

Laboratory Finance

101 AND BEYOND

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MANAGER, OUTREACH AND NETWORK
DEVELOPMENT

MAYO CLINIC, ROCHESTER, MINNESOTA

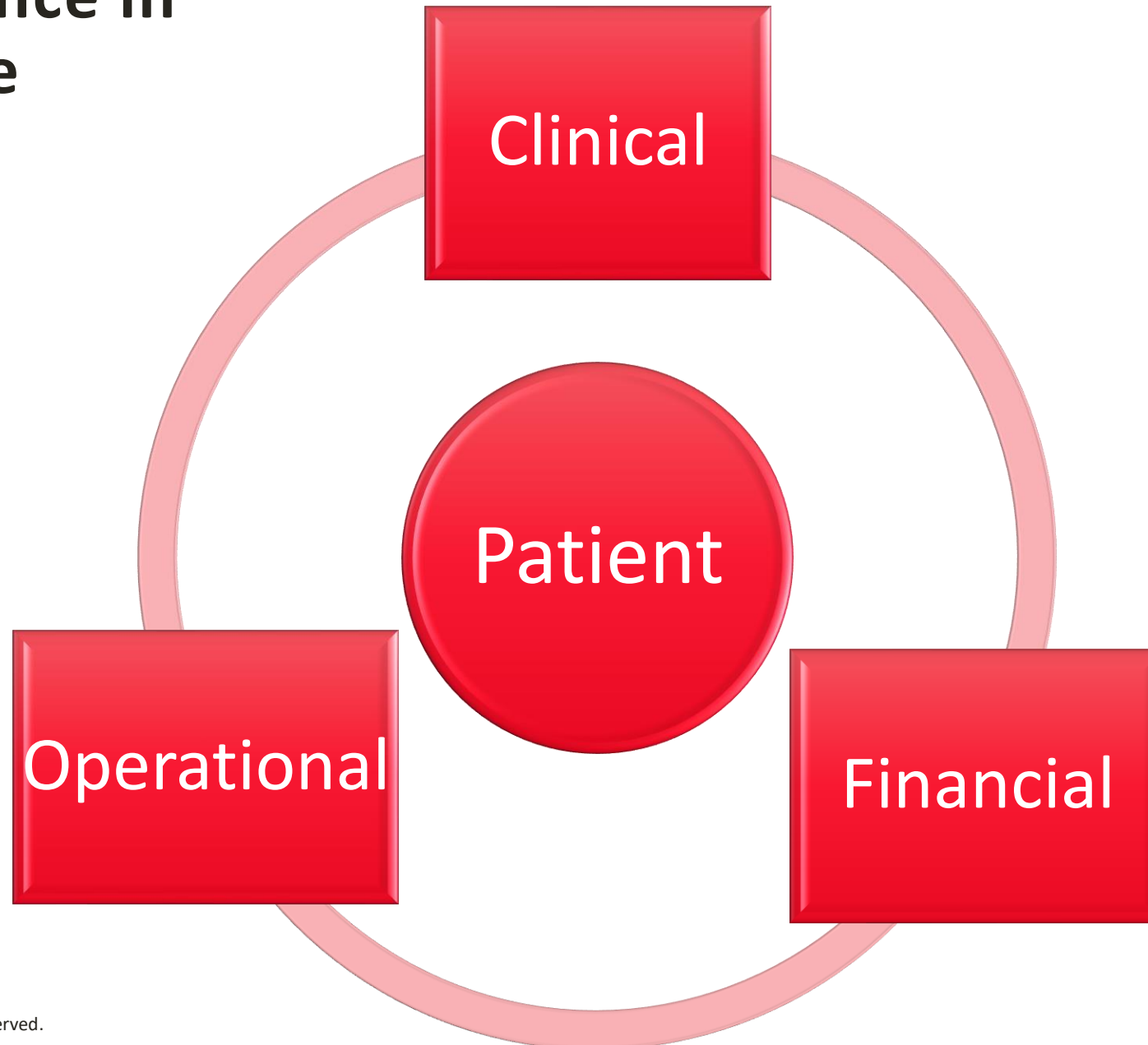


Learning Objectives

Upon completion of this session, you will be able to:

- Define commonly-used financial terms and how they can be applied within the laboratory
- Analyze laboratory costs through accurate cost accounting
- Describe the different laboratory revenue streams and how to measure them; demonstrate laboratory financial contribution

