

LABORATORY

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HIGHLIGHTS

INDUSTRY NEWS

Independent labs winning growth battle 1
Calif. AG investigating billing at labs 1

MARKET SHARE FOCUS

Analysts tell Genoptix to grow sales, expand staff 2
LabCorp teams up with Denver's National Jewish Health 4

INSIDE THE LAB INDUSTRY

Who's winning the growth and revenue battles for industry market share? 5

SPECIAL REPORT

2008 Lab Sales Compensation Survey results S1

INDUSTRY DEVELOPMENTS

BloodCenter of Wisconsin opens Mol Dx oncology lab 8
Washington Hospital Center leans its billing department 9
Detroit's St. John selling outreach lab business 10
Gamma-Dynacare to buy Central Medical Labs 10

FINANCIAL UPDATE

Lab stocks up 4% over past five weeks 11

INDUSTRY BUZZ

Sunquest to buy PAML's Outreach Advantage 12

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G-2 Predicts Lab Industry to Grow 6.7% to \$58.8B in 2009, Independent Labs' Growth to Outpace Quest & LabCorp Through 2013

The independent labs are winning the growth battle with an expected compound annual growth rate (CAGR) of 12.5 percent between 2008 and 2013, compared to Quest and LabCorp's expected CAGR of 8.8 percent over the next five years, announced Brian Buxton, principal and co-founder of Easton Associates (New York City), at Washington G-2 Reports' LabCompete Sales & Marketing Institute, held Dec. 10-12, 2008, in Scottsdale, Ariz.

Looking to the more immediate future, Washington G-2 Reports is predicting overall growth of 6.7 percent to \$58.8 billion in 2009 for the clinical lab industry, according to preliminary data from the forthcoming *Lab Industry Strategic Outlook 2009*. This growth is primarily driven by esoteric testing, which is expected to have a 27 percent growth rate.

For more current market analysis and data from LabCompete, turn to *Inside the Lab Industry*, pp. 5-7. 

California Attorney General Investigating Labs for Improper Billing

California Attorney General (AG) Edmund Brown reportedly is conducting an investigation of clinical laboratories over allegations of inappropriate billing under the Medi-Cal program, reports *Laboratory Industry Report's* sister publication, *G-2 Compliance Report*.

Details are few as labs that have received requests for information have been told not to discuss the investigation, sources say. However, the office reportedly is looking at whether labs are billing Medi-Cal more for testing services than they bill under negotiated fee-for-services arrangements in the state. A spokesman for the California Attorney General says the office will neither confirm nor deny any investigation into billing by clinical laboratories.

These overbilling allegations reportedly have stemmed from a whistleblower case, sources tell Washington G-2 Reports, although it is unclear just how many California labs are included in the investigation. In the most recent quarterly earnings filings, *Cont.*, p. 2



■ LABS FOR IMPROPER BILLING, *from page 1*

both Quest Diagnostics (Madison, N.J.) and LabCorp (Burlington, N.C.) disclosed that they had been contacted by the California Attorney General for information related to the state's Medicaid program. Both companies indicated that the request was in addition to a subpoena for information originally issued in May 2006. The U.S. Department of Justice is also currently investigating Quest for billing practices related to AmeriPath's flow cytometry testing panels performed on blood, bone marrow, and lymph node specimens. The inquiry seeks to determine whether AmeriPath may have billed for laboratory tests that were not medically necessary, according to Quest's recent quarterly earnings filings.

Michael Arnold, a lobbyist for the California Clinical Laboratory Association, believes the California AG might be on a "fishing expedition." The requests for information that have been received thus far have been "totally outlandish," he notes. "This appears to be a giant overreaching by the AG."

This is not the first time that the California AG has investigated clinical laboratories. Most in the industry remember the investigation of National Health Laboratories (NHL) in the early 1990s, which resulted in a \$111 million fine and prison time for the chief executive officer of NHL. That case led to a national enforcement effort by the Department of Justice dubbed "lab scam," which meant extensive fines for every major commercial laboratory. 🏛️

Analysts Tell Genoptix to Grow Sales, Pathology Staff to Expand 5%-6% Market Share

The bone marrow testing aspect of the hematological malignancy diagnostic market is valued at nearly \$1.1 billion, with the San Diego-based Genoptix capturing a 5 percent to 6 percent share of this highly fragmented market. However, this specialty lab will need to focus on driving volume growth through expanding both the sales and pathology staff to avoid growth slowdown from increased competition and resource constraints, according to a recent research report by William Blair & Company (WB&C, Chicago) analysts Amanda Murphy and John Kreger. WB&C initiated coverage of the company with a "market perform" stock rating.

Genoptix's business model is focused on office-based hematologists/oncologists (hem/oncs), and who represent 70 percent of the 11,000 practicing hem/oncs in the United States, according the American Medical Association. Genoptix's rapid growth—revenues are expected to grow 93 percent this year over 2007's figures—and the attractiveness of this market have grabbed the attention of competing labs who are already focusing on increasing their esoteric testing menus. "Based on our understanding PLUS Diagnostics, Clariant, PhenoPath, CBL Path, and Caris have all entered or indicated their intention to enter the hematopathology market," wrote Murphy and Kreger. "Therefore, we expect Genoptix to face increasingly aggressive competition over time, which could represent a risk to the company's ability to sustain the level of volume growth it has achieved historically."

