



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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Quiet Progress on the Med Tech Supply Crisis

QUIETLY, WITHOUT MUCH FANFARE, a growing number of laboratory administrators and pathologists are taking action to increase the supply of med techs in their community. It's the unpublicized response to the headlines about the impending mass retirement of baby-boomer MTs and MLTs.

This is a noteworthy story and THE DARK REPORT is proud, once again, to be first to provide useful intelligence about an emerging trend, along with effective management strategies you can use in your own lab to address this same problem. We've devoted most of this issue to the strategic initiatives lab administrators are using to recruit and train more med techs for their lab and their community.

There's been plenty of publicity about the growing shortage of med techs. The situation facing **Intermountain Healthcare** of Utah is typical. It operates 21 hospitals in Utah and Idaho. Recently its Director of Laboratories, Steve Miller, told our editor that 25% of his existing laboratory techs are eligible for retirement over the next five years. Meanwhile, even if Intermountain could successfully recruit and hire 100% of graduating med techs in Utah each year, it would only fill 25% of those vacancies as they occurred. This situation is typical. Many other lab directors tell THE DARK REPORT they face a similar situation in their laboratory.

On page five, you will read about some interesting reasons behind the drop-off in annual med tech certifications. We also bring you two stories about labs like yours. In both cases, lab administrators made their case to hospital CEOs and obtained substantial funding and other resources to help recruit and train med techs. These two stories are representative of others that we hear about daily. Both successes, in Eugene, Oregon and San Francisco, California, demonstrate that hospital CEOs will provide adequate funds to help resolve the problem—but only if lab directors do their homework first and provide detailed information about the management steps and budgets required to increase the supply of med techs.

I'd like to add another important observation. The Eugene and San Francisco stories are not exceptional. Similar efforts are underway in almost every city. It is an example of free market economics at work. Individual labs are taking steps to expand the supply of med techs in their community. Collectively, these actions will bear fruit long before policymakers and legislators get around to tackling the problem.

New Efforts to Boost Supply of MTs & MLTs

Lab administrators begin taking active steps to recruit and train new prospects

CEO SUMMARY: *Most laboratorians are acutely aware that the nation's pool of trained medical technicians and medical technologists is shrinking even as growing numbers of baby-boomer lab techs approach retirement. Meanwhile, training programs are feeding inadequate numbers of new med techs into the system. To rectify this situation, lab directors are actively working to bring "new blood" into the profession.*

IN RECENT YEARS there's been plenty of publicity and news stories about the dwindling number of MTs and MLTs available to staff the nation's clinical laboratories.

Across the United States, there are several metropolitan areas where the supply of med techs is already inadequate to meet existing demand. In these markets, it is common to find vacancy rates in individual hospital labs approaching 15% to 20% for technical positions.

Hospital and health system laboratories experiencing these high levels of "unfillable" positions find themselves inadequately staffed to handle the current volume of specimens flowing into their laboratories. This existing spot shortage of med techs is predicted to

become widespread as baby-boomer med techs reach retirement age and opt to cease working.

The shortage of MTs and MLTs across the nation's laboratories is not unique. Within healthcare, there are recognized shortages across a number of specialties. Last year, the **American Hospital Association** surveyed 715 hospitals. It found vacancy rates of 21% for pharmacists, 18% for radiological technologists, 12% for "laboratory technologists" and 11% for nurses. (*See TDR, July 2, 2001.*)

It is the same story in other countries. Canada, Australia, and nations throughout Europe acknowledge that the supply of med techs is inadequate to fully staff their laboratories. Moreover, each passing year, the

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THE DARK REPORT Intelligence Briefings for Laboratory CEOs, COOs, CFOs, and Pathologists are sent 17 times per year by The Dark Group, Inc., 1731 Woodland Terrace Center, Lake Oswego, Oregon 97034, Voice 1.800.560.6363, Fax 503.699.0969. (ISSN 1097-2919.)

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SUBSCRIPTION TO THE DARK REPORT INTELLIGENCE SERVICE, which includes THE DARK REPORT plus timely briefings and private teleconferences, is \$11.90 per week in the US, \$12.50 per week in Canada, \$13.55 per week elsewhere (billed semi-annually).

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demographics of an aging workforce will further acerbate this problem.

Within the United States, concern about the impending crises in staffing the nation's laboratories with technically-trained individuals has yet to become a high-profile issue with policy makers and government officials. In recent years, a number of the lab industry's professional associations held high-level summits to discuss this problem, but little tangible action resulted from these gatherings.

Labs Take Initiative

In the absence of any national, high-priority initiative, some laboratorians at the local level are taking matters in their own hands. THE DARK REPORT is aware of several impressive efforts initiated by proactive lab directors to attract and train more med techs in their communities.

"One limiting factor in our ability to recruit more med techs is the availability of training programs in our community," stated Ran Whitehead, COO of **Oregon Medical Laboratories (OML)** in Eugene, Oregon. "**Oregon Health Sciences University (OHSU)**, the state's medical school, is 100 miles north in Portland, as are most of the community college programs.

"Because our community lacked a local funding program, we opted to use distance training programs for our med tech students. We also obtained grant money to supplement our training budget," he noted.

OML co-wrote several grant proposals as the first step to obtaining money. "We applied for a federal grant of \$1.2 million to fund training for med techs, radiology techs, and RNs," he noted. "The other grant proposal was to Lane County. We've not yet received an answer on the federal grant proposal. We were awarded money under a Lane County Economic Development Grant."

