

From the Desk of R. Lewis Dark...

THE **RD**ARK REPORT

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

R. Lewis Dark:

Proving that Pathology's Popular Wisdom Is Wrong.....	Page 1
New & Stefanelli Launch Anatomic Pathology Venture.....	Page 2
Labs Need Response To Physicians' Use of EMR.....	Page 6
Pathologist Builds General Pathology Business From Office-Based Laboratory.....	Page 9
Acute Histotechnologist Shortage Grows Across the USA.....	Page 16
Intelligence: Late-Breaking Lab News.....	Page 18

Commentary & Opinion by...

R. Lewis Dark

Founder & Publisher



Proving that Pathology's Popular Wisdom Is Wrong

IN THE ANATOMIC PATHOLOGY PROFESSION, THE POPULAR WISDOM is that any pathology group practice needs one or more hospital contracts as the primary source of specimens necessary to financially sustain the practice. Outreach specimens sourced from physicians' offices then represent a profitable supplement to the hospital business served by the pathology group.

Three years ago, this popular wisdom was challenged by pathologist Raman "Ray" Sukumar, M.D., of Dover, Maryland. For reasons described in our briefing on pages 9-15, Sukumar decided it was time to strike out on his own. His vision was to build a pathology laboratory in an office building, create a mobile pathology laboratory in a van, and bring pathology services directly to the doorstep of physicians' offices, ambulatory surgery centers, diagnostic imaging centers, and other outreach clients.

The business outcome to Sukumar's entrepreneurial effort demonstrates that it is possible to grow rapidly and make money offering general pathology services to office-based physicians and other non-hospital providers. In fact, over the 41 months since opening for business, the volume of specimens flowing into Sukumar's general pathology practice now supports three full-time pathologists!

I consider this to be one of the single most remarkable business stories in the anatomic pathology profession since we launched publication of THE DARK REPORT in 1995. What Sukumar has accomplished is worthy of study by any pathologist with ambitions to create a physician-centered, patient-friendly pathology practice. Sukumar exemplifies all the attributes of a successful entrepreneur, particularly his willingness to shoulder the financial and professional risk of building a new pathology business from scratch.

At a time when local pathology is under siege from an ever-increasing number of national labs, specialty test providers, and similar competitors, Sukumar has demonstrated that the business model of an office-based generalist pathology practice can compete locally on equal terms with all competitors. Long-time clients and regular readers of THE DARK REPORT know we hold the conviction that all healthcare is local and pathology services provided at the point of care are generally best for physicians and patients. Dr. Sukumar's entrepreneurial success demonstrates that this statement remains true and it should be an inspiration to the pathology profession.

New & Stefanelli Launch Anatomic Path Venture

Aurora Diagnostics is the latest company to gain investor backing and start operations

CEO SUMMARY: *With little fanfare, Aurora Diagnostics, Inc. opened for business last summer. It states that it has already signed acquisition agreements with five different pathology groups. Former AmeriPath executives James C. New and Martin J. Stefanelli are leading Aurora Diagnostics. Handling business development activities for Aurora will be Christopher Jahnle and Kirk Rebane of Haverford Healthcare Advisors.*

FOR THE TWO SENIOR EXECUTIVES of newly formed **Aurora Diagnostics, LLC**, it's an opportunity to build a national anatomic pathology company a second time.

Aurora's Chairman and CEO is James C. New, and its President and COO is Martin J. Stefanelli. Clients and long time readers of THE DARK REPORT will recall that, from 1996 through 2003, New was Chairman and CEO of **AmeriPath, Inc.**, and Stefanelli served as COO. (See *TDRs*, November 4, 1996 and March 3, 2003.)

Aurora Diagnostics, with headquarters in Palm Beach Gardens, Florida, has a simple business plan. It wants to acquire pathology companies, pathology group practices, and clinical laboratories that meet specific criteria. It will

then provide capital, management expertise, and advanced informatics to expand the market share of each acquired pathology laboratory in its local community. Aurora Diagnostics also expects to use certain of these laboratories to develop a national business in some types of testing.

Aurora Diagnostics became operational in July. To fund its acquisitions, it has a \$300 million commitment from **Summit Partners** of Boston, Massachusetts, and **GSO Capital Partners** of New York, New York. According to New, Aurora has signed letters of intent with five different pathology companies and has already closed three of those deals.

Having learned important lessons about running an anatomic pathology

THIS PRIVATE PUBLICATION contains restricted and confidential information subject to the TERMS OF USAGE on envelope seal, breakage of which signifies the reader's acceptance thereof.

THE DARK REPORT Intelligence Briefings for Laboratory CEOs, COOs, CFOs, and Pathologists are sent 17 times per year by The Dark Group, Inc., 21806 Briarcliff Drive, Spicewood, Texas, 78669, Voice 1.800.560.6363, Fax 512.264.0969. (ISSN 1097-2919.)

R. Lewis Dark, Founder & Publisher.

Robert L. Michel, Editor.

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, \$13.65 per week elsewhere (billed semi-annually).

NO PART of this Intelligence Document may be printed without written permission. Intelligence and information contained in this Report are carefully gathered from sources we believe to be reliable, but we cannot guarantee the accuracy of all information.

visit: www.darkreport.com • © The Dark Group, Inc. 2005 • All Rights Reserved

company during his time leading AmeriPath, New is measured and cautious when describing what will be different about Aurora Diagnostics.

Buying AP Businesses

“Our primary objective is to acquire outreach-oriented anatomic pathology (AP) businesses,” explained New. “However, we are open to acquiring hospital-based pathology practices and potentially a clinical laboratory that has a solid business in one of several key markets where we want to compete.

