patient scheduling at Quest Diagnostics South Florida is a perfect example of how improving processes helps improve outcomes. Guided by customer feedback and Six Sigma/Lean thinking, the team spotted an opportunity to improve the specimen collection process and overall service for the patient, while simultaneously using these changes to boost phlebotomist productivity and significantly reduce the time between collection of the specimen and its arrival in the lab.

THE DARK REPORT observes that, by initiating patient scheduling nationwide (via telephone and Internet booking) across all its locations, Quest Diagnostics is raising the competitive bar for the entire lab industry. Yet the idea of scheduling appointments is simple and most of us recognize why patients would like it. So why hasn’t patient scheduling become more prevalent in the lab industry?

➤ **Knowledge Guides Action**

One answer is traditional thinking. Laboratorians have a reputation for following the tried and true. Which brings up another point about coming changes to the lab profession. Labs which adopt quality management principles learn to think differently, to think innovatively, and, most important, to implement those innovations.

By its effective use of Six Sigma, Lean and similar improvement techniques, the accomplishments of Quest Diagnostics South Florida provide powerful evidence that the laboratory profession can be more innovative, creating new value for patients, physicians, and payers. **TDR**

continued from page 9

"In almost every case, the specialist group developing an in-office lab goes first to its local pathology group to get quotes for the work," continued Plandowski. "That's because they want to preserve their local relationship. Also, the work is put out to bid so that the physicians can establish that the price paid for pathology professional services was established at a market rate in case the OIG were to investigate the operation."

➤ **No Bills To Send Out**

"Remember, pathologists don't have to bill payers or patients for this work, nor take any disallowances or discounts," he explained. "That is because they are paid a negotiated fee directly by the specialty practice. The pathologist doesn't even have to bill the specialty practice, because the practice knows how many cases the pathologist does each month and how much should be paid."

"This is a very clean working relationship. At the end of each month, the pathology group is paid all its money," he stated. "That's a positive aspect. There is no investment and no overhead. The pathology group simply needs to contract at an agreed rate and show up to perform the service."

➤ **Do The Math**

"The pathologist will make money on every case," Plandowski added, using a common CPT code as an example. "Let's say the specialty group is large enough to generate 5,000 tissues and uses only CPT code 88305. For any pathology group, that is access to a substantial volume of specimens. It would be a lot for a community hospital in a year. It only takes five or six specialty physicians to produce about 5,000 specimens per year because each physician generates about 1,000 billable 88305s per year."

"Pathologists hope to charge some percentage over the Medicare professional fee, but that would be a mistake," he added. "They should ask themselves, 'If I

owned this lab, what would I do? How much time will it take a pathologist to read 5,000 billable 88305s? Assume it will take a quarter of a full-time pathologist. If a pathologist were to get \$400,000 per year, then one quarter would be \$100,000. Use a number in that range when bidding on this type of work because that's what it will take to win the business."

"Pathologists don't want to do this work for specialists physicians at a fee that is less than Medicare," Plandowski added. "But it's important to remember that Medicare's reimbursement levels for pathology professional services were established to include components for work expense, malpractice expense and practice expense. Since there are no practice expenses in this scenario (microscope, rent, utilities, dictation, software, billing, collections, write-offs, etc.), pathologists must subtract that component to make a fair comparison of what is being paid for pathology services."

➤ **Looking At The Right Number**

Collectively, these insights can be summarized into a simple piece of advice: don't compare the discounted fee offered by specialist physicians to a benchmark number such as the Medicare fee schedule. To properly evaluate the economic benefit, pathologists must look at the net profit they will earn for their time per case. That is the same math that competing pathologists are doing when they willingly accept this work at discounted pricing.

"Keep in mind that, if your group doesn't do this work, other pathologists will!" observed Plandowski. "The American healthcare system still has lots of competition and it's an important point that pathologists need to learn. It's a tough message because pathologists don't feel they should be 'working' for specialty practitioners such as urologists or GIs."

TDR

Contact Joe Plandowski at 847-840-3077 or jwpmail@gmail.com or Bernie Ness at 419-843-6400 or bjness@buckeye-express.com.



Cost of Health Benefits Outpaces Inflation in Ongoing, 7-Year Trend

PREMIUMS FOR EMPLOYER-SPONSORED health insurance rose 6.1% this year, as reported in the Employer Health Benefits Survey released by the **Kaiser Family Foundation and Health Research and Educational Trust**.

The 6.1% increase was mixed news for the nation's employers. The number was less than the 7.7% increase posted in 2006. But it is much higher than both the increase in workers' wages (3.7%) and the overall inflation rate (2.6%).

The 2007 health benefit cost report indicates that employers in the United States are still coping with unsustainable rates of increase in their health benefits programs. These substantial year-to-year increases in the costs of health benefits are eroding the ability of American companies to compete in the global marketplace.