OML is an independent laboratory company owned by **PeaceHealth** (a not-for-profit health system sponsored

by the **Sisters of St. Joseph of the Peace**, based in Bellevue, Washington). It provides inpatient testing for 400-bed **Sacred Heart Medical Center** in Eugene and two smaller hospitals in Central Oregon. OML also serves as a regional reference lab for both physicians' offices and other community hospitals throughout Oregon, Washington, and Alaska. In partnership with the Lane County Workforce Partnership, OML was awarded \$127,824.

"This is seed money," explained Whitehead. "It establishes a distance learning program for licensed medical technicians and medical technologists which is currently unavailable in Lane County. To further economic development, county officials wanted to help train people for careers in healthcare.

"The goal for these grant awards was to target industries which could generate full-time jobs in Lane County which pay more than the county's average wage of \$28,969," he noted. "Our grant proposal was a perfect match for the county's economic development goals."

OML's Two-Year Investment

OML will invest \$235,800 over two years as its share of the training program. "This approximates what we currently pay for temporary med techs and our costs to recruit people from out of state to fill technical positions in the lab," said Whitehead.

"Money from these two sources will fund a two-year distance learning program," he continued. "It allows our med tech candidates to continue working almost full-time and to stay in Eugene. They will be working to pass the ASCP registry exam.

"We are using the **Medical College of Georgia's (MCG)** distance learning program. MCG trained four students in a pilot project last year. That went well and encouraged us to expand it this year.

“OML is making a major commitment to med tech training,” declared Whitehead. “We have a tuition reimbursement policy that pays up to \$1,000 per year in a qualifying program. We provide managers to help students with their internship.

“Within our company, we want both two-year and four-year degreed personnel to move to higher levels of training and proficiency.”

“Within our company, we want both two-year and four-year degreed personnel to move to higher levels of training and proficiency. We also want to attract and hire graduates from the University of Oregon (UO) with BS degrees, but no MT or MLT certification,” stated Whitehead. “Many UO graduates want to remain in Eugene, but jobs are not abundant. OML is a great career option for these individuals.

“OML currently doesn’t have a high number of unfilled technical positions. Our lab employs about 400 FTEs. Our 200 technical positions are split almost 50/50 between MTs and MLTs,” commented Whitehead. “We are lucky to average only 2-3 open positions. But we know that, without more technically trained help, unfilled positions will increase as specimen volume increases and retirement begins to thin our existing staff ranks.”

Whitehead also foresees another future problem. “Like most labs, we are selectively using automation and workstation consolidation as tools to move MLTs to ‘higher-value’ duties. But we are concerned about genetic and molecular diagnostics. We both want and need our MTs and MLTs to take their training to a higher level so they can handle the more complex menu of testing which is

heading our way. It’s a strategic lever to help us maintain our competitive market position,” he predicted.

THE DARK REPORT observes that OML’s plan for increasing the number of MTs and MLTs in its community can be copied by other laboratories. OML is committing money equal to what it spends on overtime, temporary technical staffing, and out-of-state recruiting to this goal. This financial commitment allowed it to obtain grant money, thus multiplying the value of its own investment.

Lacking a local training program, OML adopted a distance learning model, using the Medical University of Georgia, based in Augusta, Georgia. In so doing, it has stimulated a response from existing training programs within Oregon.

Med Tech Training Programs

“The fact that we obtained funding and began spending those dollars with an out-of-state university did not go unnoticed,” observed Whitehead. “Some Oregon institutions which did not offer distance learning for MTs and MLTs have launched discussions with us. We are optimistic that we may soon have options for in-state distance learning.”

OML’s infant program for med tech training demonstrates several truths common to most laboratories. First, local economic development organizations see MT and MLT jobs as worthwhile investments, making them eligible for development grants.

Second, distance-learning programs, combined with educational support within the lab, can allow labs in areas without formal training programs to begin building a supply of med techs. Third, recruiting local college grads with BS degrees and helping them obtain med tech certification is a viable way to expand the labor supply. **TDR**

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Med Tech Demographics

Understanding Demographics Of Med Tech Labor Supply

WHILE THERE'S BEEN PLENTY of publicity about the growing shortage of medical technologists (MT) and medical laboratory technicians (MLT), less attention has been paid to the factors which brought about this situation.

For example, a careful study of ASCP (**American Society of Clinical Pathologists**) data going back to the 1950s reveals some interesting facts. There was a "demographic bulge" of baby boomers earning med tech certification. In the years 1974-1984, 100,745 people certified as MT or MLT. This is 57% of the 177,745 people who earned such designations between 1974 and 1999. These people, if still working in clinical labs, already have between two and three decades of work experience.

Fewer Enter Lab Field

This data also confirms the decline in new people entering the field. In 1999, the number of newly-certified MTs was 2,216, the lowest number since 1958, when 2,188 MTs were certified. During the peak years of the 1970s and early 1980s, around 6,000 individuals per year were certified as MTs.

In a useful analysis of ASCP certification data going back to 1930, Pennell C. Painter, Ph.D. makes some interesting conclusions. He observes that the number of MT/MLT certifications began climbing after 1966. He attributes this to the launch of Medicare, a government program "that stimulated almost 20 years of increases

in utilization and profitability in virtually all medical services." (See www.ivdtrials.com/TechStaff.htm.)

Painter also observes that the annual number of MT/MLT certifications dropped noticeably, beginning in 1983. Within four years, the number of new MT/MLT certifications had dropped by 50% from the level seen the previous ten years. He attributes this decline to Medicare's implementation of DRGs for inpatient services and the corresponding reduction in profits from many clinical services.