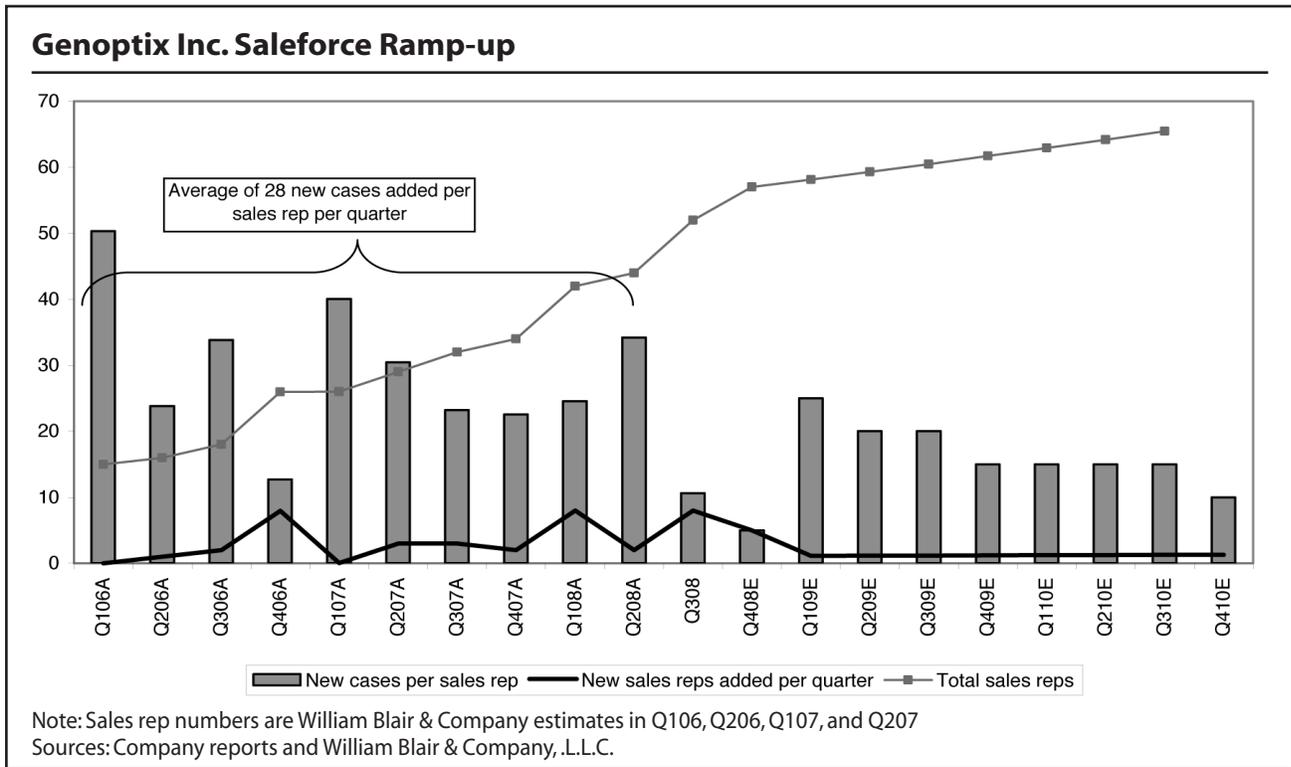


Expand With Care

To counter competition, the key to driving volume growth is salesforce expansion, followed by an expansion of the hematopathology staff to maintain a reasonable workload per pathologist—approximately six to eight cases per day, recommend the WB&C analysts. While the salesforce needs to expand into new geographic areas and further penetrate existing geographies—each rep should manage no more than an average of 20 to 25 ordering physicians at one time. “Any more than this and reps are not able to provide adequate hem/onc face time to ward off competitors,” write Murphy and Kreger.

The growth of the hematopathology staff also needs to be handled with care—as one of Genoptix’s value offerings is a personalized, comprehensive approach to testing. To support this high-quality model, there is not much opportunity to increase the pathologists’ throughput beyond the six to eight total blood and bone marrow cases (or four to five bone marrow cases). Therefore, the staff or base needs to be expanded.

But this will likely be a significant challenge for Genoptix because there are a relatively few hematopathologists in the United States. Currently, only 1,500 are practicing in the United States, with about 75 becoming board certified every year. Nevertheless, the WB&C analysts are calling on Genoptix to ramp-up its hematopathology staff over the next two years—from the current total of 25 to 44 by the end of 2010. “While this number appears small . . . a number of hemopath[ologist]s practice out of the realm of independent labs—that is, in academia or community-based practices that service hospitals,” said Murphy and Kreger. In our view, the ability to attract and grow its hematopathologist base could become a limiting factor for the company.” 🏛️





LabCorp Teams With Denver’s National Jewish Health for Mol Dx Development

Burlington, N.C.-based LabCorp has announced plans to partner with National Jewish Health (NJH, Denver) hospital system to develop and market molecular diagnostic tests. This is not a testing service joint-venture partnership, but rather focused on bringing companion diagnostics to market, most likely in the area of cardiology-, respiratory-, and immune-related diseases that NJH calls its “core clinical areas of excellence.”

This announcement comes only months after a former LabCorp executive, Gary Smith, Ph.D., was named executive director of National Jewish Health’s outreach lab businesses, known collectively as the Advanced Diagnostic Laboratories (ADx). Smith was with LabCorp for 14 years, most recently as senior vice president of managed care, Western operations and senior vice president of operations, Midwest division.

In addition to this deal with LabCorp, ADx has recently announced a strategic development partnership with international diagnostic companies Phadia (Uppsala, Sweden) and Roche Diagnostics (Basel, Switzerland). Both of these partnerships deal with allergy-related diagnostic development.

Esoteric Focus

This recent agreement is in line with LabCorp’s much-touted current focus on strategic growth in personalized medicine and esoteric testing. In fact, during the company’s third quarter, esoteric testing utilization was up 8.4 percent, versus core testing growth of 1.5 percent during this same time period. Nevertheless, the testing provider is facing significant regulatory obstacles in this business line. In October, the company voluntarily took its OvaSure cancer test off the market in response to a warning letter from the FDA questioning the test’s clinical validity.

Esoteric testing is also a focus at NJH’s ADx, as is contract research organization-related (CRO) testing. “Advanced Diagnostic Laboratories really has two main revenue drivers—one of which is the esoteric testing market, and the other is the CRO for the pharma segment,” said Smith. “We are going to be expanding both rapidly.” Currently, he estimates that ADx’s revenue is split 50/50 between CRO and esoteric testing services. Within the esoteric testing business, molecular diagnostic testing is a growth area for the hospital. ADL opened a 3,000-foot molecular diagnostic testing lab early in 2008 and expects the lab’s annual volume to top 10,000 for its first full fiscal year (June 2008-July 2009), according to Smith.

