Survey Finds Most Hospital Outreach Businesses Not on Block

There have been three large deals involving hospital outreach businesses in the past year. They included Quest Diagnostics’ acquisition of UMass Memorial Medical Center’s pathology outreach business in Massachusetts and two California deals: Quest’s acquisition of Dignity Health’s outreach business and LabCorp’s acquisition of John Muir Health’s outreach operations.

Despite grabbing their share of headlines and suggesting national labs are on an earnest conquest of outreach, those deals apparently have had little overall effect on outreach’s structure and operations on the whole, according to a new report on outreach by Michigan-based consulting firm Chi Solutions, Inc. It may be obtained at www.chisolutionsinc.com.

Chi’s 13th annual national laboratory outreach survey—which queried 136 labs throughout the United States—has concluded that while the nationals are a formidable presence in outreach, much of the competition remains between independent labs and hospitals with outreach programs.

“It is becoming more and more common for one hospital outreach program to become a competitor with another. They start to bump into one another,” said Kathy Murphy, Chi’s chief executive officer.

And despite the three big deals, Murphy does not believe most hospitals are looking to dump their outreach businesses. That the survey indicated the average net margin for an independent lab’s outreach business is nearly 11 percent and the average contribution margin for a hospital-based laboratory is more than 28 percent may have something to do with this.

Murphy noted that since hospitals are able to charge more for tests and have only incremental costs for their operations, outreach is often a moneymaker. And that economic advantage also makes them very competitive with the national labs, she added.

“Whether hospital executives view outreach as good business often depends on their prior experience with outreach,” Murphy said. “If they had a good experience in the past, they are likely to be more supportive. If they had a poor experience, for any reason, they tend to think the opposite and it becomes a self-fulfilling prophecy.” She noted that hospitals that need short-term cash or whose management team is overwhelmed with other priorities tend to be the likeliest candidates for a sale.
That does not mean that hospitals and independent labs are not keeping their eyes out for deals. The survey noted that while the large majority of respondents have not yet been approached about selling their outreach program and more than 70 percent said they would not accept an offer, 29 percent did say they were somewhat likely to accept one. Nearly half also said they were approached about forming a partial equity relationship, and 56 percent said they were likely or somewhat likely to consider the offer.

“In my experience, executives are looking at their options more as a matter of due diligence,” Murphy said. She noted that a sticking point in many proposed deals is giving up day-to-day control of laboratory operations. “They’re concerned about any change in service and quality provided,” she observed.

Meanwhile, there are areas where hospital outreach businesses are not keeping their eyes on the ball. Remarkably, more than two-thirds of respondents do not know their level of bad debt. And more than three-quarters of those queried were unaware of their average days sales outstanding. Murphy said that data was “shocking.” She added that it was a reflection of how many hospitals conduct their business.

“They perform adjustments to revenues on a hospitalwide basis, and outreach revenue is usually commingled with other hospital revenue. They cannot see the financial performance of outreach when all the information is aggregated together,” Murphy said.

**Takeaway:** Hospital lab outreach programs are enjoying relatively healthy margins despite the continued financial pressure on the lab sector.