“New diagnostic technology is steadily breaking down the traditional barriers between AP and the clinical laboratory,” he continued. “Going forward, we know that we will need resources in both anatomic pathology and clinical laboratory to compete effectively for test referrals from office-based physicians.”

New discussed five key strategies that will guide Aurora Diagnostics as it builds its business. “Our first strategy is to partner with the best pathology and laboratory businesses that we can find,” he observed. “Ideally, I’d like to have a roadmap that says ‘buy this practice here and buy that practice there.’ But it’s not that simple.

Acquisition Candidates

“We must find practices that want to work with us. It then takes time to complete the acquisition and build their core business,” added New. “Right now, we have no geographic constraints. However, we don’t have much interest in the far western areas. In particular, we are unlikely to acquire any groups in California.

“The second strategy is to focus our growth on the outpatient side of the business—in both anatomic and clinical pathology,” New said. “There is double-digit growth each year in the outpatient segment of the pathology business and that’s the segment we want to serve. We

also believe that the outpatient market must be developed by having a specialty sales force in the field.

“At this point in our business development, we have a definite preference for dermatopathology,” stated New. “One of our goals is to develop a fairly large dermatopathology business over time.”

Aurora’s business interest in outpatient pathology services is a direct result of New’s experience at AmeriPath. “AmeriPath built a significant business in inpatient pathology,” he noted. “We became the nation’s largest company providing inpatient pathology services. But growth in this market segment can be difficult, often in the low single digits. That’s because it is linked to the growth in inpatient volume at the hospitals served by AmeriPath.”

Lean Corporate Staff

Another AmeriPath lesson inspires the third strategy Aurora will follow. “Each time we acquire a company, we will keep the assets of that company in the field,” New said. “That means the physicians, the financial people, the human resource staff, and all the support people will remain at the lab sites. They will not be sitting in a large corporate office removed from the health-care market they serve.

“We are determined to have our corporate office keep a small profile,” he continued. “The resources at corporate will be organized to support and advance the local business activities.

“Strategy number four is to hire skilled people with excellent track records for any position that we have in this company,” New added. “Ongoing consolidation in the laboratory services marketplace means that there is a sizable pool of good, skilled people who have been in the lab business for a long time. We know many of these individuals and will be tapping this experience as our business grows.

“Because the laboratory business is an information business, our fifth strategy is to devote a considerable amount of capital and resources to build a solid information technology group,” he said. “To achieve this goal, we are working with ‘best in class’ suppliers. Our goal is to develop an industry-leading IT platform that we can deliver to the small or mid-sized pathology practices that we acquire.

Upgrading IT Capability

“In our discussions with different pathology groups, most say they are investing in upgrading their IT capabilities,” observed New. “But in reality, many pathology groups are struggling with information technology. When they need to do an HL-7 interface, it’s a major event. Yet, this interface activity will be critical for any pathology group seeking to stay in business over time. To achieve this capability in the groups with whom we acquire or partner, we are developing in-house skills and platforms.

“At the same time, we have other business capabilities that many small and mid-sized pathology practices lack,” he added. “For instance, we are developing self insurance programs for both malpractice coverage and healthcare benefits. These services enhance our business and make it a more attractive place to work for pathologists and staff. We have extensive experience in these areas and we want to apply that experience.

Acquisition Criteria

“We are frequently asked if Aurora is seeking to acquire pathology groups outright and the answer is, yes,” stated New. “Primarily we are offering to acquire 100% of the assets of these businesses.

“We think an acquisition is the right thing to do,” he said. “Joint venture relationships can work in certain

AURORA DIAGNOSTICS, INC. At-A-Glance

• Founded:	July 2006
• Headquarters:	Palm Beach Gardens, Florida
• Core business:	To acquire and operate anatomic pathology laboratories
• Capital Funding:	\$300 million
• Web Site:	www.auroradx.com
• Chairman & CEO:	James C. New
• President & COO:	Martin J. Stefanelli
• Business Development Consultants to Aurora:	Haverford Healthcare Advisors, Christopher Jahnle, Managing Director Kirk A. Rebane, Managing Director

situations. But, by and large, when everyone is on the same team, it is easier to implement strategies that generate new specimens and revenue.

Providing Growth Capital

“In return, the selling laboratory gets our considerable expertise in this business,” New emphasized. “This expertise includes dedicated sales and marketing resources, enhanced information systems, economies of scale on insurance, and money to invest in growth, which many pathologists don’t have.

“All of these factors are important, but probably the single most useful resource for a regional laboratory is our experience at negotiating with payers in many different areas of the country,” stated New.

“Over time, as Aurora gets bigger and gains access to numerous payer networks, we believe our pathologists can be increasingly competitive in the managed care world,” New added. “Pathologists practicing in small group settings find it ever tougher to gain access to managed care patients

and remain competitive. For example, it got even harder for private pathologists to operate once **UnitedHealth Group** announced its national contract with **Laboratory Corporation of America** last month. Aurora Diagnostics has the experience and the managed care relationships needed to negotiate acceptable contracts and retain access to patients.”

Dermatopathology Groups

New, who was known for keeping his cards close to his vest while at AmeriPath, has yet to publicly identify any of the pathology groups Aurora has acquired or has under signed acquisition agreements. THE DARK REPORT speculates that at least a few of these groups will offer dermatopathology as a major pathology subspecialty.

Dermatopathology was a primary acquisition interest of New’s, particularly during AmeriPath’s early years. It is an office-based pathology subspecialty and is enjoying particularly strong growth in the volume of specimen referrals. There is ongoing, rapid growth in the number of dermatology patients, which makes this a particularly attractive segment of the AP marketplace.