Focusing on NJH’s Core Clinical Areas to Grow Esoteric Testing

Core Clinical Area	Estimated Market in United States Based on Annual Diagnosis
Asthma.....	20 million (2003)
Chronic obstructive pulmonary disease (COPD)	11.4 million adults (2003)
Cardiology.....	16 million with cardiovascular disease (2005)
HIV.....	1 million (2006)
Autoimmune.....	14 million (2006)
Lung cancer.....	2.7 million (2004)

The molecular diagnostic lab, which has a projected annual growth rate of 35 percent, is a vital component of NJH’s strategy to expand its testing services across the country. “Our marketplace is the continental United States, and we are making these relationships *Cont., p. 8*

National Players Might Be Winning the Revenue Battle, but Independents Are Conquering the Growth Battle

Over the next five years, independent labs could experience a combined annual growth rate (CAGR) of 12.5 percent, well above that of the national labs CAGR of 8.8 percent, announced Brian Buxton, principal and co-founder of Easton Associates, at the Washington G-2 Reports' LabCompete Sales & Marketing Institute, held Dec. 10-12, 2008, in Scottsdale, Ariz. Easton Associates is a New York City-based in vitro diagnostic and clinical laboratory services consulting firm.

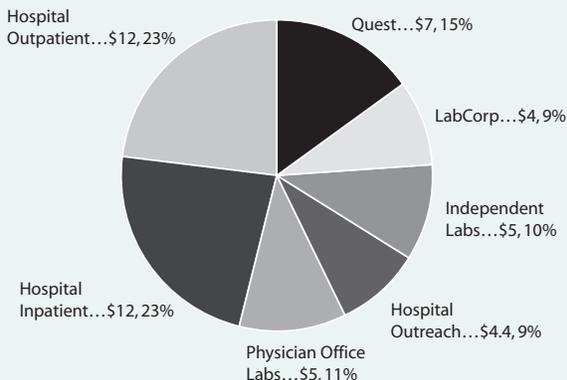
In terms of overall industry growth in the near term, G-2 Reports predicts 2009 will see a 6.7 percent increase to \$58.8 billion, driven by esoteric testing, which will have a 27 percent growth rate, according to data from the forthcoming *Laboratory Industry Strategic Outlook 2009*. G-2 predicts that anatomic pathology will follow esoteric testing with an 8 percent growth rate in 2009. Cytology will then follow with a four percent rate, and routine testing will see a 1 percent growth rate, due to the increased amount of testing in an aging population. Finally, drugs-of-abuse testing will continue to drop by 10 percent because of the shift toward waived tests (see box on p. 7 for a breakdown of testing growth areas between 2006 and 2008).

From 2003 to 2008, the industry grew at just under 7 percent annually, from \$36 billion to \$50 billion, according to Easton Associates. But Buxton predicts that the industry will grow over slightly more—a CAGR of 7.3 percent—over the next five years to \$70 billion, with Quest and LabCorp picking up just under one percent of market share and independent labs picking up three percent.

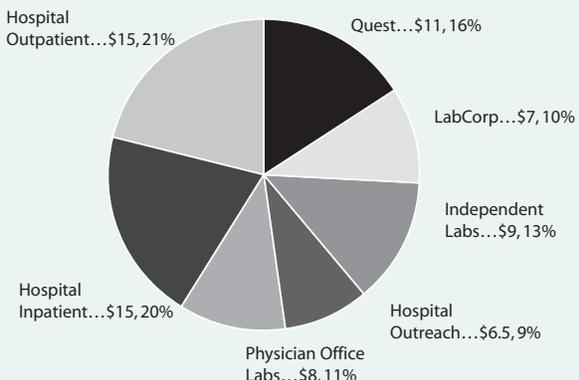
"Quest, LabCorp, and independent labs are the ones growing the fastest, compared to outreach," Buxton explained. "We've seen this consistent growth in the independent laboratory sectors—their growth rate is picking up from 10.8 percent from 2003 to 2008 to 12.5 percent over the next five years, and their share of the pie is steadily growing from 8 to 10 to 13 percent."

Lab Market Growth: 2008-2013 (Sales in \$B, Market Share)

2008
Total: \$50 Billion



2013
Total: \$70 Billion



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Novel Tests Driving Growth

While sheer size means the national labs are winning the revenue battle, independent labs are making important gains. "In dollar revenue growth, of course, it will be Quest and LabCorp in the lead because it's a factor of their size and that they are growing faster than the market as a whole," said Buxton. "But in market share growth, it's independent labs and specifically specialized labs who are in the lead."

The reason for this growth of the independent labs is that many are focusing on selling—as well as developing—novel or esoteric tests. "These labs are not competing for the same pieces of the industry pie as the national labs," said Buxton. "They are competing for different territory." Of course,

anatomic pathology is also becoming increasingly important for independent labs because its growth is also currently driven by esoteric molecular tests done on tissue, where the pathologists are intimately involved in the analysis.

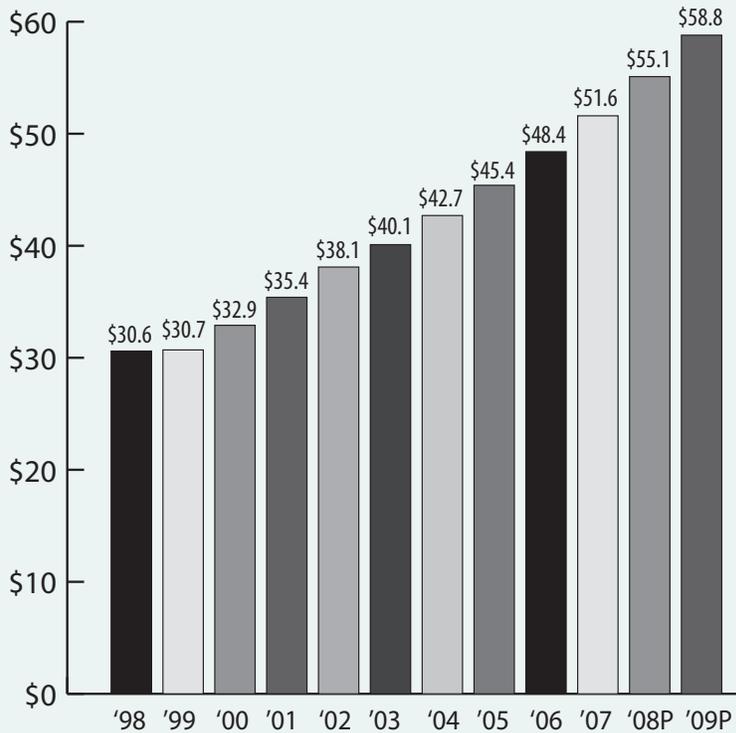
Because of the growth of the esoteric and novel testing space, it's important for labs to realize that the test menu is going to heavily influence how fast a lab grows and its position in the market. "Conventional tests are far larger in their revenue, but these novel tests are growing much faster, and I think that's going to continue to define our industry for years to come," said Buxton. "These tests make up small slices