Market Forces Are Working

THE DARK REPORT believes these raw statistics have another lesson to teach. Government funding of healthcare during the 1966 to 1983 period provided an artificial incentive to shift economic resources into healthcare. Not surprisingly, med tech certifications responded to the employment opportunities.

From 1983 onward, when government reimbursement for Medicare and Medicaid began to decline, those economic signals discouraged new people from entering the clinical lab field. The mass layoffs from commercial lab consolidation and hospital lab consolidation during the past 15 years are further validation of this economic dynamic.

Taken together, the trends of the 1970s and 1980s do provide evidence that market forces will act to expand the number of trained med techs as they are needed, just as they have for the past 40 years.

San Fran Bay Hospitals Jointly Fund MT Training

15 hospitals collaborate with funding and resources to train more MTs/ MLTs

CEO SUMMARY: *Laboratory administrators in 15 Bay-area hospitals created their own plan to expand the available pool of trained med techs. Using a detailed analysis of the demographics of the problem, along with a financial analysis of non-action, they convinced CEOs of 15 hospitals to invest \$1.5 million in a five-year training program.*

EDITOR'S NOTE: This is the first of a two-part series on how hospital lab administrators in the San Francisco Bay Area, working with the regional hospital association and local educators, developed and funded a program to train med techs.

IT TOOK JUST NINE MONTHS for a group of hospital laboratory administrators in South San Francisco Bay to develop a plan to expand the supply of med techs, present it to their hospital CEOs, get a five-year funding commitment of \$1.5 million, and enroll students into training programs.

"This was a major accomplishment for our participating lab administrators," stated Susie Lu. "In a proactive way, we studied the problem and developed a budget with measurable outcomes and a return on investment (ROI). When presented to our hospital CEOs, it was accepted with few changes."

Lu is Vice President of Clinical Labs and Pathology Services at **Stanford University Medical Center** and the **Lucile Packard Children's Hospital**.

In January 2001, she, her management team of Louis Tam and Tom Fish, and Barbara Harrelson, Regional Vice President of the **Hospital Council of Northern and Central California (HCNCC)** initiated the first organizational steps for this project.

Within California, the number of students entering med tech training programs had declined. "Beginning in 1992, most hospitals in Northern California stopped accepting interns in their laboratories," recalled Lu. "This was due to budget constraints and several other factors. However, by 1999, hospitals recognized the need for more med techs and again became interested in accepting interns.

CLS Training Pipeline

"But the training pipeline between our schools and the hospitals had withered," she continued. "There were few resources devoted to recruiting new students, making the situation ripe for action."

Just two hospitals attended the first organizational meeting. "We had a training model to follow," said Lu. "Jane Var-

California Finally Authorizes MLTs

FOR YEARS, CALIFORNIA was the only state in the Union which did not authorize the licensing of medical laboratory technicians (MLT).

That is no longer true. A bill authorizing the licensure and use of MLTs became law when it was signed by Governor Gray Davis on August 31, 2002. The new MLT program will supplement California's long-standing medical technologist program, which uses the term "Clinical Laboratory Scientist" (CLS).

The growing shortage of CLSs in California had reached the point where it was impossible for legislators to ignore the need to supplement CLSs with MLTs. Passage of the enabling legislation proceeded without considerable opposition.

gas, Lab Administrator at **Community Hospital of Monterey Peninsula** (CHOMP) in Monterey and part of the **Central Coast Regional Laboratory Network** (CCRLN), had obtained grant money for MLT training three years ago. In collaboration with a local community college, CCRLN established an educational program that trains MLTs locally.

"Our goal in the San Francisco Bay area was to increase the overall supply of CLSs and MLTs," noted Lu. "We went about it in several steps.

"The first step was to develop a business model. It had to include funds for recruitment, for such things as a CLS/MT Program Education Coordinator and even legislative access. As this work progressed, we invited additional hospital lab administrators to attend our meetings," said Lu. "Interest grew in our project."

There were three existing training programs that became part of this proposal. **Hartnell College** in Salinas, **De Anza College** in Cupertino, and **San**

Jose State University (SJSU) are participating. SJSU established additional new courses for CLS/MLT training and new students were enrolled in the Fall 2002 term.

"The next step was to sell this training program to the hospital CEOs," said Lu. "Our strategy was straightforward. First, we compiled detailed information about the existing shortage of laboratory technical professionals and why demographics would worsen this problem over time.

Estimate Of All Costs

"Second, we developed a thorough analysis of the added costs that hospitals currently pay because of the inadequate numbers of med techs," added Lu. "This included recruitment costs, extra charges because tests must be sent out, overtime, temporary help, and the like.

"The third piece was the training budget," she continued. "This detailed the expenses required to provide hospital internships for CLSs and MLTs at participating hospitals.

"Fourth, we developed an ROI analysis. It was important that the hospital CEOs see that investing in med tech recruitment and training was a smart use of scarce capital," concluded Lu.

After crunching these numbers, the med tech training consortium could demonstrate the following costs for a hospital lab staffed with 50 med techs: 1) At an attrition rate of 11%, recruitment and on-site orientation/training costs are \$162,000 per year; 2) Overtime due to unfilled positions [at 5%] costs \$195,000 per year; and 3) lab staff shortage causes a 5% increase in send-out tests [25,000 tests] creating a negative impact on the hospital of \$530,000, along with increased TATs that negatively affect patient care.

Collectively, the analysis showed a hospital with 50 med techs in the lab

and an 11% attrition rate spends about \$887,000 per year because of labor turnover and the inability to fill 100% of authorized technical positions in the lab.