Aurora Diagnostics has a number of reasons why it wants to concentrate its acquisition activities on anatomic pathology laboratories and group practices that are not hospital-based. Not the least of which is the belief of its management team that there are a significant number of acquisition candidates who possess limited strategic alternatives. Since Aurora Diagnostics has an initial capital commitment of \$300 million, it certainly has the funding resources to pursue any laboratory acquisition candidate that it considers attractive.

TDR

Contact James New at 561-626-5512 and Chris Jahnle at 610-407-4024.

Haverford Principals To Work With Aurora Diagnostics

THERE’S ANOTHER INTERESTING ASPECT TO THE STORY of Aurora Diagnostics, LLC, which will change the way a long-standing industry resource to local pathology group practices will serve the industry in the future. It is the involvement of **Haverford Healthcare Advisors** of Paoli, Pennsylvania, in the management of Aurora Diagnostics’ merger and acquisition program.

Chris Jahnle and Kirk Rebane, who are Managing Directors at Haverford Healthcare Advisors, will handle business development at Aurora. It was Jahnle and Rebane who contacted New and Stefanelli this year and suggested that a different pathology business model could succeed in the current healthcare marketplace. Jahnle and Rebane worked with New and Stefanelli to refine a business plan, obtain equity capital, and open acquisition negotiations with a number of interested pathology laboratory companies. They have founder’s shares in the business.

“Since Haverford’s principals will handle business development for Aurora, Haverford will no longer provide merger and acquisition advisory services to pathology groups in connection with pathology lab transactions,” Jahnle said. “Instead, we will leverage our contacts and experience to spread the word about what we consider to be the compelling strategic alternatives Aurora Diagnostics can offer to anatomic pathology companies. Also, Haverford will continue to provide valuation and M&A advice to independent clinical laboratory companies, and valuations to pathology practices.”

Labs Need Response to Physicians' Use of EMR

Increased use of EMRs in physicians' offices generates new connectivity challenges for labs

CEO SUMMARY: A new trend is emerging in outreach laboratory IT systems. Labs are linking to the electronic medical record (EMR) systems in their physician clients' offices. Delivering lab results to these systems is already common. Enabling electronic order entry is the next wave. Clinical labs and anatomic pathology practices will need to offer effective "Lab-EMR Gateways" to maintain their competitive position.

REMEMBER THE FIRST EFFORTS by laboratories to offer Web browser-based lab test ordering and results reporting to office-based physicians? Back in 1997, that was a radical concept. Yet today, it is a widely used arrangement.

It was also an information technology change "pushed" by laboratories onto office-based physicians. Laboratories generally initiated such arrangements.

Now the tables are about to be turned. As physicians install electronic medical record (EMR) systems, they are "pulling" their laboratory provider to supply an electronic interface with the EMR to enable seamless lab test ordering and results reporting.

It is a developing trend that has serious implications for clinical laboratories and anatomic pathology group practices that provide testing services to office-based physicians. This trend involves connecting the lab operation to the physician-clients' EMR systems for both electronic order entry and results delivery.

THE DARK REPORT is first to identify this trend and provide insights. One expert who is on the front lines of this development is Robert S. Gregory, Senior Vice President, Corporate Strategy at **Atlas Development Corporation**. Gregory's software company, based in Calabasas, California, was an early player in offering Web browser-based solutions that supported lab test ordering and results reporting between labs and office-based physicians.

"Lab-EMR Gateway"

"Some physician office connectivity vendors are building more capability into their systems, creating what we call 'Lab-EMR Gateways' to bring this integration to a higher level," stated Gregory. "Although these gateways will be important for all labs, the unique requirements of anatomic pathology practices may find them particularly useful as EMR integration becomes the norm. Pathology labs that adopt solutions to address this need now will be a large step ahead of their competition.

Anatomic Path Groups Face Extra Challenges

PATHOLOGY PRACTICES FACE unique challenges when seeking to enable electronic test ordering with electronic medical record (EMR) systems in physicians offices,” observed Robert S. Gregory, Senior Vice President, Corporate Strategy at Atlas Development Corporation.

“The highly specialized requirements of pathology labs demand added control over the order entry workflow,” noted Gregory. “Typically, the order entry capabilities of an EMR will not deliver everything that is needed. For the pathologist to realize all of the benefits of electronic ordering, the use of a Lab-EMR gateway can augment the EMR ordering capability and bridge this gap.

“Order entry can be enabled by either using a direct interface or by using a lab ordering platform that enhances the onboard order entry capability of the EMR,” he continued. “The key to the second approach is the ability of the lab to apply its specialized business and clinical rules to an order to ensure that it fully conforms to the lab’s requirements.

“These systems basically reside on central servers,” he said, “and the software is the gateway between the laboratory information system (LIS) and the physician’s EMR and practice management program. These systems are the outware pieces that connect the internal lab operation with the external world of the laboratory’s customers.”

“Moreover, the ability to interface with physician EMR systems is going to become a necessary requirement for any clinical laboratory and anatomic pathology group that wants to remain competitive within the healthcare community it serves,” added Gregory. “Laboratories that cannot support EMR interfaces will find themselves at competitive disadvantage to those labs which can.

“While the number of office-based physicians seeking an EMR interface from their anatomic pathology provider is relatively small today, the demand is there and growing,” observed Gregory. “In fact, the growth level currently feels much like the market of four to six years ago—when labs were just beginning to install Web browser-based systems into doctors’ offices that connected to the practice management systems and supported Web-based order entry and results reporting.

“Back then, this trend was so compelling that it became a necessity for labs,” Gregory added. “Laboratories had to show they could do this before they could get a foot in the door. At that time, there was also a lot of debate in the lab industry about whether doctors would order electronically.