of the testing pie and are growing faster and getting bigger—not becoming the dominant slice of the pie, but creating a very interesting space."

Leading Independent Labs

Buxton also analyzed the five top performing independent labs—Bio-Reference, Sonic Healthcare, MedTox Scientific, Monogram Biosciences, and Orchid Cellmark—as compared to the national labs and was impressed by their growth rate. "This group of five companies has had over 40 percent compound annual growth between 2003 and 2007...given that the indus-

Laboratory Industry Revenue, 1998-2009P (\$B)



Source: Washington G-2 Reports

SPECIAL FOCUS: *Laboratory Sales & Marketing Compensation*

Washington G-2 Reports/Slone Partners Survey Finds Average Senior Lab Sales and Marketing Salaries Currently at \$81K to \$160K

Senior and management-level members of sales teams from both independent and hospital labs are currently commanding annual base salaries of between \$81,700 and \$160,000, depending on their years of experience and the type and size of lab, according to the findings from the 2008 Washington G-2 Reports/Slone Partners *Lab Sales Compensation Survey*. Slone Partners is a Miami-based laboratory recruitment and leadership consulting firm. These results were released at Washington G-2 Reports' LabCompete Sales & Marketing Institute, held December 10-12 at Hyatt Regency Scottsdale Resort and Spa at Gainey Ranch in Scottsdale, Ariz. In addition, the complete results and analysis will be sent to survey respondents.

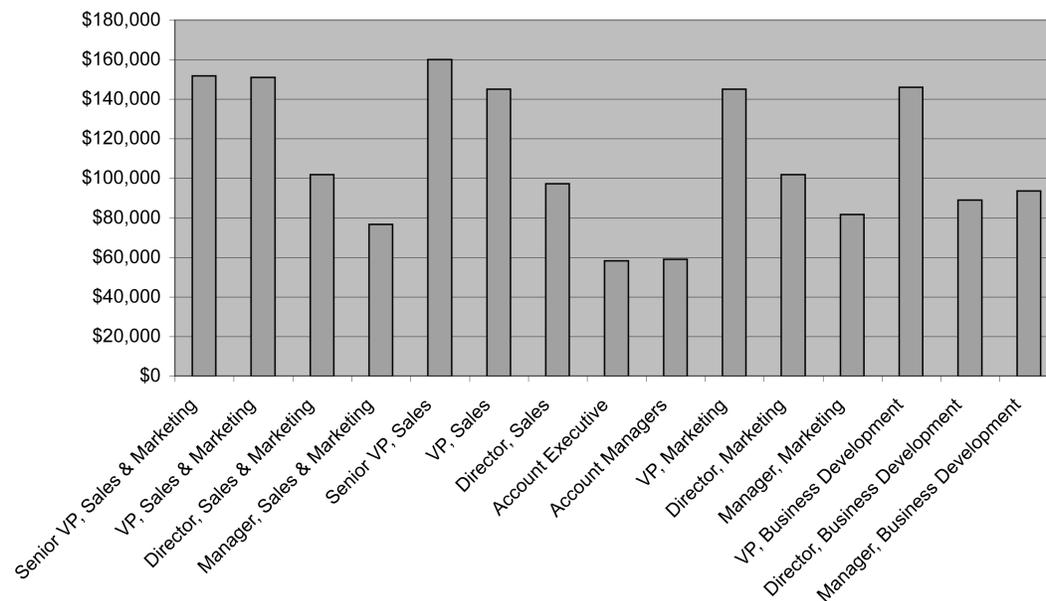
Across all types of labs, the survey revealed that, by title, the highest overall average base salary (not including commissions) is for the senior vice president of sales, at \$160,000, where respondents indicated an average of 10 years' work experience. Following that is the senior vice president, sales and marketing, at \$151,850, and the third highest base salary is \$151,083 for vice president of sales and marketing. For an expanded glimpse of overall average compensation of lab sales professionals, see Table 1 and Figure 1.

Since number of years of work experience heavily influences salary levels, Table 1 also indicates this for nearly all titles. Commissions as a percentage of total compensation, indicated in the column to the right of base salaries, average about 26 percent of total compensation, ranging 10 percentage points above and below this.