Tri-Relevance in Healthcare

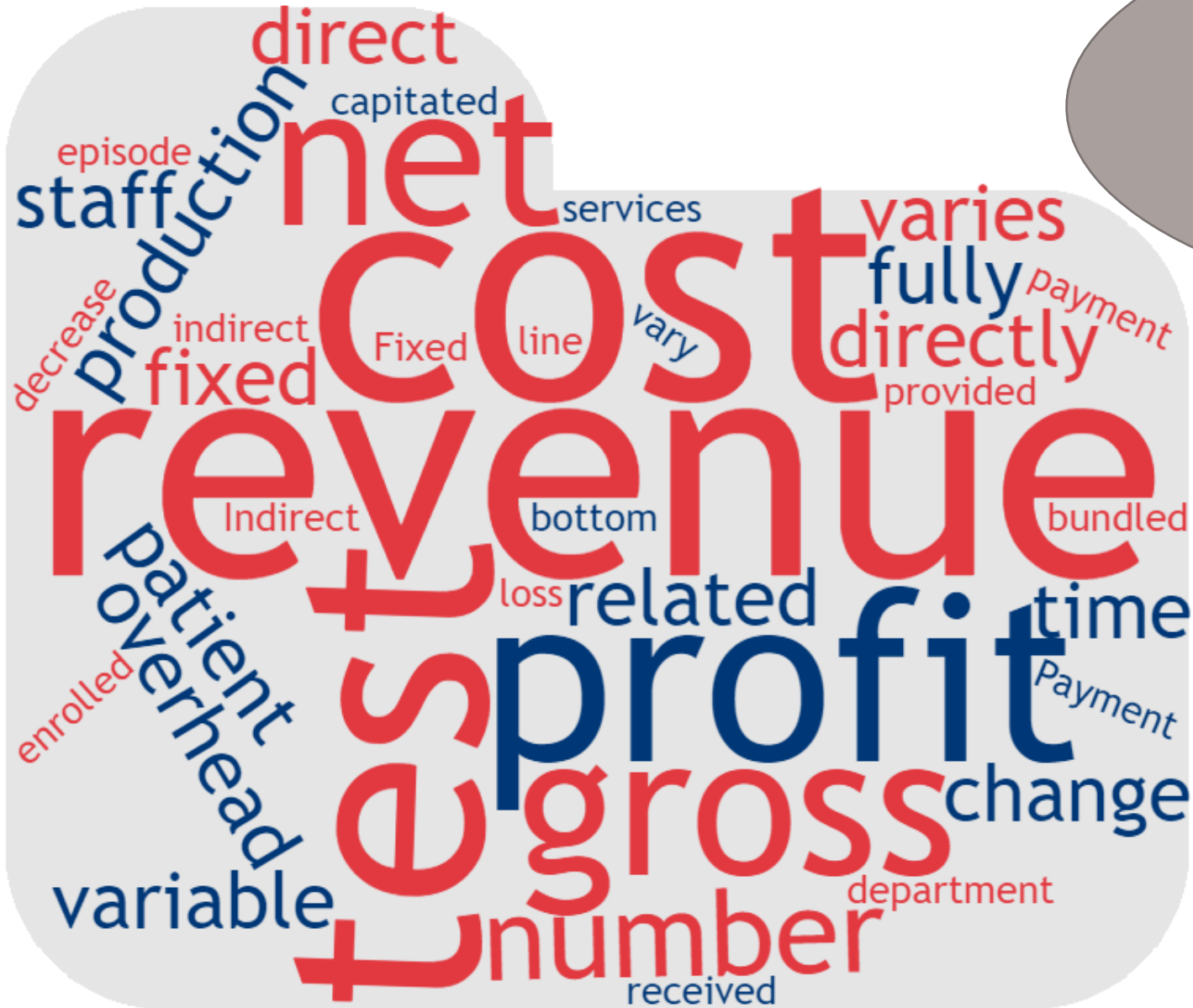


Standard Medical Laboratory Scientist Curriculum

- Urinalysis
- Immunology
- Molecular Diagnostics
- Clinical Immunohematology
- Hemostasis
- Clinical Microbiology
- Hematology
- Clinical Chemistry
- Westgard QC & Method Validation
- Clinical experiences



- New Discoveries and Laboratory Management (16 hours)



“One month into my role as a laboratory leader, I realized I needed to go back to school.”