“Now, of course, electronic ordering is no longer a question. Physicians order electronically, or they have someone in the office who does it for them,” he noted. “To support this function, laboratories needed an interface with the physician’s practice management system.

Full Interface To Doc’s EMR
 “In today’s competitive marketplace, we see the same adoption curve almost repeating with EMRs,” added Gregory. “My prediction is that, within a relatively short number of years, it will be essential for labs to provide a full electronic interface to the EMRs of the client physicians.”

Gregory identifies four factors that laboratories must incorporate into their strategic response to this trend. “First, the interface system between the laboratory and the physician’s EMR must be highly flexible and configurable,” he advised. “It must match the physician’s workflow and not disrupt the processes the physician has in place.

“Electronic interfaces give the laboratory the ability to customize to meet the

different needs of different physicians,” Gregory stated. “For example, today, our company is approaching almost 1,000 configurations. That demonstrates how we are configuring and managing virtually every aspect of the way the ‘Lab-EMR Gateway’ behaves.

Quality of Data Improves

“The second factor to consider is that electronic order entry improves the quality of the data your lab receives for billing purposes. That benefit supports a demonstrable return on investment,” added Gregory. “Some of our lab clients tracked return on investment (ROI). For labs moving from paper-based orders to an electronic system, it is possible to see an ROI within a year. That’s because electronic ordering through the physician’s EMR improves medical necessity verification and ABN printing, verifying patient demographics, and getting the right insurance information.

“The third factor is very important and gives substantial competitive advantage to the laboratory,” observed Gregory. “Delivering results electronically binds the physician customer to your laboratory. Seamless integration with the physician’s EMR and practice management system allows your laboratory to deliver a complete solution set. Experience with our laboratory clients demonstrates that electronic interfaces allow these labs to deliver a higher level of attention to the client physician.

“This type of enhanced customer service is why I believe most national laboratory companies view IT solutions as a key component of their overall competitive strategy,” said Gregory. “The IT solution installed by the laboratory allows it to improve its responsiveness and turnaround time. National lab companies also recognize an indisputable fact: once an electronic system is in place between the lab and the physician client, then the physician’s

cost to switch to a new laboratory provider increases significantly.”

Gregory points out that, if a local laboratory is already delivering services within its community, it starts with all the competitive advantages that come from being local. “When a local lab or pathology group offers this IT solution to client-physicians, it improves responsiveness and turnaround time,” he said. “That allows the local laboratory to forge a very tight relationship with clients.

“The fourth factor is a fundamental advantage of any effective, new information system,” explained Gregory. “The laboratory gets increased functionality. Just as important, the more accurate information generated by use of the system leads to increased reimbursement rates and fewer overall errors. It is one reason why these systems contribute to economic efficiency and improved patient outcomes.”

Develop A Strategy Now

THE DARK REPORT recommends that laboratory directors and pathologists put physician-client EMR connectivity systems—including what Atlas calls the “Lab-EMR Gateway”—on their strategic radar screens. Physicians are under increasing pressure to acquire and use EMR systems in their daily practice. So there is time for most laboratories and pathology groups to develop interface capabilities and maintain their competitive advantage.

Keep in mind that the every laboratory in the world produces only one product: information. Therefore, it would be wise for laboratories to develop a timely strategic response to the growing use of EMR systems by physicians. Physician acceptance of EMRs can trigger a paradigm-shifting effect on both the operations and the finances of the laboratory.

TDR

Contact Robert S. Gregory 973-509-3782 or rgregory@atlasdev.com.

Delivers POC Anatomic Path Services To Doctors

Pathologist Builds General Path Business From Office Lab

CEO SUMMARY: *Doctors Pathology Services in Delaware is successful for two reasons. First it runs the largest pathology lab in the state. But more important, it runs one of the few successful mobile pathology services anywhere. The Mobile Intraoperative Consultation Service (MICS) allows the pathologist to do pathology work on site at ambulatory surgery centers, physicians' offices, or hospitals as needed. The MICS also allows the pathologist to consult with and market directly to physicians, as well as to meet with patients. It's a business model that offers many advantages for entrepreneurial pathologists.*

THERE IS A NEW BUSINESS AND MARKETING MODEL for anatomic pathology (AP) in Delaware. It is both mobile and office-based, and deals directly with surgeons and other physicians working outside of hospitals.

Raman (Ray) Sukumar, M.D., Medical Director of **Doctors Pathology Services (DPS)**, in Dover, Delaware, started his mobile anatomic pathology business three years ago and is already adding both more clients and more mobile laboratory vans. He spoke about his business strategies and experiences at the *Executive War College* in Miami last May 9-10, 2006.

Three years ago Sukumar moved into leased space in Dover to start up his new mobile pathology business, which he calls MICS, or Mobile Intraoperative Consultation Service. MICS is a state-of-the-art alternative to hospital-based anatomic pathology services.

It is this fact that sets Sukumar's anatomic pathology business model apart from anything existing today in the United States. What Sukumar accomplished since the founding of his AP practice three years ago defies the common wisdom in anatomic pathology.

Essentially, Sukumar established a pathology laboratory in an office build-

ing, and then developed a steadily growing general anatomic pathology practice including cytology, autopsies, and second opinions, that serves office-based physicians, ambulatory surgery centers, diagnostic imaging centers, and other outreach clients.

Meeting A Growing Demand

Sukumar has achieved this business success without any links to hospital-based pathology groups, nor by performing services for hospital inpatients and outpatients. This pathology service business model is unusual precisely because it is totally disconnected from a hospital. That distinguishes it from

almost every other pathology group practice in the United States—groups which are organized primarily to serve the needs of hospital inpatients. Most of these pathology groups then pursue outreach testing as an important supplement to their hospital-sourced revenue. Not Sukumar.