“We estimated that, if a hospital was willing to support the education of two interns in its lab, it would spend about \$189,000 over two years,” explained Lu. “However, annual downstream savings would be approximately \$605,000. The hospital’s ROI for educating two interns would be 31% per year!

Getting CEOs’ Buy-In

“When the final proposal was complete, meetings were held with laboratory directors and their senior hospital administrators,” she continued. “The objective was to align the thinking of the lab administrator and his/her COO. The COO was specifically asked to provide these materials to the CEO and brief the CEO in advance of the Hospital Council Meeting.

“During the Hospital Council Meeting in January 2002, we showed the hospital CEOs four funding options. We wanted them to find a solution they could support. Our funding options were based on: 1) number of CLS’s currently employed at each hospital, 2) number of interns accepted per year; 3) number of billable tests; and, 4) number of occupied beds.

“The formal presentation at the Hospital Council was short and sweet because all the CEOs had been pre-briefed,” she said. “There was common agreement that this was the right thing to do. They made the decision to fund the med tech program for five years.

Equal Funding By Hospitals

“In a further sign of support and agreement, the CEOs decided to equally share the costs among their hospitals, despite the four funding options we suggested.”

Fifteen hospitals committed funds to train clinical laboratory scientists and 13 hospitals committed funds to

train medical laboratory technicians. “Even hospitals with labs that had been downsized committed money to train med techs,” stated Lu. “The hospital CEOs want to enlarge the overall number of med techs in our region. They went forward with the understanding that there is no guarantee that a certain number of newly-trained med techs will end up working in their hospital’s laboratory.”

Hospital lab administrators were not the only advocates for this CLS/MLT training program. At HCNCC, Regional Vice President Barbara Harrelson played a key role in getting the attention of the hospital CEOs. Among the colleges, Sally Veregge of San Jose State University coordinated activities among the participating educational institutions.

Labs Can Duplicate Program

THE DARK REPORT notes that hospital labs in almost every community in the United States can duplicate the success of their peers in the San Francisco Bay Area. Funding for MT/MLT recruitment and training can be obtained from hospitals—but only if lab directors make the case in a rational and business-like way, including a financial analysis and return on investment.

The projections developed by these hospital lab administrators included facts about local and national lab staffing trends, the annual costs of med tech attrition for each hospital, and projected costs to train CLSs and MLTs. These costs were summarized and a return on investment (ROI) was provided to the hospital CEOs. When done, the CEOs found it easy to approve funding.

In part two of this series, THE DARK REPORT will provide information about how hospital administrators and college educators played a role in gaining approval for the CLS/MT training program.

TDR

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Getting Buy-In From Hospital CEOs for Med Tech Recruitment & Training

It was a major accomplishment for the laboratory administrators of 15 competing Northern California hospitals when they gained the approval of their hospital CEOs to share the expenses of a five-year, \$1.5 million program to train CLSs and MLTs. It was a proactive step by lab administrators to increase the supply of clinical laboratory scientists (CLS) and medical laboratory technologists (MLT) in their region. The funding program was developed in four basic steps:

- Step 1:** develop the project structure, including assessment of the med tech shortage, current and future.
- Step 2:** Analyze true costs to hospitals of existing lab staffing shortages.
- Step 3:** Working with local colleges and universities, develop costs to run an educational program that offers technical lab staff a career ladder.
- Step 4:** Present to hospital CEOs and gain funding commitment.

CLS/MLT Training Program Goals

- A.** Develop a Clinical Laboratory Workforce
 - Implement new training programs
 - Support existing training programs
- B.** Create a career ladder:
 - Lab Assistant/Phlebotomist → Medical Laboratory Technician → Clinical Laboratory Scientist
- C.** Create a Partnership Between Health Care Organizations and Educational Institutions
- D.** Focus on recruitment into the field, early in the education process
- E.** Recapture revenues currently leaking out of state and convert more laboratories into revenue centers
- F.** Reduce the cost of recruitment and retention
- G.** Insure competitive salaries for laboratory staff

→ Career Ladder

**Programs requiring financial support from hospitals.*

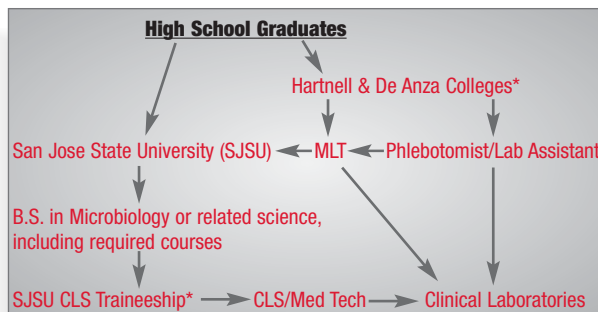


Table 1:
Showing Hospital Costs From Med Tech Attrition

Description	Assumptions	Cost
Advertising	One Ad for one weekend \$ 3,000.00	\$3,000.00
Interview, HR	2 hrs at \$35/hr + benefits @ 25%	\$87.50
Interview, Lab	4 hrs at \$35/hr + benefits @ 25%	\$175.00
Relocation expense	Current market allowance	\$5,000.00
Sign-on bonus or Finder's fee	Market range of \$2,000 to \$6,500	\$4,250.00
Hospital orientation	4 hrs at \$25.00/hr + benefits @ 25%	\$125.00
Compliance training	2 hrs at \$25.00/hr + benefits @ 25%	\$62.50
Safety training	2 hrs at \$25.00/hr + benefits @ 25%	\$62.50
Laboratory orientation	8 hrs at \$25.00/hr + benefits @ 25%	\$250.00
Technical training, trainee	30 days for trainee at \$30/hr + benefits	\$7,500.00
Technical training, trainer	30 days for trainee at \$30/hr + benefits	\$9,000.00
Recruitment cost per candidate		\$29,512.50

Cost of attrition at an annual rate of 11% (Med Tech staff of 50 FTEs): \$162,318.75

Hospital lab administrators in the San Francisco Bay Area used the numbers in Table 1 above to show their hospital administrators the true cost to replace med techs in the individual hospital laboratories. Table 2 below is a summary of the cost and benefit analysis presented to the participating hospital CEOs in January 2002.