Definitions

Revenue



- **Net revenue:** Revenue that is collected for performing laboratory testing
- **Gross revenue:** Revenue that is charged for performing laboratory testing; gross revenue is rarely the same as net revenue
- **Capitated revenue:** Fixed, prearranged payment received per patient enrolled in a health plan
- **Bundled revenue:** Payment based on a patient episode; it does not vary based on services provided

Definitions

Cost



- **Variable cost:** Cost that varies with the number of tests performed (e.g., reagent cost)
- **Direct cost:** Cost that can be fully attributed to the performance of a test (e.g., reagent cost and staff time)
- **Fixed cost:** Cost that does not change with an increase or decrease in the number of tests performed (e.g., instrument cost and rent)
- **Indirect cost:** Cost that is not directly related to test production, such as overhead (e.g., institutional allocations)

Revenue minus cost equals....

Bottom line: Calculation of profit or loss for a department.

- **Profit:** Financial gain
- **Net Operating Income:** Revenue less any operating expenses
- Other nuances:
 - Net Operating Margin
 - Contribution Margin
 - Gross Margin
 - Operating Margin

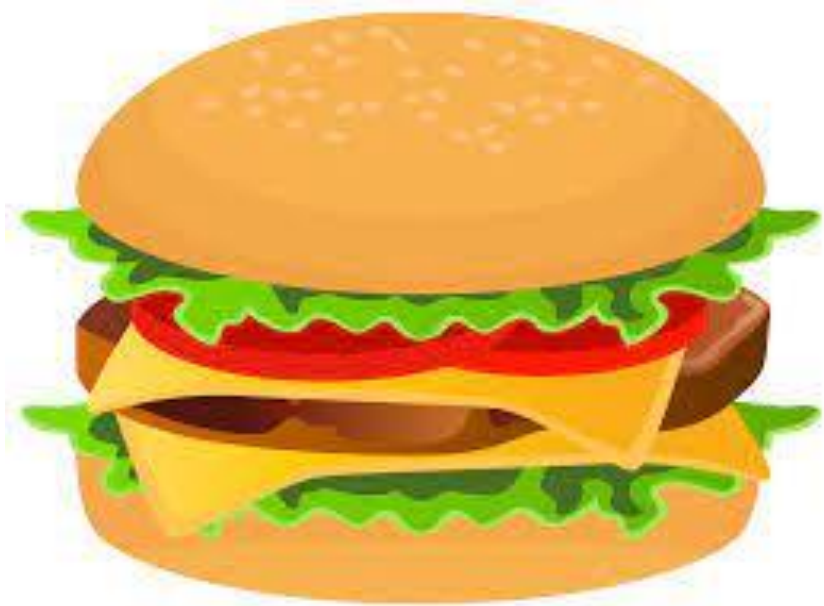




If your organization uses terms that you don't understand, ask for an explanation

