



From crisis to collaboration

How teams can find flexible formulas to address lab operations challenges



Collaborative
Lab Solutions

Health systems are eager to move forward after COVID-19. But unprecedented roadblocks are holding them back.

All-time-high inflationary pressures, critical labor shortages, and declining reimbursements are just 3 of the many barriers health systems face today as they struggle to achieve the Triple Aim—improving the patient experience, addressing population health, and reducing costs.

To regain their forward momentum, savvy CEOs are forming new partnerships. And many of these collaborations are starting in the one area that impacts every aspect of a health system: the laboratory.

These new types of partnerships transform the laboratory from a cost center to a revenue driver, creating efficiency and optimizing costs while improving service offerings for both providers and patients.

Let's unpack the mounting challenges that health systems and their laboratories face and explore how the right types of strategic partnerships can help them create a clear path forward.

Six market forces accelerating the trend toward collaboration

1 Margin pressures

More than half (55%) of all hospitals lost money from operations in 2022, with margins falling an alarming 31% from 2019 pre-pandemic levels.¹ While early 2023 data indicates some potential margin stabilization, widespread improvement isn't expected anytime soon.

“Margins... continue to sit at razor-thin, near-zero levels, putting hospitals in a vulnerable position should a recession or new public health emergency materialize.”²

2 Cost increases

Estimated total hospital laboratory spend is near \$47 billion annually and trending upward.³ Pandemic-related delays and price surges for reagents and other vital lab supplies have created new financial stressors.

3 Health system expansion

After hitting an all-time low in 2021, health system mergers and acquisitions (M&A) activity is back on the upswing, with 53 transactions in 2022.⁴ Each merger means that a health system must manage more labs—and do so more efficiently.

4 Ongoing consolidation

This is a consequence of robust M&A activity over the last decade. Today, nearly one-quarter of the market is owned by just 10 health systems.⁵

5 Labor shortages

Health system staffing costs are up 23% since 2019.⁶ Simultaneously, a nationwide shortage of scientists and technologists is squeezing laboratories especially hard.



12K new lab technologists⁷

needed annually to meet demand



Academic programs produce just

5K graduates per year⁷




6 Reimbursement cuts

On January 1, 2023, the Centers for Medicare and Medicaid Services' Clinical Laboratory Fee Schedule (CLFS) implemented payment cuts as high as 15%.⁸ This creates an ongoing challenge: How do health system laboratories accomplish more with less margin?

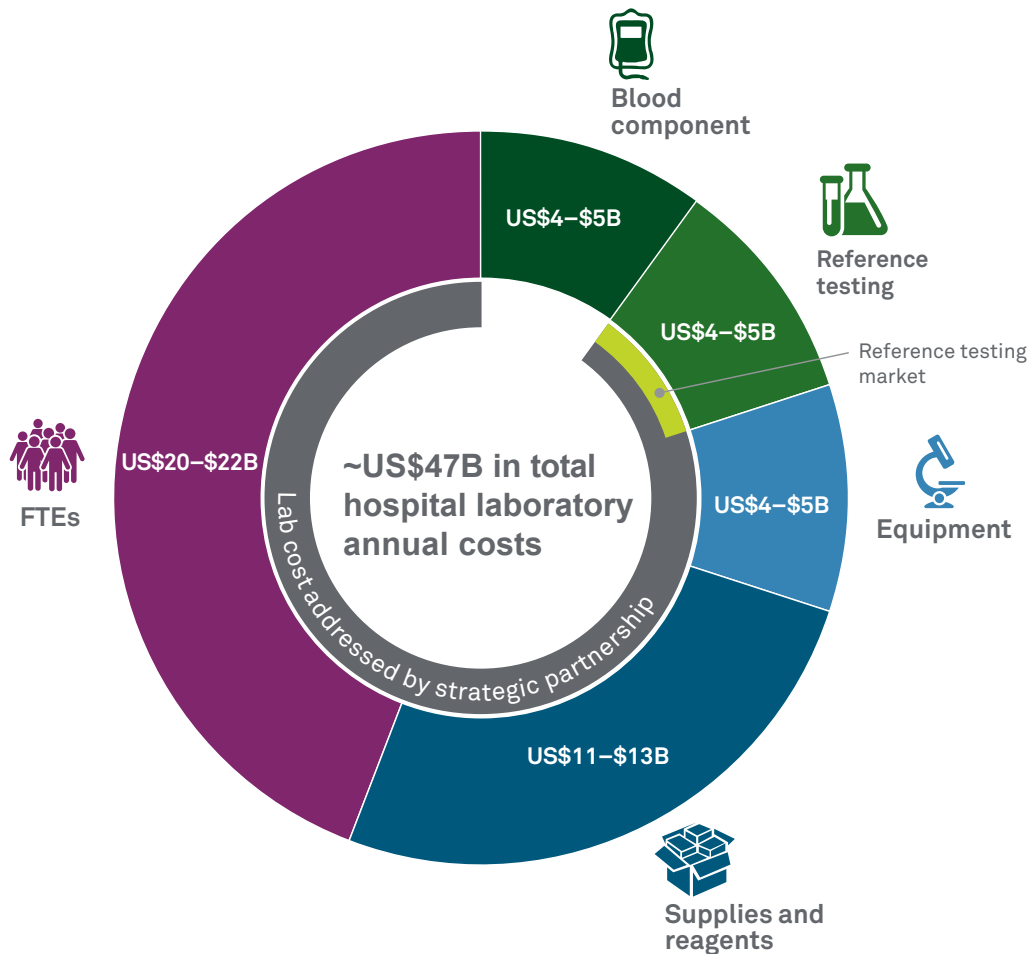
Laboratory management strategies evolve to meet today's challenges

