

ARE YOUR LAB TESTS PAYING OFF?

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As a new year begins, many practice owners and managers are instituting price changes for the various products and services offered by their hospitals. This is the perfect opportunity to review not only what you are charging your clients, but what you are paying your vendors!

One area that should receive significant attention is the lab. Most hospitals will generate 15-20% of their total revenue from laboratory services, so the prices charged can have a substantial impact on gross revenue. As you know, significant costs are incurred when providing these services. In fact, laboratory services are likely the most expensive services you provide in your hospital. Most diagnostic labs increase their prices at the beginning of the year, so this is the perfect time to undertake an in-depth analysis of your lab costs and your pricing strategies. Consider the following strategies to help maximize your laboratory profitability:

Reduce costs. Lab tests are just like inventory items in that they have costs associated with them, and you need to do what you can to achieve the lowest possible costs. With a variety of regional diagnostic labs, there is a range of pricing on lab tests. There are also different combinations of tests that can lower costs. It is critical that you analyze your costs and determine whether you can find less expensive ways to obtain tests.

The first thing to do is to compare your in-house lab costs with your outside lab costs. There are obviously some tests that you need to provide in-house because of the urgency of the patient condition, but in many, if not most cases, a one-day delay to send labwork out will not hinder your patient care. There are numerous lab tests that are much less expensive when sent out compared to the cost of using in-house analyzers, even if it is from the same company. For example, a 4DX test done with an Idexx SNAP test is more expensive than one sent out to the Idexx lab. Same company, but different pricing! Furthermore, if you combine a 4DX with a CBC and Profile, you will get an even deeper discount on the combined tests.

Audit your most common (and most expensive) lab tests and then review your pricing to determine whether there is a less expensive way to provide these tests. If you do find a lower cost alternative, that doesn't mean that you need to lower your prices - your clients already perceive the value based on the prices you currently charge. If you can lower your costs, then you will have an improved profit margin on these tests.

It is also critically important to review your lab costs on an annual basis. Some labs will get you started with favorable pricing, but over time those costs will increase significantly. If your prices are not keeping up with your increased costs, then you will be losing profit.

Also consider other labs and alternate in-house lab equipment. There is more and more competition each day, as new companies enter the diagnostic market and it may turn out that you can provide equivalent testing for a lower cost by using different equipment or different labs.

Make sure prices stay up to date. To ensure you are not losing profit, it is important to verify that your prices change when your costs change. If your software is set up correctly, whenever you receive an item where the price has changed, your client prices will also change to reflect the new costs.

Unfortunately, lab tests are generally entered as a service code with a price and they are not linked to the costs of the test. In most practice management software programs, you can enter the base cost of the test and then set up a percentage markup for client pricing. Check to see if you are doing this and if you are not, make the change immediately. Then, keep track of your laboratory bills and periodically audit these bills compared to your base costs to make sure that you are raising prices when your costs change with your in-house lab tests or your outside lab costs.

Price appropriately. Just as with products, you need to make sure that you value the services you are providing to your clients/patients and that you charge accordingly. You should be able to achieve higher margins with lab than you have with products, because lab tests are not easily obtained through the internet or through retailers. In addition, lab tests directly correlate with patient health. Don't be afraid to charge a premium for this information. Obviously, your charges need to be in line with the local competitive environment but assess your margins and determine whether some price increases are warranted.

In addition, analyze the income to expense ratios for both in-house lab and outside lab. This will help you determine how profitable each of these areas is and will help you focus your management efforts. If your outside lab ratio is 4 to 1 but your inside lab ratio is only 2.5 to 1, then you know that you need to focus on in-house lab tests and pricing in order to improve your profitability.

Audit for missed charges. It is much easier to miss a charge for labwork than it is for drugs. Prescription pharmaceuticals generally have to be entered onto the invoice in order to generate a prescription label. You might forget to send home a product you talked about in the exam, but it is less likely to send home a bottle of antibiotics and not charge for it.

Lab tests, on the other hand, can easily be missed. The stool sample that the client brought in, the ear swab that you took during the exam, the lump cytology, etc. Every missed charge reduces your profit and increases your cost of goods.

To catch missed in-house diagnostic tests, you will need to randomly audit records. Select a few records a day or a week to audit and then review the invoice to make sure that all procedures/tests performed were charged for. For outside lab, the lab invoice generally lists the patient/client name for each test run. You can pull up charts on the computer and review invoices to make sure that clients were charged for all tests run. This is the kind of job that you can assign to a trusted technician during the slow times of the practice. It will help if your staff know that you are checking for missed charges, which may make them more diligent about entering charges on the invoice.

The lab can be a significant source of income for the practice, but don't forget that lab expenses are also significant. The more active a role you take in managing the lab, the more profit it will contribute to your practice.