Cost Accounting

101 HAMBURGERS



Indirect

Electricity

Building
Institutional
Overhead

Direct

Reagents
Labor

Equipment
Labor

Variable

Fixed

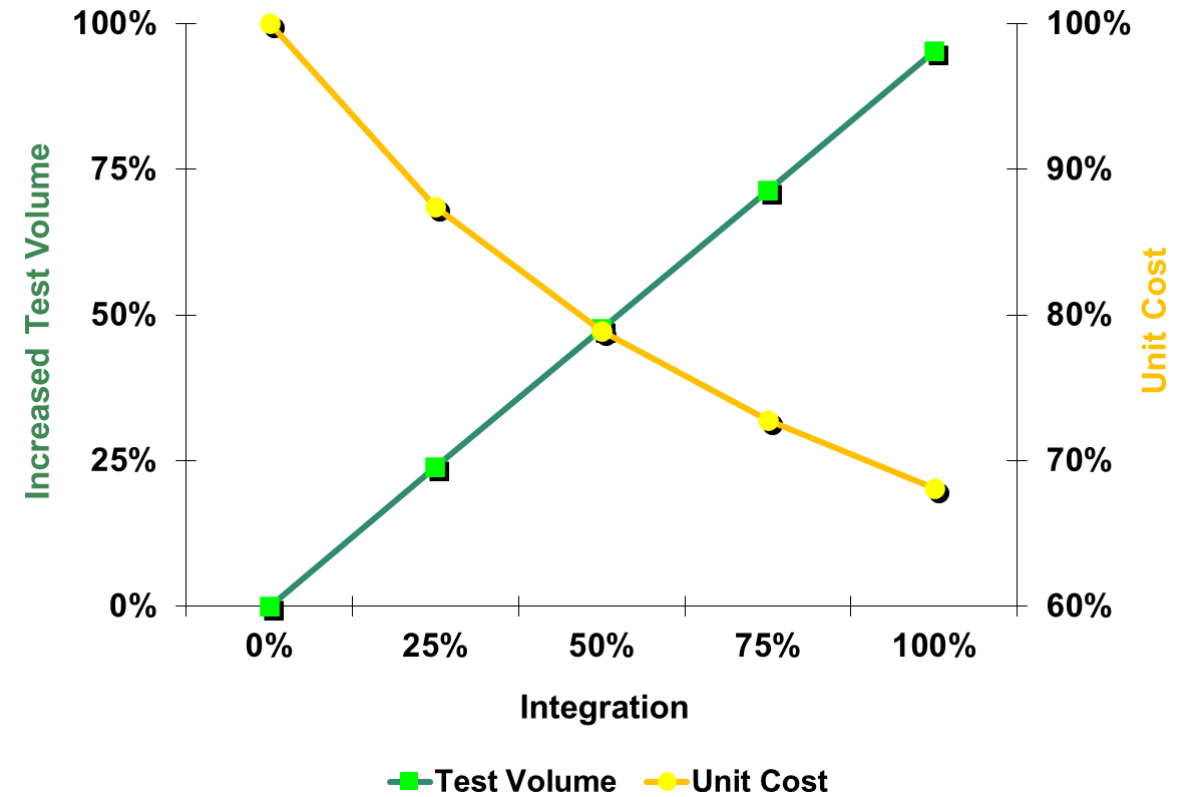


Institutional overhead can wreak havoc on the bottom line of an outreach program

Do Volumes Matter?

Considerations:

- Fixed costs remain flat
- Variable costs increase proportionally with volume



Laboratory Revenue Streams and Payors

WHAT AND WHO

Revenue Streams

- Inpatient
- Outpatient
- Outreach
- Institutions (hospitals, skilled nursing facilities)
- Community (industrial medicine, health fairs, etc)
- Other (employee health service, research, etc)

Payors

- Government (CMS/Medicaid)
- Independent health plans (insurance company)
- Patient self-pay
- Client/institutional bill



Reimbursement Models

WITHIN A HOSPITAL OR HEALTHCARE SYSTEM

Fee-for-Service

- Patients (or insurance) are charged per the cost of each individual service or product that a physician orders