Other figures in the Kaiser report demonstrate the problem for employers. Since 2001, premiums for family coverage have increased 78%, but wages have risen only 19% and inflation has gone up by just 17%.

► Unsustainable Increases

That means the cost of providing health benefits has just about doubled since 2000, while inflation has increased by only about 20%. Because this trend was sustained in 2007, THE DARK REPORT predicts employers will take direct action to control this situation, using a combination of strategies.

The primary strategy is that employers are likely to expand their efforts to move employees into high deductible health plans (HDHPs). This would be expected

to have two benefits. First, employees would bear a great portion of their annual health premiums. Second, by requiring employees to pay more out of pocket each year to meet deductibles, co-pays, and out-of-pocket requirements, employers are motivating these beneficiaries to spend their healthcare dollars more wisely.

However, the HDHP strategy is countered by another development in the American health system. In 2007, the average annual family health premium was \$12,106. On average, workers now pay \$3,281 per year out of their paychecks for a family policy. This means that employers will be bumping against the high end of their employees' ability to pay more for health coverage.

Researchers at Kaiser reported that about 5% of all covered workers were enrolled in consumer-driven health plans (CDHPs). Overall, an estimated 3.8 million workers are enrolled in consumer-driven plans, and they are equally divided between high-deductible plans that qualify as health savings accounts (HSAs) and those that are characterized as health reimbursement arrangements (HRAs). These plans feature high-deductible coverage and a tax-preferred savings option, from which employees can pay for their out-of-pocket medical expenses.

THE DARK REPORT believes that employers will use another major strategy to curb year-to-year increases in the cost of health benefits. Employers will push providers, including hospitals, physicians, and laboratories, to provide a higher quality of care. Pay-for-performance incentives are one way to encourage this outcome.

INTELLIGENCE

LATE & LATENT

Items too late to print,
too early to report



Coming soon to a theater near you this fall is the movie *Pathology*, with Rutger Hauer in the starring role as a pathologist. The Internet Movie database says *Pathology* (www.enterpathologylab.com) is the story of how medical students decide which of them can commit the perfect murder without being detected by other pathology students. In addition to Hauer, the movie stars Milo Ventimiglia and Alyssa Milano. The movie is listed as a "thriller." No word yet on which real-life pathologist provided technical advice during the movie's production.



MILESTONES

- **Orad Diagnostic Laboratories** of Davie, Florida is ranked 263rd on *Entrepreneur* magazine's just-released "Hot 500" list of the "fastest growing companies in America" for firms with annual sales of at least \$1 million and demonstrating positive job growth over the four-year period 2002-2006.
- **Sunrise Medical Laboratories** of Hauppauge, New York, was named to *Inc.* magazine's list of "5000 Fastest Growing

Private Companies in America. The lab grew 48.7%, from \$41.6 million to \$61.9 million, between 2003 and 2006.



TRANSITIONS

- In Albuquerque, New Mexico, **S.E.D. Medical Laboratories** named Kenneth Botta as CEO last month. Botta has long experience in the lab industry and most recently held an executive position at **AmeriPath, Inc.**
- There's been an executive shake up at **Westcliff Medical Laboratories** in Santa Ana, California. Out is CEO Douglas Harrington, M.D., with current CFO Brian Urban taking over as acting CEO. The new President is Brad Stewart, an executive from one of the venture capital companies that funded Westcliff.
- Greg Clark, Ph.D., is now the Director of Technical Planning for **Morph Design, Inc.** of San Pedro, California. Clark was formerly COO at **Oregon Medical Laboratories.**
- Hughes Bakewell has returned to his consumer marketing roots as President

of Direct Marketing Solutions at **Quebecor World, Inc.** of Montreal, Quebec. Until recently Bakewell was Vice President of Marketing at **Quest Diagnostics Incorporated.**

- **Sysmex America Inc.** of Mundelein, Illinois, announced the appointment of Ralph Taylor as Vice President of Marketing and Medical Affairs. Taylor had been at **Beckman Coulter, Inc.** for 18 years, most recently in the position of Vice President of Clinical Business Management.



DARK DAILY UPDATE

Have you caught the latest e-briefings from DARK Daily? If so, then you'd know about...

...Laboratory Corporation of America's agreement to acquire **Pathology Associates** of Muncie, Indiana (a joint venture of **Cardinal Health System & East Central Indiana Pathology Associates.**

You can get the free DARK Daily e-briefings by signing up at www.darkdaily.com.

*That's all the insider intelligence for this report.
Look for the next briefing on Monday, October 8, 2007.*

THE **DARK** REPORT

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In Nation's Most Competitive Lab Market.***
- ***First Report on Lab Management Breakthroughs
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