“In Delaware, the increasing number of ambulatory surgery centers (ASCs) created a service demand that was unaddressed by hospital-based pathologists in this state,” Sukumar explained. “I wanted the ability to deal directly with the surgeons and provide services they were unable to get immediately.

Reluctance To Compete

“Hospitals and hospital-based pathology groups often have difficulty developing new models and competing equally with commercial laboratory companies,” he continued. “This reluctance to respond to market changes, as well as the opportunities unfolding in Delaware, was frustrating. I decided to take control of my personal practice of pathology and become independent from any hospital.”

Sukumar's vision of a new service model for anatomic pathology was not without risk. But the clinical and business opportunity was compelling. “To my knowledge, this business model had no precedent, yet I could see how it could add value to referring clinicians and benefit patients,” he said.

Sukumar spent six months planning and preparing to launch the business. This time was spent interviewing prospective physician-clients about their pathology needs and preparing a prototype mobile histology van. He retained consultants to assist in business planning and implementation.

The consultants helped establish the information system; guide development of DPS' Web site, brochures, and forms; obtain CLIA certification for the lab; buy instruments; and get a loan. Sukumar worked on designing the van, leasing space,

Lab Business Start-Up Costs Required About \$700,000

RAMAN (RAY) SUKUMAR, M.D., Medical Director of Doctors Pathology Services (DPS), in Dover, Delaware, estimated that starting up DPS required a capital investment of about \$700,000.

This total included \$50,000 to build out and outfit a laboratory of 3,000 square feet, \$100,000 for instruments and microscopes, \$20,000 for start up supplies, \$10,000 for labor and travel, \$250,000 for information systems, and \$70,000 in start up cash.

An additional \$200,000 went into the Mobile Intraoperative Consultation Service (MICS), Sukumar explained. "A new MICS van costs \$200,000, and about \$4,000 a month to operate. This includes insurance, lease payments, and driving 50 miles a day," Sukumar said. "The daily costs are equivalent to reimbursement for one patient frozen section or one FNA per day."

To estimate the monthly revenue for the MICS and the stationary lab, Sukumar projects revenues of about \$275 per surgical accession or \$175 per 88305 Level IV surgical pathology, gross and microscopic.

hiring the right team of people, and organizing insurance contracts.

In launching his new pathology business, Sukumar believed it was important to emphasize the clinical value that his pathology services could bring to referring physicians. He holds three board certifications in pathology and he has a long-standing track record of providing high quality, low cost services.

"I wanted to deliver pathology services with the sophistication of an academic center, but in a way that enhanced the physician's personal practice of medicine," noted Sukumar.

"This goal led me to the current service model we use today.

"Because this business model of pathology was unknown, we had to create everything ourselves, matching our capabilities to the different needs of office-based physicians, ASCs, and other referral sources," he added. "When we thought we were ready to open our doors, we did a dry run for a week. The goal was to perfect the front end of the laboratory to guarantee an excellent first impression with clients."

The linchpin to Sukumar's business strategy was a mobile pathology van. "The van would travel to client sites so that we could provide frozen sections and adequacy for fine needle aspirations (FNAs)," he said. "But since we provide what is not available to them, they give us all their other tissues that our transporters take back to the lab for regular processing." Setting up a histology laboratory for frozen sections in an ambulatory surgery center (ASC) proved to be expensive—both in equipment and employees.

On the other hand, Sukumar recognized that providing pathology services at the ASC or physician's office would give his company competitive advantage. Thus, he decided to bite the cost bullet and proceeded to take the frozen section equipment to the surgical centers and provide real time results, confer with the surgeons, and be available to talk with patients.

Laboratory On Wheels

"One of our biggest challenges was perfecting the van," recalled Sukumar. "We want to make sure that the histology van worked perfectly when at a client's office or ASC. We plan to have the patent rights by the end of the year. We worked with a former **Chrysler** engineer and an RV builder to design the inner workings, the necessary connections, and fine details.

“Much hard work went into our prototype,” he said. “The end result, however, is an office and laboratory on wheels. It’s been the perfect solution for a one-pathologist service.”

Sukumar’s goal of serving ambulatory surgery centers puts him at the center of one of healthcare’s fastest-growing clinical services. The number of ASCs increased by 50% from 1997 to 2003. Among Medicare certified ASCs, 40% are concentrated in five states: California, Maryland, Florida, Texas, and Washington.

Many of these ASCs are independently owned. Local physicians often share in the ownership. It is common for these physicians to join with hospitals or to partner with a larger for-profit company that specializes in building and operating ASCs.

Full Line of Path Services

Sukumar points out that the fastest growing procedures done in ASCs, endoscopy centers, and physicians’ offices include minor musculoskeletal procedures, minor general surgeries, breast biopsies, skin lesions, colonoscopies, and upper gastrointestinal endoscopies. Insurance plans are recognizing the clinical and economic benefits of these services and an ever-increasing number of payers cover these procedures. New technology also supports closed surgical techniques. For example, the new technology of fast-acting anesthetics now make it possible to perform certain procedures in an ASC.

Sukumar’s business strategy is simple. “We provide the full line of pathology services,” he said. “We start a relationship by offering on-site frozen section and FNA adequacy services. Most physicians are delighted when they learn that a pathologist will come to their location and provide a real-time diagnosis. As they learn

about our quality and service, we then gain entrée to the physician office work.