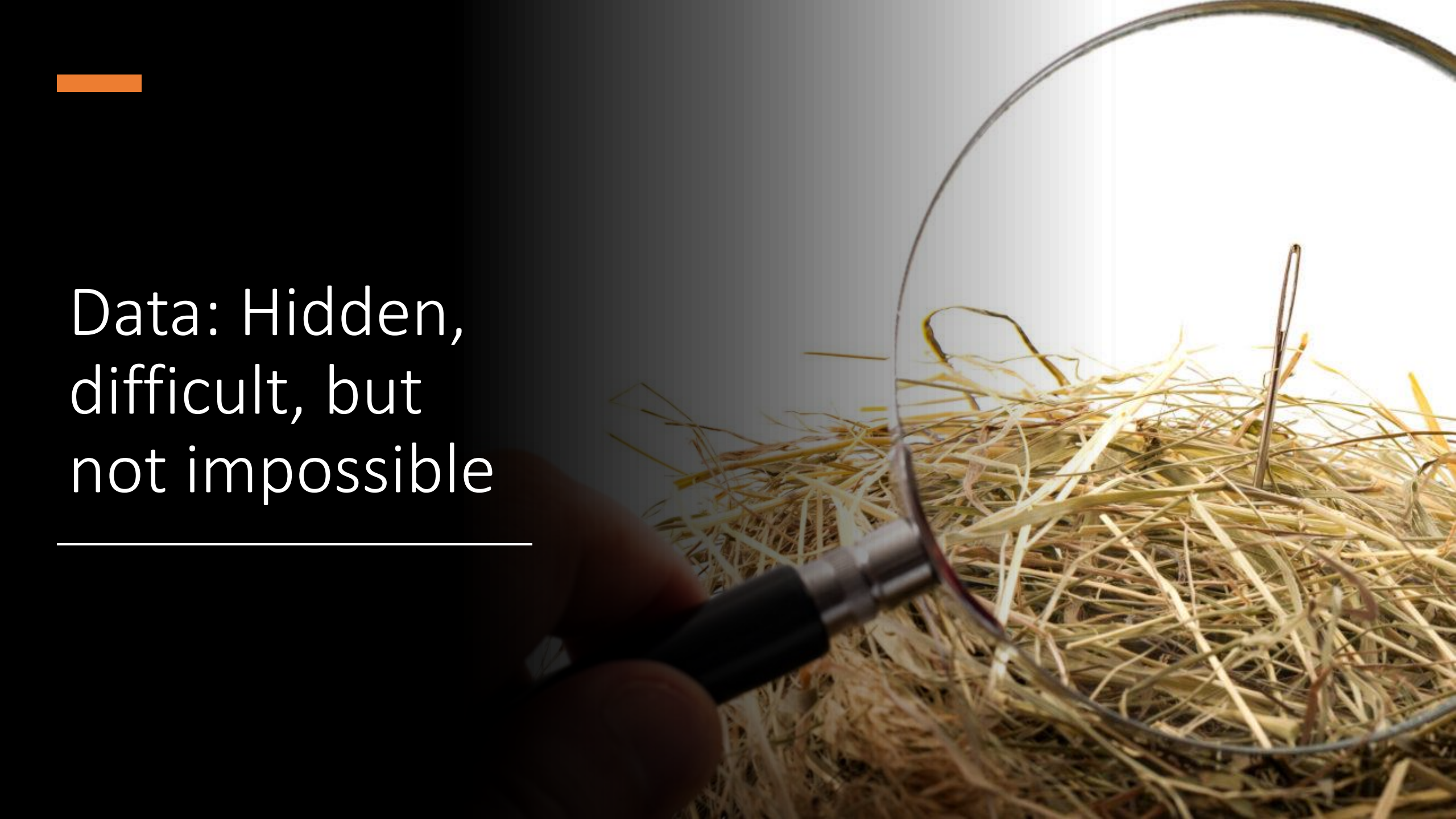
Capitated

- Bundled payment (Episode of Care)
- DRG
- OPPS

Value-Based

- Episode of Care
- Shared savings programs
- Pay-for-Coordination
- Pay-for-Performance

Getting accurate and discrete revenue for laboratory testing can be a challenge.

A hand holding a magnifying glass over a pile of straw. A needle is hidden inside the straw, and the magnifying glass is focused on it, illustrating the concept of finding hidden data.

Data: Hidden,
difficult, but
not impossible



Estimate laboratory revenue by applying payor contractual allowance to gross charges

Application of Financial Terms

DAILY USE

Budget

- Revenue
- Costs (routine)
 - Supply
 - Staff
 - Services
- Costs (one-time, unexpected)
- Variation (seasonal, other)

Outreach

- Revenue
- Profit (NOI)
- Volume impact on reducing cost

ROI/Make-or-Buy

- Expand technical platform and capabilities
- Other strategic investments
- Insourcing (reduce sendouts)

Prioritizing Revenue Growth over Cost-Cutting

- “Revenue growth overtook cost control as executives' top priority... While administrators still aim to develop nuanced strategies to cut costs, their focus is now on improving ambulatory access, minimizing clinical variation, boosting primary-care alignment and adapting to population health.”
- "They still haven't taken their foot off cost-cutting, but they can't cut their way out of this economic challenge. They need a balanced margin-management strategy.”

~Modern Healthcare, June 12, 2019

Achieve Financial Stability

MIND THE MONEY

- Clean billing practices:
 - Reduce revenue rejections and delays
 - Improve billing practices
- Expand laboratory service
 - Increase test menu complexity
- Manage costs