Table 2:
Summary of Med Tech Training Costs and ROI

Current Cost of CLS Staff Shortage:

1. Cost of recruitment:	base: at 11% annual attrition rate, staff of 50 Med Techs	\$162,319
2. Cost of overtime:	base: 5% increase in overtime, staff of 50 Med Techs	\$195,000
3. Cost of referring tests out:	5% increase in referred testing, based on lab volume of 500,000 billable tests/year.	\$530,000
	Total Cost:	\$887,319

Proposed Cost per Intern per Hospital under the CLS Training Program:

	Year One	Year Two	Average
a. One intern per year:	\$149,863	\$140,063	\$144,963
b. Two interns per year:	\$97,131	\$92,231	\$94,681

Proposed Cost per Intern per Hospital under the MLT Training Program:

	Year One	Year Two	Average
a. One intern per year:	\$76,963	\$67,163	\$72,063
b. Two interns per year:	\$48,606	\$43,706	\$46,156

Net Savings in recruitment, overtime, & referred testing expense after operating costs of CLS & MLT Training Programs:

a. One intern per year:	\$670,294	ROI: 22% per year
b. Two interns per year:	\$605,644	ROI: 31% per year

ARUP & Mayo Respond To New Market Cycle

Market for hospital send-out testing evolving in response to key events

CEO SUMMARY: *Since the beginning of 2002, several important events changed the competitive status quo among the nation's leading providers of hospital send-out testing. As part of its ongoing assessment of this market segment, THE DARK REPORT provides strategic management insights from executives at ARUP Laboratories and Mayo Medical Laboratories.*

IN THE HOSPITAL SEND-OUT marketplace, a new cycle of competition is forming in response to the year's tumultuous events.

In the first half of 2002, **American Medical Laboratories, Inc.** (AML) was purchased by **Quest Diagnostics Incorporated**. Within weeks of this development, the hospital send-out market was further roiled by the news that **Specialty Laboratories, Inc.** had problems with laboratory regulators.

These events are causing many hospital lab administrators and pathologists to reassess their existing relationships with the nation's reference and esoteric laboratory companies. As hospitals initiate changes in their primary and secondary reference lab relationships, there will be winners and losers among the nation's reference and esoteric testing lab companies. (See *TDR, September 16, 2002.*)

During the past two decades, **ARUP Laboratories** of Salt Lake City, Utah and **Mayo Medical Laboratories** of Rochester, Minnesota have

developed a reputation as reliable providers of reference and esoteric testing. Both laboratories remain private companies and are closely-linked to academic and tertiary care centers in their home town.

Emphasizing Specialists

In contrast to their publicly-traded competitors, the owners of ARUP and Mayo Medical Labs have cultivated a different type of working relationship among the hospital laboratories which send them lab specimens. Both labs strive to connect their extensive specialist resources in laboratory medicine with the needs of clinicians served by their hospital lab clients.

Like other competitors in the market for hospital send-out testing, both ARUP and Mayo recognize that 2002's acquisitions, regulatory problems, and GPO national contract changes will alter competition in the hospital send-out testing marketplace. To learn more about their business strategies, THE DARK REPORT spoke with executives at the two laboratories.

During the next competitive cycle, expect **ARUP Laboratories** of Salt Lake City, Utah to deliver the same brand of reference and esoteric testing that has been its hallmark since its inception in 1984.

Business Model Unchanged

“Our business model has changed little in 18 years and we intend to stay with it,” observed Ronald L. Weiss, M.D., Senior Vice President, Business Development at ARUP. “We are an esoteric testing laboratory dedicated to providing high-quality test results.

“Our pathologists and laboratory scientists, anchored in a university-setting, place utmost emphasis on laboratory medicine which is patient-centered and physician-concentric,” he explained. “We believe this is an important element which sets us apart. As a private company, we have the freedom to operate in ways that maximize this mission.”

Dr. Weiss pointed out that ARUP Laboratories is organized around two core strategies. “First is our commitment to patient care,” he said. “We constantly expand our esoteric test menu and help our clients educate referring physicians about new assays.

“But if we see that patient care may be improved by helping a particular client set up and run certain tests itself, we will provide the expertise and support to make that happen,” stated Dr. Weiss.

Collaborative Support

“Our second strategy aims to provide business support expertise to hospital labs in a collaborative manner,” he continued. “We help clients in a variety of ways, such as developing business plans, launching lab outreach testing programs, improving logistics, and developing a sales team.

“Consistent with our two core business strategies, we are seeing some interesting changes in the way our hos-

pital lab and independent laboratory clients relate to us,” noted Dr. Weiss. “For example, we see a business model developing where ARUP is becoming a ‘sub-specialty extender.’

“Within our client hospitals, pathologists and laboratorians are increasingly drawing upon our specialty expertise to support their clinicians,” he added. “For example, they will encourage attending physicians to call or email ARUP directly to interact with our experts. As this happens, ARUP becomes part of the client’s clinical care continuum and it reinforces our role as part of their patient care team.”