Table 1: Compensation of Lab Sales Professionals, Overall

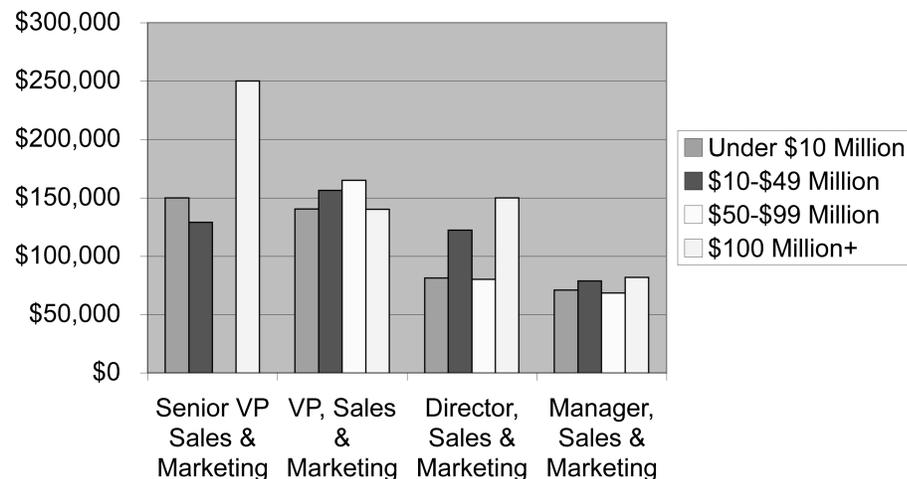
<i>Figures are averages</i>	Base Salary	Commission (% of total comp)	Total Years of Work Experience
Senior VP, Sales & Marketing	\$151,850	24.3%	19.8
VP, Sales & Marketing	\$151,083	35.0	18.2
Director, Sales & Marketing	\$101,882	20.6	16.3
Manager, Sales & Marketing	\$76,684	37.6	18.5
Senior VP, Sales	\$160,000	N/A	10.0
VP, Sales	\$145,000	N/A	15.0
Director, Sales	\$97,224	20.5	15.3
Account Executive	\$58,239	36.8	12.4
Account Managers	\$58,891	30.6	11.4
VP, Marketing	\$145,000	N/A	9.0
Director, Marketing	\$101,798	17.9	12.6
Manager, Marketing	\$81,700	12.0	15.2
VP, Business Development	\$146,000	23.3	17.8
Director, Business Development	\$89,000	N/A	17.0
Manager, Business Development	\$93,500	2.5	25.3

Figure 1: Base Salary of Lab Sales Professionals, Overall



The survey also looked at sales compensation by revenue size, as detailed in Figure 2. Here, there was no clear correlation between size of a lab and the size of base salaries.

Figure 2: Average Annual Base Salary of Lab Professionals, by Revenue Size



PRACTICES ON NEW HIRES

Given today’s recruiting and retention wars, the survey provided an interesting look at how labs recruited sales staff and whether they offered a signing bonus. Again, results were analyzed based on lab type and size and are detailed in Tables 2 and 3.

Offering signing bonuses doesn’t appear to be a common practice among respondents, both in terms of lab type and revenue size. In terms of lab type, approximately 20 percent of hospital labs and 27 percent of independent labs offer a signing bonus. In terms of revenue size, approximately 18 percent to 20 percent of respondents in each of the revenue categories offer a bonus. The only exception to this finding was the \$50 million-to-\$99 million annual revenue labs—33 percent of respondents in this category offered a signing bonus.

Labs typically recruit sales staff both on their own and sometimes through recruiting firms. In terms of hiring practices, it appears that while labs do rely on outside recruiting firms, survey respondents reported doing a significant amount of recruiting and hiring on their own, as shown in Table 2. With a response of 47 percent, it appears as if the independent labs responding are relying more on outside recruiting firms compared to hospital labs. However, almost 80 percent of independent labs responded that they recruit on their own.

Table 2: Practice on New Hires, by Lab Type

	Signing bonus used for select positions	We hire through outside recruiting firms	We recruit/hire on our own
Hospital/Health System Lab	19.6%	13.7%	90.2%
Independent/Commercial Lab	26.5	47.1	79.4
Other	20.0	20.0	100.0
Overall	21.4	25.2	85.4

Table 3: Practice on New Hires, by Revenue Size

	Signing bonus used for select positions	We hire through outside recruiting firms	We recruit/hire on our own
Under \$10 million	20.6%	29.4%	79.4%
\$10 million - \$49 million	20.5	25.6	92.3
\$50 million - \$99 million	33.3	26.7	93.3
\$100 million and more	18.2	18.2	90.9

SOME EXPERIENCE NECESSARY

Not surprisingly, most labs want new hires to have at least two years of experience. Tables 4 and 5 detail responses to the survey question asking about years of experience required for new hires by lab type and revenue size. This appears to be especially true at the independent labs, where 77 percent require at least two years of experience. In fact, between 60 percent to 72 percent of all labs with annual revenue of \$10 million or more required this experience. In comparison, 57 percent of the smaller labs (under \$10 million in annual revenue) required at least two years, with 26 percent requiring one to two years. Hospital labs also appear to require less experience. Fifty-eight percent responded that they require at least two years, 28 percent between one and two years, and 14 percent required no experience.

Table 4: Years of Experience Required for New Hires, by Lab Type

	None	1 - 2 years	2 + years
Hospital/Health System Lab	14.0%	28.0%	58.0%
Independent/Commercial Lab	5.7	17.1	77.1
Other	13.3	33.3	53.3
Overall	11.0	25.0	64.0

Table 5: Years of Experience Required for New Hires, by Revenue Size

	None	1 - 2 years	2 + years
Under \$10 million	17.1%	25.7%	57.1%
\$10 million - \$49 million	10.3	17.9	71.8
\$50 million - \$99 million	6.7	33.3	60.0
\$100 million and more	0.0	30.0	70.0

When analyzing these responses based on revenue size, it appears as if most of the respondents from the larger labs noted that their sales team reports directly to the lab director or “other.” Fifty-five percent of respondents from the \$100 million-plus labs, 40 percent from the \$50 million-to-\$99 million labs, and 41 percent from the \$10 million-to-\$49 million labs said that the sales staff reports to the lab director followed by the lab president/owner. However, it’s also important to note that many respondents chose the “other” category, indicating that there are clearly management positions overseeing lab sales staff that are not identified in this survey.

DEMOGRAPHICS OF RESPONDENTS

A detailed breakdown of the survey respondents follows this analysis in Tables 6-10.