Given the extreme nature of their operational and economic pressures, many hospitals are shifting their laboratory management strategies toward partnership models and stewardship programs. Such collaborations help hospitals optimize resources, cut waste, and enhance both business and patient outcomes.

This represents a seismic shift in the health system landscape. In the past, most partnerships between hospitals and commercial laboratories began and ended with reference testing. Health systems often chose to continue insourcing their other laboratory resources, including capital equipment, supplies, and full-time employees. But doing so today creates additional risks that are no longer sustainable for the majority of health systems.

Health system's reason	Health system's risk
 Desire to own equipment inventory	 Responsibility to maintain, service, repair, and replace that drives capital expenditures
 Desire to insource supplies and reagents	 Lack of purchase and sourcing power during supply chain constraints
 Desire to keep employees internal	 Difficulty recruiting and retaining phlebotomists, administrators, and other lab personnel

With new types of collaboration, health systems can reduce these risks and address the largest part of their total laboratory spend: labor. A lab's workforce represents the largest (55%) portion of its budget. Supply chain accounts for an additional 35% of that budget, while reference testing alone only accounts for about 5% to 10%.





Strategy session: How health systems can identify the right lab collaboration opportunity

The emergence of new models makes laboratory collaboration a reality for most health systems today. Yet no 2 approaches are exactly alike.

How do you know which one will fit your organization the best? Start by reviewing your current laboratory strategy. Consider your current capability to withstand the labor shortage, weather the strengthening storm of price hikes and reimbursement cuts, and achieve operational efficiency. Also, evaluate your laboratory's current equipment and whether or not it will help you keep up with the accelerated pace of innovation over the next 5 to 7 years.

If during your evaluation you find that your laboratory is experiencing any of these 5 challenges, then it's wise to start exploring potential partnerships:

- 1 **We're augmenting our laboratory staff** with pricey contract workers.
- 2 **We need to improve our compensation packages** to compete for talent.
- 3 **We must make extensive investments in automation** to keep pace with testing volumes.
- 4 **Our technology is out of date**, and upgrades are too costly to handle on our own.
- 5 **We're struggling to keep up** with regulatory changes.



Who to involve in the decision- making process?

If you choose to explore collaboration approaches with a commercial laboratory, bring your key clinical and financial stakeholders into the discussion. They likely will have widely different views on the best route forward.

The key for health system executives is to identify a solution that will achieve middle ground for your stakeholders and create multiple wins for operations, clinicians, your laboratory, lab leaders, and your organization as a whole.





Professional laboratory services: Collaboration built for the modern health system

Two rapidly emerging—and popular—collaboration options for health systems fall under the umbrella of professional laboratory services. These models solve for one of the biggest hospital pain points: an understaffed laboratory.

Negative effects of an understaffed laboratory



Legacy employees leave and take their experience with them



Hours get reduced



Overtime costs for workers increase



Remaining workers must do more with less



Patient care suffers



Services get scaled back

Benefits of professional laboratory services

- Remove day-to-day management burden
- Redirect resources toward growth areas
- Enhance lab quality
- Manage testing at scale
- Eliminate future capital expenses
- Decrease administration costs
- Consolidate space
- Improve turnaround times
- Optimize staffing levels
- Improve staff satisfaction

How professional laboratory services meet these challenges

In a professional laboratory services model, health systems partner with a commercial lab. The partner takes on the responsibilities of recruiting, hiring, and retaining staff, thus allowing health systems to attract highly qualified laboratorians and maintain the efficiency and excellence of their labs.