Another change that ARUP sees in the marketplace is that community hospital-based pathologists are “pulling” new lab test technology.

Another change that ARUP sees in the marketplace is that community hospital-based pathologists are “pulling” new lab test technology. “We see increasing pressure by both pathologists and some early-adopter physicians to move technology more rapidly out of the research setting and into general clinical use. This is an important trend, but generates some complications.

“The benefit is that early adopter clinicians are alert to new opportunities to improve care for their patient,” explained Dr. Weiss. “However, as new tests become available, the challenge is to provide the information and education necessary to allow growing numbers of physicians to understand these tests and use them appropriately in their medical practice.”

ARUP and MDS Announce New Business Collaboration

DURING THE SUMMER, ARUP Laboratories and **MDS Laboratory Services** announced a collaborative business relationship.

Under the agreement, ARUP becomes the primary reference laboratory for MDS laboratory sites in the United States. In return, ARUP will recommend MDS' services to its hospital laboratory clients.

"This builds upon prior relationships between the two companies," said Ronald L. Weiss, M.D., Senior Vice President, Business Development at ARUP. "These include scientific collaborations and the use of the MDS AutoLab equipment in ARUP's automation initiative. Because MDS has considerable experience with laboratory joint ventures in the United States, we also see them as one of several alternatives for those clients seeking help with operational consolidation and improvement in their laboratories."

Dr. Weiss also sees changes occurring within the anatomic pathology profession. "There are ever-increasing opportunities in both academic and private practice settings," he noted. "Some technologies, such as FISH, are moving from esoteric labs into common practice. We expect molecular test technologies will migrate into many local pathology group settings.

Anatomic Pathology

"We also expect that most of these new diagnostic technologies will complement traditional anatomic pathology procedures. Glass slides will not disappear because cell morphology will remain a key part of the diagnostic process," he predicted.

Another market change seen by ARUP in recent years is the increased interest by hospital laboratories in developing effective lab outreach programs. "Many of our hospital clients are realizing that a professional lab outreach program can help their lab organization in a variety of ways, not the least of which is lowering overall costs, boosting productivity, and generating profits," stated Dr. Weiss.

"In particular, larger hospitals and health systems are doing a very good job of building their laboratory testing outreach programs," commented Dr. Weiss. "As specimen volume builds in these programs, it means that a greater number of laboratory tests are done locally, improving patient care in that region."

Even as the hospital send-out market changes in response to the events of 2002, the message from ARUP Laboratories is clear. "We intend to continue using the same business model which launched us 18 years ago," declared Dr. Weiss. "We focus on patient care and provide worthwhile consultative services to our clients.

"It is our goal to be a clinical care partner with our clients," he added. "That type of collaborative relationship is rooted in laboratory medicine, which we see as our core competency."

Mayo Medical Labs

Mayo Medical Laboratories (MML) also intends to stick to its longstanding service model. Now in its third decade of service, Mayo is firmly committed to a service strategy that emphasizes anticipating and meeting the esoteric testing needs of its referring physicians and their patients.

This strategy deviates little from Mayo Medical Laboratories' original roots. "We believe the history of our laboratory outreach service sets us

apart from other national laboratories providing reference and esoteric testing,” stated Keith Laughman, Administrative Director at Mayo Medical Laboratories of Rochester, Minnesota.

Extension Of Lab Services

“Mayo Medical Laboratories was a logical extension of the laboratory services we offered to physicians at the **Mayo Clinic**,” continued Laughman. “Our laboratory was originally organized to provide high quality esoteric lab tests for use by Mayo’s clinicians. Moreover, part of our fundamental mission is to further support those clinicians with the knowledge and expertise necessary to help clinicians order the right tests and accurately interpret the results.”

Stated another way, one way to differentiate MML and its business model from competing lab companies is to understand that Mayo Medical Labs was originally founded to provide the types of esoteric lab tests necessary to support the clinical needs of physicians at the Mayo Clinic.

Over time, it was decided to offer these same lab testing services to hospitals throughout the United States. In contrast, a number of competing reference and esoteric lab companies were incorporated specifically to pursue the business opportunities—and profits—generated by this segment of the lab testing industry.

Caring For Sick People

“In offering esoteric testing services to clients throughout the United States and other countries, our strategy has always centered around providing advanced lab testing services to clinicians,” said Robert Kisabeth, M.D., Medical Director at MML, “Another factor that differentiates us is that our laboratory continues to be located in the midst of the Mayo Clinic. We are

enmeshed in the daily activities of physicians and caring for sick people. We see, firsthand, how the quality of lab testing and high service levels can advance patient care.”

The comments from both Laughman and Kisabeth reinforce other attributes that distinguish Mayo Medical Laboratories from its competitors in the marketplace. MML is recognized for its test integrity, its conservative approach toward pricing and its single-minded focus on doing what is right for the patient.

Mayo Medical Labs was originally founded to provide the types of esoteric lab tests necessary to support the clinical needs of physicians at the Mayo Clinic.

Conservative Approach

“We may be conservative in some aspects of our national esoteric business, like marketing and sales, but we work to stay in the forefront of laboratory medicine,” added Dr. Kisabeth. “To serve physicians both within the Mayo Clinic and our many client-hospitals, we devote significant resources to developing and evaluating new diagnostic technology, then helping clinicians incorporate these tests into their medical practice.”

“Staying the course works for us,” concluded Laughman. “Mayo Medical Laboratories remains an important esoteric testing resource today, and we believe that is because of our emphasis on clinical services as well as our recognition that high quality laboratory testing contributes to improved patient outcomes.”