“Using this business formula, DPS has grown rapidly over the past three years,” continued Sukumar. “It is now positioned for additional growth in all areas, including plastic surgery, ENT, GI, ob-gyn, FNAs, tumor markers, muscle biopsies, skin, bone marrows, podiatry, endocrinology, and veterinary pathology.

“One of us drives to the ASC in the van, which is equipped like a pathologist’s office and includes the equipment necessary for cutting, staining, and reporting—all the aspects needed for frozen sections,” Sukumar explained. “While on site with a client, I take the opportunity to develop relationships and conduct marketing discussions with the surgeons, physicians, and nurse practitioners at the facility.

“Some sites have as many as 20 to 40 surgeons, so it is very productive for me to personally introduce myself and my pathology services to these physicians,” he added. “It is actually a powerful way for me to sell my pathology practice because I am a doctor presenting my clinical services to other doctors. Physicians like the fact that they know me personally and I am willing to travel to their site to provide real-time pathology services.”

Staffing For Service

Since the launch of the business in May 2003, DPS has grown rapidly and become profitable. “We started with seven full time employees,” said Sukumar. “We now have 25 people on staff, which equates to 16 FTEs.

“The breakdown of staff physicians shows the breadth of technical capabilities in our laboratory,” he added. “There are 2.6 pathologists; 1.2 cytologists; 1.0 molecular technologist

(who is in management training); 1.0 administrative manager, who works as a pathology assistant 50% of the time; 1.0 histology technical manager; 3.5 histology techs; and 6.7 FTEs for other support positions. Also, the plans are to expand our MICS service with the mobile laboratory. So the company will be looking for a new pathologist to run DPS. At that point, I'll be searching for a special person who would work with us."

In addition, Sukumar has hired a physician with three years of experience in molecular research and development in China. "This addition makes it possible for our pathology company to be more involved with molecular research projects at universities," explained Sukumar. "This also positions DPS to be first at introducing new diagnostic procedures to its client physicians."

Move To A Larger Lab

One indication of the practice's rapid growth is the fact that DPS moved to larger laboratory facility in October. Currently the laboratory serves an average of 70 patients per day.

"The new laboratory contains about 10,000 square feet of space and is one of about 30 labs in the United States that provides PCR-based testing for sexually-transmitted diseases (STDs) and genetic testing from liquid-based cytology," Sukumar noted. "We can provide cytology, GC/CT, and HPV all from one vial. We perform immunohistochemistry, FISH, ISH, DIF, special, and routine stains.

Quality and service is a given and Sukumar stays on top of both. "We have 48-hour turnaround time (TAT) with 24/7 accessibility," he said. "Our front end staff is exemplary. We have comprehensive, easy-to-read reports with uniform reporting formats.

"We provide periodic monthly quality assurance (QA) data for our

clients, so they can see how they are involved in the laboratory process," continued Sukumar. "QA is an important aspect of the laboratory. Errors are monitored by the Rollover Monitoring System using **CoPath**. We divide the monitors into groups, including client errors, front-end errors, grossing errors, technical errors, transcription errors, and pathologist errors."

Pathologist-to-Physician

Sales development is ongoing at DPS and emphasizes pathologist-to-physician contacts. "Most of our work comes from networking, and referrals. We choose our expansion wisely," stated Sukumar. "We are careful to assess each regional market that we enter. We choose not to take on work that is not our strength. We do only what we do best.

"Factors we consider in our marketing efforts include case mix and volume in a market, reimbursement rates, amount of self pay, and the likelihood of collecting," he explained. "With slim profits from some insurance companies, we monitor our billing results closely. We outsource billing and monitor the results."

Delaware's Largest AP Lab

Over the past three years, Sukumar and his staff have become the largest anatomic pathology service in Delaware. DPS offers specialties in hematopathology, cytology, dermatopathology, uropathology, and GI pathology.

"Our business strategy is to remain in the Delaware area and become a pathology service for pathologists," he explained. "We will help set up community-based pathology services. We can now also direct hospital AP and CP services and provide pathology services to ASCs and diagnostic imaging centers (DICs). We will help set up pathology labs, provide locum tenens services for

Ray Sukumar, M.D. Shares Lessons Learned During Business Launch

FOR THOSE PATHOLOGISTS considering a mobile pathology service, Ramen (Ray) Sukumar, M.D., Medical Director of Doctors Pathology Services (DPS), in Dover, Delaware, suggests using the Medicare fee schedule as expected revenue. Doing so means the pathologists would need to keep all costs low. Sukumar offered the following lessons learned during the launch and operation of his pathology practice:

- Keep the organization flat. Have no VPs and supervisor titles.
- Become a member of buying clubs. Buy previously-owned vehicles for transportation.
- Hire tech-savvy support staff, college graduates, and reliable part-time staff.
- Hire only those techs that can gross.
- Hire a bookkeeper and keep close tabs on expenses and revenue.
- Set up an easy-to-use, flexible laboratory information system.
- Save by scanning requisitions and other important documents.
- Rent or lease lab space. Don't buy.
- Build a diversity of clients. Don't count too much on one large client. "In the first seven months we lost 40% of our work overnight due to a change in an insurance contract," Sukumar said.
- Don't count on patients paying their bills.
- Outsource billing, and get the billing company to arrange contracts for you.
- Don't bargain on fees. Get the contracts first. Next, demonstrate how important your pathology services are to the physicians. Then renegotiate contract terms.
- Provide patient education to clients so that patients better understand pathology and lab services. This educates and encourages patients to pay.
- It is imperative to get perfect front end demographic data.
- Have a second person do QA on the data entry, which prevents back end corrections and rebilling—both costly and time-consuming steps.

small groups, and provide rapid and low cost consultation services where needed. We also have mobile histology vans (MICS) that we can franchise and plan to have a booth at the **Federated Ambulatory Surgery Association (FASA)** annual meeting in New Orleans in April 2007."