These types of collaborations may include:



Lab management partnership

You transition your laboratory's management and supervisory personnel to your chosen partner. Your health system maintains responsibility for hiring and retaining frontline staff, while the partner takes on the burden of finding highly qualified leaders capable of growing your lab team.

A partner in this type of relationship can also support your lab's clinical and operational needs. This may include negotiating current and future contracts with suppliers, upgrading lab equipment, and enhancing overall laboratory efficiency.



Full laboratory management

You transition your entire laboratory staff to your chosen partner, and the partner takes on the responsibility for day-to-day lab operations. This model empowers your partner to help you enhance various aspects of your hospital laboratories, including:

- **Staffing** – Hiring most or all of your existing and future employees, including technicians, phlebotomists, and administrators
- **Equipment** – Acquiring all current capital equipment, then helping you create a replacement plan that will help you modernize your lab
- **Workflows** – Prioritizing resources against revenue generators and balancing workflows across shifts and departments to boost staff morale and prevent burnout
- **Quality control** – Implementing proven tools, processes, and control measures that level up to broader organizational objectives and improve patient care
- **Standardization** – Achieving consistency across your lab or multiple labs (depending on your health system's size)
- **Benchmarking** – Uncovering the data that can help your lab objectively measure its performance and inform key strategic decisions around resource allocation and staffing
- **Technology** – Integrating billing and data systems for maximum efficiency
- **Goal setting** – Establishing KPIs and measuring them to drive results



What will my lab employees think?

As you start exploring your options for professional laboratory services collaboration, it's important to find a partner that will continue to invest in your lab staff. Ask potential partners about items such as employee compensation, benefits, and professional development opportunities, so you can ensure you're creating a value-added situation for all staff members who transition over.





Success story: professional laboratory services in action

A large, integrated healthcare network sought a way to optimize its laboratory services without sacrificing quality. The system includes a wide variety of facilities, including academic medical centers, community hospitals, children's hospitals, a behavioral health hospital, and two rehabilitation hospitals.

The network chose to engage Quest Diagnostics in a full laboratory management collaboration, transitioning more than 700 lab employees to Quest. As a result of the partnership, the network:

- Right-sized its labor workforce across all its laboratories, redeploying staff as needed
- Created a plan to standardize and upgrade laboratory equipment at all hospital locations
- Used data to understand and properly utilize its ordering patterns
- Reduced overall laboratory costs

In addition, the health network moved a subset of its testing to Quest's Clifton, NJ lab, an always-on, world-class facility that uses extensive automation to virtually eliminate human error, minimize the risk of specimen loss, and reduce turnaround time.



8% - 15%

Estimated financial gain for health systems with professional laboratory services.⁹

Why collaboration doesn't mean takeover

The key to success with professional laboratory services is collaboration. The right partner won't necessarily know how to run your lab better than you do right now—after all, you know your health system's strengths better than anyone.

Instead, a commercial lab will understand that your combined strengths will be greater than each partner's individual strengths. Look for partners who will allow you to retain autonomy, with governance models that give your organization's stakeholders the final say on important strategic decisions.

Moving closer to the Triple Aim

Diagnostics play a central role in helping health system's journey toward achieving the Triple Aim. Strategic partnerships with the right commercial lab can help hospitals:

- Improve the patient experience by enhancing quality, reducing patient length of stay, and diminishing readmission risk
- Address population health by elevating insights to the population level for a defined cohort of patients
- Reduce costs by addressing equipment, supplies, and FTEs



Ignite collaboration with Quest

When it comes to professional laboratory services collaboration, Quest Diagnostics offers unique value to health systems of all sizes. We currently manage complex clinical laboratories across hundreds of organizations nationwide, delivering value far beyond our roots as a reference laboratory.

We will work by your side as an experienced consultant and seasoned implementor. You'll benefit from our decades of expertise in finding, hiring, and retaining highly qualified laboratorians. And with our national lab footprint and network of more than 2,000 phlebotomy offices, we'll help you generate significant laboratory and equipment savings without sacrificing laboratory quality.



Identify collaboration opportunities at
CollaborativeLabSolutions.com



Ready to talk lab strategy? Pick a date
and time at **MeetWithQuest.com**

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