Table 6: Respondents by Lab Type

Hospital/Health System Lab	50.0%
Independent/Commercial Lab	34.9
Other	15.1

Table 7: Respondents by Revenue Size

Under \$10 million	37.1%
\$10 million - \$49 million	38.1
\$50 million - \$99 million	14.3
\$100 million and more	10.5

Table 8: Respondents by Test Volume

100 or less	34.3%
101 to 400	23.8
401 to 700	14.3
701 to 1,500	17.1
1,501 or more	10.5

Other types:

- Pathology group
- Physician office lab
- Laboratory within manufacturing business
- Hospital/health system lab and pathology group venture
- Toxicology/forensic—privately held
- College
- Industry
- Lab product sales
- Clinical DNA

Table 9: Respondents by Type of Testing They Do—Average Percentage of Test Volume, by Lab Type

Note: Figures are averages of percentages reported	Hospital/Health System Lab	Independent/Commercial Lab	Other	Overall
Routine testing	71.8%	21.3%	18.1%	46.1%
Anatomic pathology	9.3	19.8	32.5	16.5
Esoteric and/or molecular testing	8.3	37.6	4.5	17.9
Cytology	5.5	8.4	17.7	8.3
Drugs of abuse	1.9	3.4	5.9	3.1
Other	1.3	6.8	21.3	6.2

Table 10: Respondents by Type of Testing They Do—Average Percentage of Test Volume, by Revenue Size

Note: Figures are averages of percentages reported	Under \$10 million	\$10 million - \$49 million	\$50 million - \$99 million	\$100 million and more	Overall
Routine testing	29.8%	51.5%	62.3%	58.8%	46.1%
Anatomic pathology	21.3	16.7	10.5	7.8	16.5
Esoteric and/or molecular testing	21.3	17.6	12.6	15.3	17.9
Cytology	12.8	6.6	4.2	4.5	8.3
Drugs of abuse	1.2	5.6	1.9	2.5	3.1
Other	10.9	2.1	1.8	11.2	6.2

Editor: Julie McDowell, Washington G-2 Reports, IOMA

Research Manager: Bikram Gautam, Kennedy Information, IOMA

This survey was done in collaboration with Slone Partners (www.slonepartners.com).



try has grown at 7 percent, and the industry leader is growing at about 9, I think we are onto an important trend," he explained. He added, however, that this analysis excludes the privately held ARUP Laboratories (Salt Lake City) and Mayo Medical Laboratories (Rochester, Minn.), both of which are successful and believed to be growing at a healthy rate.

Lab Segment Annual Growth Rates, 2006-2008

	2006	2008	% Change
Routine testing	\$31.9.....	\$32.0.....	0.3%
Anatomic pathology	9.0.....	9.7.....	7.8
Esoteric	7.0.....	10.0.....	42.9
Cytology.....	2.0.....	2.1.....	5.0
Drugs of abuse	1.5.....	1.3.....	-13.3

Source: Washington G-2 Reports' *Lab Industry Strategic Outlook 2009: Market Trends & Analysis*

Of these five labs, Buxton noted that the U.S. operations of the Sydney, Australia-based Sonic Healthcare and Bio-Reference (Elmwood Park, N.J.) have a combined growth of over 58 percent between 2003 and 2008—comparable to LabCorp and Quest’s growth over this time period. While the rest of the labs—MedTox, Orchid, Monogram—are growing at a significant rate, they are not growing at the same rate as Sonic and Bio-Reference.

The growth of these two top labs is achieved using two strategies. For Sonic, its growth is fueled by acquisitions; at Bio-Reference, it is partnering with UnitedHealthcare against Quest, said Buxton. But for the other specialty labs, it’s all about their distinctive test offerings. “These specialized labs are doing highly complex, proprietary tests, focused reimbursement efforts, and are employing a highly trained specialized salesforce,” he added. “Their success formula is execution and betting on the right tests.”

These labs are employing a shrewd strategy by utilizing their structural advantages such as customer intimacy and consultation that distinguish them from Quest and LabCorp. A specialized sales staff is also key. These labs can focus all of their sales efforts and attention on their market and a few tests.

Focused reimbursement efforts are also part of the strategy, explained Buxton. “The conventional wisdom has always been that the larger labs have far more payer business than the smaller labs, meaning that they have leverage because they have large books of business with the major payers,” he added. “But the labs focused on one test or a small number of specialized tests can insist on a maximum price . . . Quest and LabCorp have huge chunks of existing business with these same payers, and it simply doesn’t make sense for them to put their relationship and business at risk over a few new tests.” 🏠



BloodCenter of Wisconsin's New Molecular Oncology Lab Enters Hematopathology Market

The Milwaukee-based BloodCenter of Wisconsin has expanded its molecular diagnostic lab by opening a branch focused solely on molecular oncology to capture the growing diagnostic market for hematological malignancies, estimated to be between \$1.1 billion and \$1.5 billion.

Currently, the test menu is focused on testing related to leukemia and myeloproliferative diseases, which are slow-growing blood cancers, explained. Roger Klein, M.D., J.D., who was recently appointed the lab's medical director. He was most recently medical director of the molecular diagnostics lab at H. Lee Moffitt Cancer Center in Tampa, Fla.

"We're already doing molecular oncology testing, but we want to build ourselves into a national resource and to be a leader in the field, at least in terms of hematopathological diseases, so we are the place that people turn to get the latest and most sophisticated test," he explained. "We are trying to carve out a specialty niche, where we will be among the first to bring to market a certain test in molecular oncology. We'll do esoteric testing that many will shy away from."

Klein's lab will also offer consultative services, in addition to testing offered. By entering the hematopathological market and offering these value-added services, it might appear that the BloodCenter will be directly competing with the specialty lab Genoptix (San Diego). But Klein said that while Genoptix caters to physicians in private practice, his lab will focus on institutional customers like hospitals and other reference labs. 🏛️

■ MOL DX DEVELOPMENT, *from page 4*

to get away from being a Denver or Colorado regional lab," said Smith. "Molecular diagnostics is the vehicle by which we are going out into that marketplace."

But the growth of the molecular diagnostics lab is well-defined, with the testing

LabCorp Reveals Leadership Changes for 2009

The end of 2008 saw the retirement of two longtime LabCorp executives. Bradford T. Smith retired from his position as executive vice president of corporate affairs and chief legal officer. He was formerly with Roche Medical Laboratories and came to LabCorp in 1995 when LabCorp acquired the company. Also retiring was the executive vice president, medical director, and chief scientific officer, Myla Lai-Goldman, M.D., who has been with LabCorp since 1998.