Business growth has provided sufficient cash flow to pay off all loans and produce a monthly net profit, he said. Having cash flow and a modest profit allows Sukumar to give employees education benefits, a profit sharing plan, and to offer four-day work weeks.

Substantial Demand

Sukumar recognizes that his pathology practice business model is unusual, but he believes it is a model other pathologists should emulate. "In almost any community in the United States, an office-based pathology practice like DPS can profitably provide services to the many physicians who practice in offices and/or who operate ASCs that are not affiliated with hospitals.

"What's more, in healthcare, there are several areas where growth in demand for pathology services is substantial and increasing," continued

Sukumar. “There is growth in ASCs, endoscopy centers, and diagnostic imaging centers (DICs) in Philadelphia and in Washington, D.C. We will use our second mobile van to expand into these two markets.

“In addition, we believe we provide better service than national lab companies,” Sukumar continued. “Look at what we bring to the table. We know the physicians, we live and work in the community, and we can physically be at their site when they need us. We have the expertise and the knowledge, and we bring surgeons a level of pathology services they can get from few other sources.

“These surgeons appreciate their relationship with us, particularly since we provide that extra level of service to their patients. They feel they get the best of both worlds—the academic-level pathology service that includes the latest diagnostic technology and knowledge, delivered by an efficient, well-run operation.”

Freedom From The Hospital

For Sukumar, there are significant other advantages from running a mobile lab. “I particularly like the freedom from hospital bureaucracies,” he offered. “The system of non-profit hospitals is one source of the expensive and often unreliable care delivered in this country. Hospitals are frequently slow to react to physician and client needs. Their clinical decisions often don’t involve the physicians who bring in the business. They often don’t have the cash or the interest to support entrepreneurial development, and their accounting systems are inefficient at finding the true cost of service.

“That is why there is change within the healthcare system and the steadily growing number of ASCs and

DICs are taking work away from hospitals,” he observed. “In the past, it was necessary for physicians to be closely connected with their local hospitals. But today, there are compelling advantages for physicians to refer their patients to non-hospital facilities.”

THE DARK REPORT observes that this trend of physicians moving away from hospitals is the fuel that propels growth in Sukumar’s operation. Progressive pathologists and pathology practice administrators would be well served to study Sukumar’s new pathology business model and adopt its best features into their own practice environment.

Competitive Advantage

DPS’ success and early growth validates Sukumar’s vision, hard work, and commitment to client service. What’s more, Sukumar’s timing is perfect. ASCs now provide physicians with more control over the procedure scheduling for surgeons and financial opportunity. So too does the mobile histology van (MICS) business concept provide pathologists with a value-added service that can attract all of a physician’s case referrals. It opens the door to larger volumes of specimens and revenue that provide local pathologists with more control over their business while generating increased profit.

Clinical Opportunities

Sukumar’s entrepreneurial success is both a reminder and an example to the pathology profession. There is opportunity for a pathologist to build a financially viable practice by providing other physicians with clinical services that have added value and enhance clinical outcomes. **TDR**

Contact Ray Sukumar, M.D., 302-677-0000 or rsukumar@dpspa.com.

—By June Smart, Ph.D.

Acute Histotech Shortage Grows Across the USA

Trends in histology point to a widening gap between supply of labor and demand by labs

CEO SUMMARY: Pathology laboratories are enjoying steady increases in specimen volume and revenue as new molecular assays gain acceptance by clinicians. However, the supply of histotechnologists is failing to keep pace with growth in the volume of tissue-based testing. One executive who places histotechs into laboratories predicts that competition among labs for skilled histotechs will intensify.

IT'S A GOOD NEWS/BAD NEWS STORY in anatomic pathology. Clinical demand for tissue-based diagnostics is exploding as new technologies make it possible to diagnose cancer and other diseases with more accuracy and sensitivity.

However, most laboratories are unable to hire enough histotechs to process the current volume of specimens. The national and regional shortage of histotechs is fast-becoming a universal problem. Some regions have even seen laboratories engaged in bidding wars for skilled histotechs.

"There are two main reasons for the shortage of skilled technicians in pathology: low pay and high stress ahead," explained Anthony Williams, founder and CEO of the **Histotech Exchange, LLC**, in Lexington, Virginia (www.histotechexchange.com).

"While the rate of pay for technicians has risen slowly in recent years, the increase has not been sufficient to attract and keep skilled technicians in most positions," he said. "Seeing pay rates that can be 25% higher in other

positions, many techs shun low-paying work and seek better-paying jobs."

The shortage of technicians in anatomic and clinical pathology labs is well documented. The **American Society for Clinical Pathology (ASCP)** reported in August that some 44% of hospital, reference, and physician office laboratories were experiencing difficulties recruiting or hiring medical laboratory personnel. The ASCP findings came from a report based on 2005 data.

Histology Wage Gap

"This shortage has been with us for some time, and part of the reason is that the average annual wage for a histotech has been stuck at about \$30,000 in recent years," Williams observed. "Other technical staff working in laboratories often earn about \$40,000.

"For many histotechs, it's easy math to figure that they are making less money than those in other technical positions. They ask, 'what's the point of going into histology?' They might as well go into clinical chemistry, hematology, or other areas because that extra 25% makes a big difference.

“Further, not only is the pay low relative to other positions in the lab, but there is a high stress level,” commented Williams. “When you do a repetitive job, it’s extremely easy to make mistakes. It’s easy to transpose a number. Now you have an error and who knows what will result from that error? It could be something minor or it could end up harming a patient.