TDR

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Dark Index

Quest & LabCorp Encounter Different Business Hurdles

Nations' top dogs in physician's office testing struggle with unexpected developments

IT'S BEEN TOUGH SLEDDING in recent months for both **Laboratory Corporation of America** and **Quest Diagnostics Incorporated**.

THE DARK REPORT believes there may be significance in these developments. Both national labs find themselves confronted with unexpected obstacles. Though different, each case may be evidence of subtle changes in the competitive marketplace for physicians' office testing.

In the case of Quest Diagnostics, its proposed acquisition of **Unilab, Inc.** has yet to clear antitrust review. Knowledgeable sources believe the **Federal Trade Commission (FTC)** has concerns about the acquisition. They also believe Quest Diagnostics is negotiating with the FTC to address those concerns and gain approval for the Unilab acquisition.

It's a different situation at LabCorp. Last Thursday, the lab company issued an "earnings guidance" change. LabCorp disclosed that its second quarter revenues would fall short of **Thompson Financial/First Call's** revenue estimate, probably by about 2%. LabCorp also disclosed that its earnings per share would be about 10% less than the First Call estimate of \$0.49. The next day, LabCorp's share price dropped about 35%, closing at \$21.68 for the day.

The story behind LabCorp's revenue shortfall will be of high interest to lab administrators and pathologists. LabCorp says revenues will be short of expectations in the third quarter because it accessioned fewer specimens than projected. LabCorp is telling Wall Street that the primary reason for this specimen shortfall is the success hospital laboratory outreach programs are having in capturing LabCorp clients. Further, LabCorp singled out **Spectrum Laboratory Network** of Greensboro, North Carolina as the hospital lab outreach competitor most responsible for its specimen shortfall during the third quarter.

Quality Of Service Slipped

In explaining why it lost specimens to Spectrum and other hospital lab outreach programs, LabCorp acknowledges a slippage in the quality of services it offers to physicians' offices in North Carolina and admits that its management response to this situation didn't fully address all the problems. However, that explanation may short-change Spectrum Lab Network as a competitor.

That's because Spectrum's success at bagging clients away from LabCorp might be equally credited to good execution by Spectrum's executive team. Spectrum is aggressively marketing itself in North Carolina and surround-

ing states. Because it is located just 25 miles from LabCorp's headquarters in Burlington, LabCorp executives must be particularly embarrassed at their inability to defend physician office-clients on their "home turf."

Is Dynacare A Factor?

In attributing third quarter's unexpected shortfall in specimen volume to the success of competing hospital laboratory outreach programs, LabCorp may not be totally forthcoming. THE DARK REPORT believes that LabCorp's acquisition of **Dynacare, Inc.**, consummated in July 2002, may also be a factor.

Prior to the announcement last May that LabCorp would acquire Dynacare, THE DARK REPORT was the first and only lab industry intelligence source to disclose that Dynacare had significant operational problems in several regions and that several of its hospital lab relationships were under strain. THE DARK REPORT believed the timing of its sale to LabCorp was fortuitous to Dynacare executives and shareholders. However, because of these unpublicized problems, LabCorp might find the Dynacare acquisition to be more troublesome than it expected.

Questions Will Be Answered

The upcoming year will demonstrate the accuracy of that observation, because, if these types of problems exist, they are likely to become public knowledge as LabCorp discloses them. If this occurs, then LabCorp's executive team may face criticism from financial analysts for the price it paid to acquire Dynacare and its apparent lack of effective due diligence prior to the sale.

Hospital labs with outreach programs should closely follow this story about LabCorp and its ability to defend its existing physicians' office business from hospital lab outreach competitors. For years, regional lab competitors

Spectrum Labs Becomes A Competitive Threat

FOR SOME LABCORP EXECUTIVES, the competitive spectre of Spectrum Laboratory Network is a case of *deja vu*.

In recent years, Spectrum gained a new CEO, Nate Headley. When last seen in California, Headley was CEO of **Physicians Clinical Laboratories, Inc.** (PCL). PCL was a public lab company owned by **Sutter Health** and **Mercy Health Systems**, both located in Sacramento.

During the early 1990s, PCL competed vigorously against **National Health Labs** (NHL) throughout the state of California. Since then, PCL entered Chapter 11 bankruptcy and was eventually acquired by Unilab. Meanwhile, NHL was acquired by **Roche Biomedical Labs** at the time LabCorp was created in 1995.

It is an interesting coincidence that certain NHL executives relocated to LabCorp's Burlington, North Carolina headquarters. Now, years later, they find themselves again competing against Nate Headley, who himself is again at the helm of a multi-hospital-owned lab company aggressively battling for business from physicians' offices.

have claimed that, on average, the level of services provided to physicians' offices by the "Two Blood Brothers" are demonstrably inferior to those provided by strong regional competitors, whether independent commercial lab companies or hospital laboratory outreach programs. Apparently Spectrum Lab Network is demonstrating this may be true, at least in the North Carolina market.

Because LabCorp's situation has captured the attention of Wall Street, executives at Quest Diagnostics find themselves out of the spotlight, at least temporarily. Until LabCorp's public disclosure last week, most attention had been focused on Quest Diagnostics and whether it would be able to gain FTC approval to acquire Unilab.

Based on its recent actions, Quest Diagnostics seems determined to overcome all hurdles and acquire Unilab. In mid-September, negotiations between Quest and the FTC were reported to be at an impasse. Certain FTC-watchers believed the FTC's investigative staff had recommended that the FTC commissioners vote to oppose Quest's acquisition of Unilab.