Two other notable executive shifts at the company are Eric Lindblom's move from senior vice president of investor relations to heading up several strategic initiatives. The investor relations position will be taken over by William Bonello, who has been analyzing the lab industry in recent years as managing director and senior equity research analyst at Wachovia Capital Markets.

direction determined by two questions—what's the market potential, and does the testing support the institution's core clinical areas of mycobacteria, immunology, complement medicine, and cardiology (see box for details on these core areas and estimated market potential data)? "For example, we would likely not offer a cervical cancer assay because that's not a core clinical area at our hospital, but if someone approaches us about offering a lung cancer test, we would be interested," said Smith.

Test pricing is also part of the growth strategy, with the lab offering the higher-price point tests to maximize revenue. "Strategically, in order for us to grow rapidly on the top line, we are going to focus on tests that allow us to focus on that, which means we

probably won't be offering \$25 tests, but higher-priced tests," he added. 🏛️



Washington Hospital Center's Lab Using Lean to Cut DSO from 78 to 40 Days

Since 2006, Washington Hospital Center's MedStar Diagnostic Laboratories has decreased its days sales outstanding (DSO) from 150 to 78, according to outreach director William Romanelli. But now, the outreach lab is investing \$100,000 in "lean"-ing its billing operations to bring that DSO number down to 40 and save the lab an estimated \$25,000 a year.

The initial \$100,000 investment at MedStar includes construction costs to reconfigure the reception area, where the billing information is gathered from patients. In addition, laboratory and radiology are also being combined in this intake area, and staff is being trained to collect and input patient information into a new electronic billing system that is in the process of being launched.

This is a worthy investment, given that billing issues can severely impact an outreach lab's bottom line, said Kathy Murphy, Ph.D., president of Chi Solutions, the lab consulting company working with MedStar. "It is tempting to think that if billing is outsourced, your service provider will solve all your billing problems," she said. "Unfortunately, the lab is still responsible for the front-end processes. Ensuring clean, accurate, and timely claims is hard work. This represents the biggest opportunity for improved profitability for outreach programs."

Registration Redesign

The revamping of the registration process took place because it was identified as one of the primary problem areas by Chi Solutions. After analyzing the billing process, senior consultant Hans Froehling said that the receptionists were collecting incorrect patient information, which was causing three to five billing errors per day. At an estimated 3,000 requisitions per month, that totals up to a significant number of billing errors, as well as costs associated with having the staff track down the correct information for billing purposes.

In the redesign, the receptionist will only greet and have the patients sign in. "The registrar will take the insurance and billing information," said Romanelli. "We want to have the registrars become cross-trained in radiology and lab, and then the two people who I have from my lab doing this will become part of the registration pool. I estimate our errors will quickly drop by 50 percent. We'll be collecting more money. In addition, I can probably save \$25,000—a half of FTE [full-time employee]—by not making outgoing calls trying to collect information from clients."

Chi's Froehling estimates that the entire process will take approximately six months to see the full impact on MedStar's billing system. In terms of other cost-savings estimates, he pointed out that one of Chi's clients decreased their write-off amount by over \$250,000 (see box). This highlights the savings of streamlining the front end of billing and clarifies that billing is not only the billing department's problem, he added.

"Billing is often seen as a back-end operation, and people say that the billing department just needs to fix these problems, but billing gets the errors," Froehling explained. "For example phlebotomists often don't have a clue about the impact that nonsigned advance beneficiary notice (ABN) would have on billing. This really needs to be improved through a cross-functional team." 🏛️



Detroit's St. John Puts Outreach Business up for Sale

The St. John Health hospital system in Detroit is selling its outreach lab business and is reportedly receiving offers from Quest Diagnostics, LabCorp, as well as Sonic Healthcare USA. The system includes seven hospitals plus more than 125 medical facilities in southeastern Michigan.

“St. John Health has received interest from external parties with regard to an acquisition or partnership of the St. John outreach lab business line,” said spokeswoman Daniela Scholl. “The hospital and ambulatory surgery center labs are not included in this potential acquisition or partnership. If and when an agreement is reached, St. John Health will communicate with stakeholders.” The hospital’s lab system does a total volume of 7.1 million tests annually (in-patient and out-patient).

It’s not surprising that the U.S.’s two top lab leaders would want this business. LabCorp, in particular, has been vocal about its pursuit in acquiring more business in the hospital outreach lab market, and the acquisition would give them a presence in the region, where Quest’s Auburn Hills facility dominates by performing 22.9 million tests annually, according to Washington G-2 Reports’ estimates.

But while Sonic has not historically gone after the hospital outreach business in the United States, this acquisition would give them access to approximately 20 patient service centers, one analyst told *LIR*. This is a large population base in this region, which would allow them to grow and then potentially consolidate the business into a more centralized laboratory. Most importantly, Sonic recently completed a significant capital raising, and it’s well known that the lab company is aggressively looking for acquisition targets. Given that many money-strapped hospitals are anxious to monetize their lab business, Sonic might be able to purchase the business at an excellent price, he added. 🏛️

Gamma-Dynacare Expands Into Manitoba With Acquisition of Central Medical Labs

Ontario-based Gamma-Dynacare has announced plans to acquire Central Medical Laboratories, allowing one of Canada’s largest clinical laboratories to continue its geographic expansion and increase its presence in Manitoba. “Prior to this acquisition, we had just one patient service center in Winnipeg, Manitoba, so this acquisition provided us an opportunity to establish a more significant presence in the province,” said company spokeswoman Shelley Jourard.

With 19,000 full-time employees (FTEs), Gamma Dynacare now has six labs—four in Ontario, one in Quebec, and now Central Medical Labs’ 8,000 square foot facility in Manitoba. With 150 specimen-collection centers located throughout the company, Gamma processes specimens for approximately 30,000 patients daily and serves about 11,000 health care professionals. Its estimated annual volume of tests is 40 million.