Burnout And Retirement

“Along with high stress comes burnout,” Williams added. “Relatively low pay for histotechs and the shortage of staff means many laboratories overwork their staff to the point of burnout. Add to that impending retirement—some statistics indicate that between 50% and 70% of histotechs are planning to retire in the next 10 years. That will only exacerbate the shortages we see now.

“In addition, labs try to do more today than they have done in the past,” he said. “That requires all technical positions to work at very high levels of productivity, also increasing stress. Pathologists know the work they do is stressful. But they often fail to recognize that the histotechnologist also has a stressful job.

“A histotech might cut 350 to 500 blocks a day,” Williams said. “Or, the histotech might imbed a large batch of blocks, or similarly handle many specimens in grossing. At each of these stages, there is opportunity for error. Furthermore, ongoing increases in the volume of specimens to be processed during each shift also contribute to increasing the level of stress in the lab.

“Keep in mind that the work done by histotechs is much less automated than most other disciplines in the laboratory,” noted Williams. “Histology today is organized around mostly manual work processes. In every lab, you can see the handprints of the histologist on the final product.

“People who care about histology recognize that the situation is like a perfect storm,” Williams added. “When the numbers of samples to process go up, the stress level goes up, and the more stress you have, the more burnout you get on the job.

“There’s another squeeze on laboratories. Because the workload is already high, they need new histotechs on the job now,” said Williams. “But, because the workload is so high, there’s no time to train anyone. To solve this problem will take time.

“Laboratories will have to pay more,” he predicted. “In Connecticut, a colleague of mine was given two pay upgrades in two years because labs in that state are trying to retain their histologists. Proactive pay increases to keep histologists from jumping to other jobs indicate that there is a bidding war. That’s good news for histotechnologists.

“The shortage is also good news for those of us who are trying to fill these positions,” added Williams. “Help wanted ads make it easy to see that employment agencies are robbing Peter to pay Paul. They take techs away from some jobs and put them back into other jobs for more money. Most agencies charge anywhere from \$60 to \$110 an hour for technicians. So there is a big spread.”

Shortage Will Increase

THE DARK REPORT was first, several years ago, to note that the shortage of histotechnologists was actually more acute in most regions than the shortage of medical technologists. As indicated in this briefing, demand for histotechs will outstrip the supply for many years into the future.

TDR

Contact Anthony Williams at 877-464-8911 or anthony@histotechexchange.com.

INTELLIGENCE

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



“Postal Rage” is the term coined to describe the phenomenon of crazed postal workers rampaging through post office facilities shooting at co-workers. In recent days, the nation may have seen its first example of “Patient Rage” in a hospital. On November 20, a patient standing in line to get a prescription from the ambulatory pharmacy at **Shands Jacksonville Hospital** in Jacksonville, Florida, got frustrated with the wait, pulled out a gun, and killed the pharmacist.

MORE ON: “Patient Rage”

Arrested on the hospital grounds for the murder of the pharmacist was 46-year-old Brenda Joyce Coney. Karen Shack, a witness to the shooting, told a news reporter “She said, ‘I’m not going to stand in line anymore.’ She took the gun and went ‘Bam! Bam!’ Shot the lady twice.” Shack then said that Coney left the pharmacy and returned minutes later and put another bullet into the pharmacist. Given the proclivity for copycat crimes in the United States, it may be only a matter of time before a similar shooting happens at another hospital.

COMPETITIVE BID DEMO APPROACHES, BUT NO DETAILS FROM CMS

It remains unknown which two Metropolitan Statistical Areas (MSAs) will be the sites for the Medicare demonstration project for competitive bidding of laboratory services. The **Centers for Medicare and Medicaid Services** (CMS) has indicated it would issue bidding documents on January 1, 2007, and will implement the demonstration on April 1, 2007. On November 15, the **Clinical Laboratory Coalition** met with officials from CMS specifically to express concerns about the paucity of information and potential for this project to disrupt patient access to laboratory services in the regions selected for the competitive bidding demonstration project.

ADD TO: Medicare Demo

CMS had two officials at the meeting. Tim Love, CMS Director, Office of Research, Development, and Information and Linda Lebovic, Demonstration Project Manager for Competitive Bidding for Clinical Lab-

oratories, represented CMS at the November 15 meeting. CMS’ message to the lab industry was that the **Office of Management and Budget** (OMB) needed to approve the design of the demonstration project. CMS indicates that once OMB approval is received, it intends to announce the sites for the project and post the full details on its Web site. Included will be a market analysis of the first sites, along with test volumes and test weights.

TRIPATH’S EARNINGS

TriPath Imaging, Inc. expects its acquisition by **Becton Dickinson and Company** (BD) to be completed, possibly before year end. TriPath reported its third quarter earnings. Revenue was \$26.0 million, an increase of 21% from third quarter 2005. Net income was \$68,000, compared with net income of \$1.8 million for third quarter 2005. On December 19, TriPath’s shareholders meet to vote on adopting the merger agreement.

*That’s all the insider intelligence for this report.
Look for the next briefing on Monday, December 18, 2006.*

Save the Date!

EXECUTIVE WAR COLLEGE

May 10-11, 2007 • Intercontinental Hotel • Miami, Florida



UPCOMING...

- ***Our Always-Provocative Picks For 2006's Top 10 Lab Industry Stories.***
- ***Hospital Laboratory Outreach Opportunity: How Savvy Local Labs Are Benefiting from UnitedHealth's National Lab Contract***
- ***Breakthrough On A/R Collection Results.***



Check out our newest service!

Delivered directly to your desktop,
DARK Daily is news, analysis, and more.

Visit www.darkdaily.com

Get started today!

For more information, visit:
www.darkreport.com