Lab Monopoly in North. Calif.

These observers believe that one point of contention is an FTC concern about a monopoly situation in Northern California. In acquiring Unilab, Quest would hold a dominate share of physicians' office testing in the Northern California market. Moreover, from the FTC's perspective, there would be no viable lab competitor serving Northern California once Unilab merges with Quest. LabCorp has a small presence in Northern California. Moreover, only a handful of hospitals in that part of the state offer lab outreach programs that provide services much beyond their hospital campus.

In the face of this apparent opposition within the FTC, Quest and Unilab agreed to extend their merger contract for 60 more days, through November 30, 2002. That was followed, days later, by rumors that Quest Diagnostics intended to divest its Northern California laboratory as a way to meet the objections of the FTC.

Dublin Lab May Be For Sale

The Quest laboratory in question is located in Dublin. It was operated by **SmithKline Beecham Clinical Laboratories** before SBCL's acquisition by Quest Diagnostics in 1999.

To divest its Dublin laboratory, Quest needs a buyer. Last week it distributed a sales prospectus to several commercial laboratory companies and

hospitals/health systems. Since the prospective buyers are under non-disclosure agreements, none will publicly confirm the that sales negotiations may be taking place.

THE DARK REPORT's sources indicate that LabCorp and **Health Line Clinical Laboratories** of Burbank, California got copies of the offering document. THE DARK REPORT also has reason to believe that at least one of the hospitals which received the sales prospectus is **John Muir Mt. Diablo Health**.

Located in Walnut Creek, a short distance from Dublin, Muir has a long-established lab testing outreach program. During the summer, Quest and Unilab offered John Muir as an example of a hospital lab outreach program that would compete against Quest after it buys Unilab.

Dwindling Path Influence

Regardless of the outcome in the proposed merger between Quest Diagnostics and LabCorp, THE DARK REPORT believes that the FTC's heightened scrutiny of this acquisition signals a broader policy shift within the government. The FTC is pursuing other types of healthcare providers on antitrust grounds. Such a policy shift may make it tougher for bigger lab companies to acquire smaller lab companies, particularly in regions where the larger lab already holds a significant share of the market.

In the case of LabCorp, the swift decline in its share price demonstrates how quickly small declines in volume can translate into larger declines in net earnings. It may also be interpreted as a sign that professional investors are becoming more skeptical about the prospects for the national lab companies to sustain the same rate of earnings growth they demonstrated in recent years.

INTELLIGENCE

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



Without much fanfare or notice, **Liposcience, Inc.** of Raleigh, North Carolina tested the waters for an initial public offering (IPO) last month. It found market conditions unfavorable for its proposed offering of \$92 million and deferred its IPO. Liposcience, with annual revenues of \$18.5 million, markets a cardiovascular test built upon nuclear magnetic resonance (NMR) spectroscopy technology which is designed to compete against traditional lipid panels. Liposcience is also working on a proprietary test to detect insulin resistance, a precursor to type 2 diabetes.

MANAGED CARE CREATES BIG DROP IN HOSPITAL ADMISSIONS BETWEEN 1985-2000

Hospital discharges declined 24% between 1985 and 2000, according to new data released by the **Centers for Disease Control and Prevention** (CDC). The CDC also reports that the average length of stay fell from 6.6 days in 1985 to 4.9 days in 2000. CDC data confirms the ongoing shift to outpatient procedures. It says that 63% of all surgeries in 2001 were performed as outpatient procedures, compared with 50% in 1990 and 16% in 1980.

ADD TO: Hospital Admissions

These numbers clearly demonstrate how managed healthcare impacted clinical practices during the 1990s. Cost management and control of utilization were two key dynamics. The CDC reports that, nationally, there were 115 hospital discharges per 1,000 population in 2001. This is a drop from 151 per 1,000 population in 1985.

COMINGS & GOINGS:

- **Bio-Reference Laboratories, Inc.** of Elmwood Park, New Jersey announced that John W. Littleton is its new Vice President of Sales. Littleton has extensive sales management experience, most recently with **Specialty Laboratories** and **Quest Diagnostics Incorporated**.
- **IMPATh, Inc.** reached into the lab industry ranks for its new chief financial officer (CFO). James V. Agnello was named as Senior Vice President and CFO. Agnello was Vice President and Controller of **SmithKline Beecham Clinical Laboratories** (SBCL) prior to its acquisition by Quest Diagnostics in 1999.

- **Premier, Inc.** promoted Bob Hamon to Corporate Vice President of Operations For Group Purchasing Services. Hamon managed Premier's services in clinical lab and imaging. His expanded range of duties will cross all group purchasing lines. Prior to joining Premier several years ago, Hamon, an MT, was Lab Administrator of **Presbyterian Laboratory Services** in Charlotte, North Carolina.

LAB MISCELLANY

Oregon Medical Labs in Eugene, Oregon boasts a survivor of the groovy 1960's rock and roll scene. Ran Whitehead, MT, currently its COO, did a six-month stint as drummer for the famed rock ensemble "Turtles" during the late 1960's. (See pages 2-4.)

*That's all the insider intelligence for this report.
 Look for the next briefing on Monday, October 28, 2002.*



UPCOMING...

- ***Part Two on Med Tech Training:
How Hospital Administrators and Educators
Help in Structuring Training Programs.***
- ***Are Hospital Lab Outreach Programs
Beating the Two Blood Brothers
at Their Own Game?***
- ***New Competitive Threat to Local
Pathology Groups: Effective Response
Strategies.***

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