But geographic expansion will continue to be a priority at Gamma Dynacare. “Ontario is where our largest operational presence is, but we have been expanding across Canada in recent years, with the goal of becoming Canada’s preferred provider of laboratory services,” said Jourard. 🏛️



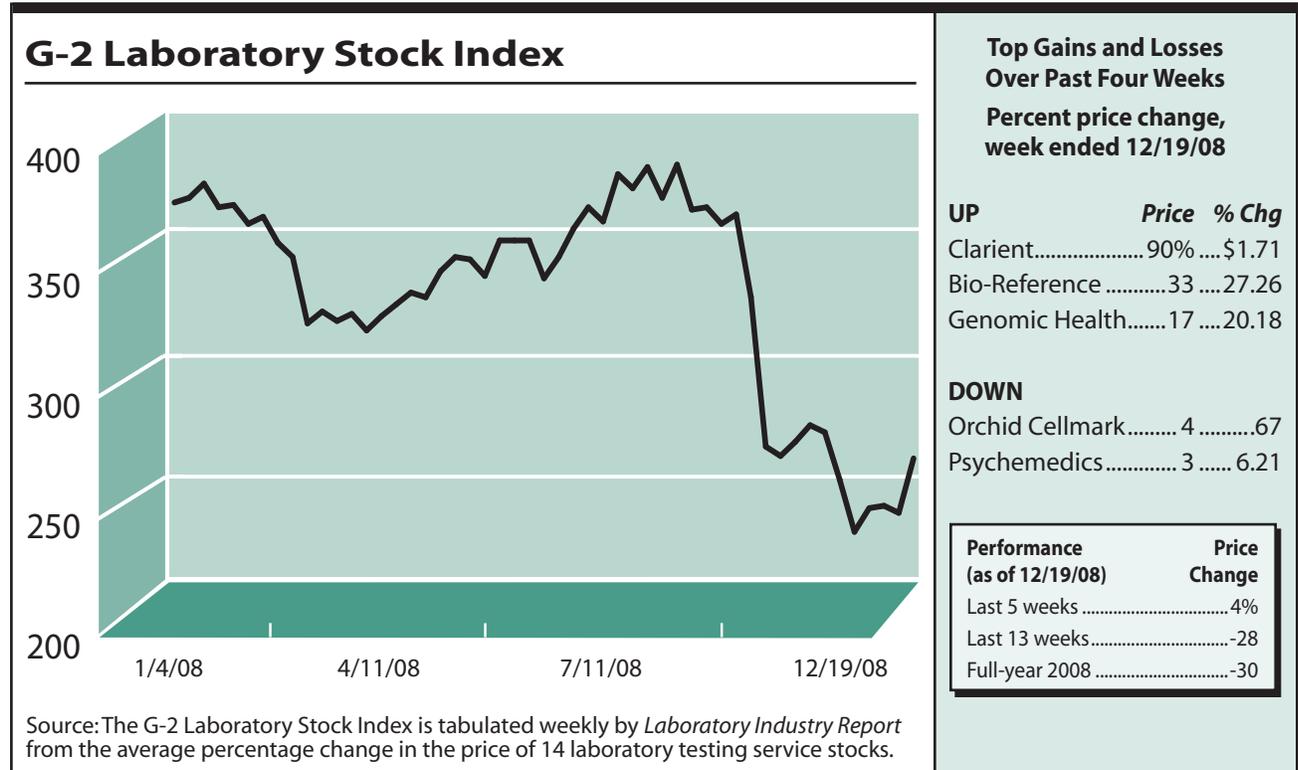
Labs Experience Slight December Rebound; Stocks up 4% Over Past 5 Weeks

After months of posting declines, the G-2 Reports Laboratory Stock Index experienced a positive bump in December. The 14 publicly traded stocks tracked by the Index were up 4 percent over five weeks for the week Dec. 19, 2008, although the stocks continue to be down 30 percent for the full year 2008 over this same time period. Of course, the Nasdaq and S&P 500 Indices continue to post losses; Nasdaq is down almost 42 percent and the S&P is down almost 40 percent for the full year.

With the exception of two companies, all the labs' stocks posted gains for the past four weeks for the week ended Dec. 19, 2008. The top gainer was the cancer diagnostic specialty lab **Clariant** (Aliso Viejo, Calif.), which was up a whopping 90 percent to \$1.71 per share for a market cap of \$124.54 million. The second top gainer over this time period was **Bio-Reference** (Elmwood Park, N.J.), which was up 33 percent to \$27.26 per share for a market cap of \$375.45 million. The third leading gainer over the past four weeks for the week ended Dec. 14, 2008, was Redwood City, California-based **Genomic Health**, was up 17 percent to \$20.18 per share for a market cap of \$572.35 million.

Only two labs posted losses over this same four week time period. The lab posting the largest loss was **Orchid Cellmark** (Princeton, N.J.), which is down 4 percent to \$.67 per share for a market cap of \$20.08 million. The other lab posting a loss was **Psychemedics** (Acton, Mass.), a drugs-of-abuse hair-testing laboratory. The testing provider was down 3 percent to \$6.21 per share for a market cap of \$32.37 million. 🏛️

For up to the minute laboratory and diagnostic firm data, financial news and company podcasts—go to www.g2reports.com





Sunquest Buys PAML's Outreach Advantage

Tucson, Arizona-based Sunquest Information Systems has announced that it has signed a definitive agreement to purchase the Outreach Advantage technology application from Pathology Associates Medical Laboratories (PAML, Spokane, Wash.), for an undisclosed amount. This acquisition follows the departure of Mark Johnston, who was the CEO of the operating division behind Outreach Advantage until leaving to work for the Microsoft Corporation. Johnston was also PAML's former chief information officer.

Outreach Advantage was originally launched in February 2008 by PAML as a new and independent operating division focused on commercializing technologies that support the outreach lab business sector. However, it appears that this transaction with Sunquest is a technology-only transfer. Sunquest will own the Outreach Advantage technology, while PAML will still have the ability to use the technology for its lab joint ventures. 🏠

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- Quest Diagnostics 800-222-0446
- Sonic Healthcare +61 (2) 98-555-333
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