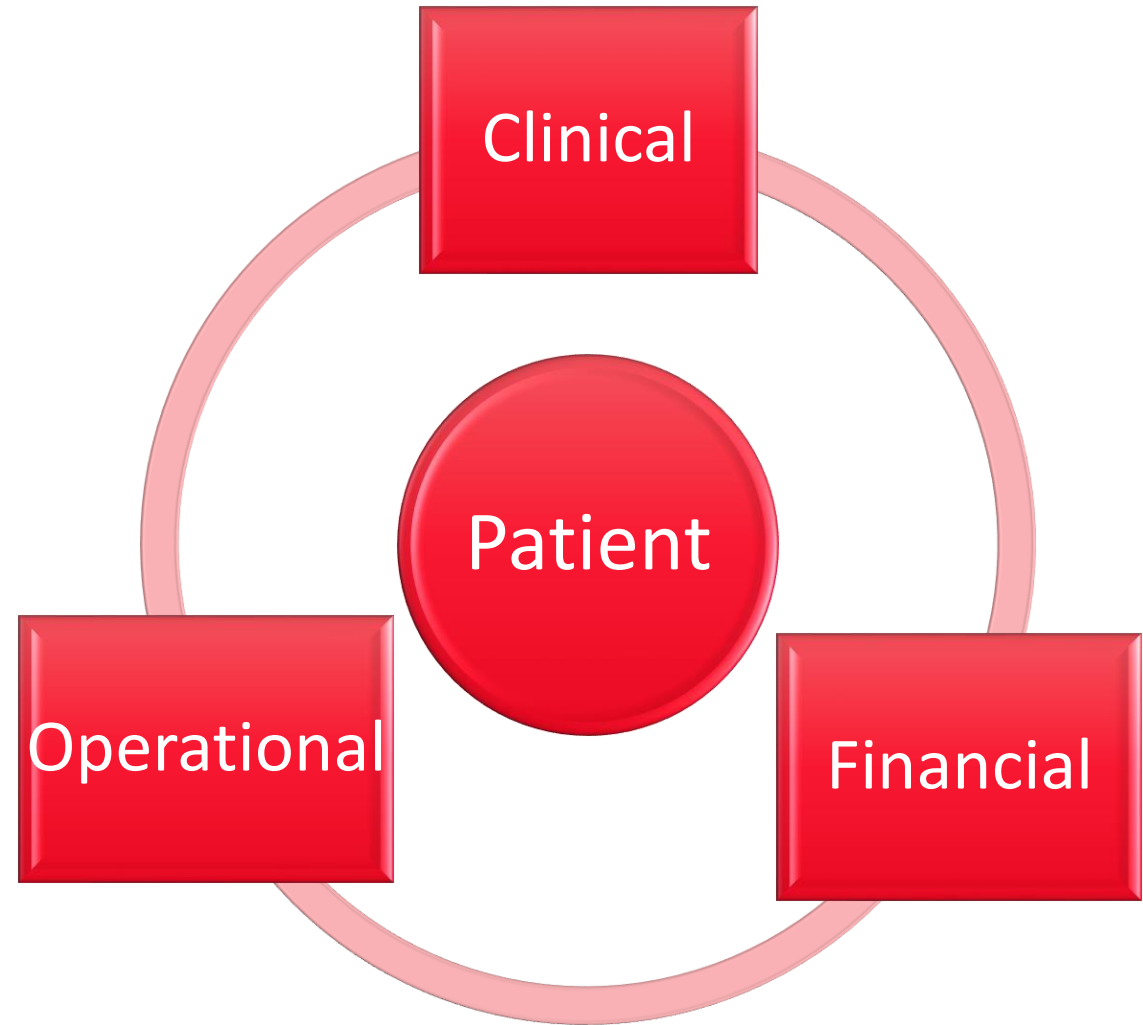




Financial literacy is a critical skill for laboratory leaders

Transform your Laboratory from Commodity to High-Value Contributor

- Clinical
 - Centers of Excellence
- Operational
 - Optimize staffing, technology
- Financial engine
 - Outreach NOI >30%
 - Monitor KPIs and metrics
- Value-Based Initiatives
 - Control costs
 - Retain revenue





Data is the currency of the laboratory

Learning Objectives - Review

The session is complete! Can you do the following?

- ✓ Define commonly-used financial terms and how they can be applied within the laboratory
- ✓ Analyze laboratory costs through accurate cost accounting
- ✓ Describe the different laboratory revenue streams and how to measure them; demonstrate laboratory financial contribution

Next Steps to Retain Financial Relevance

1

Focus on the Patient

- Engage
- Enable
- Empower

2

Retain and Use your Data

- Patient Clinical (HEDIS) data
- Manage population health
- Drive and support wellness

3

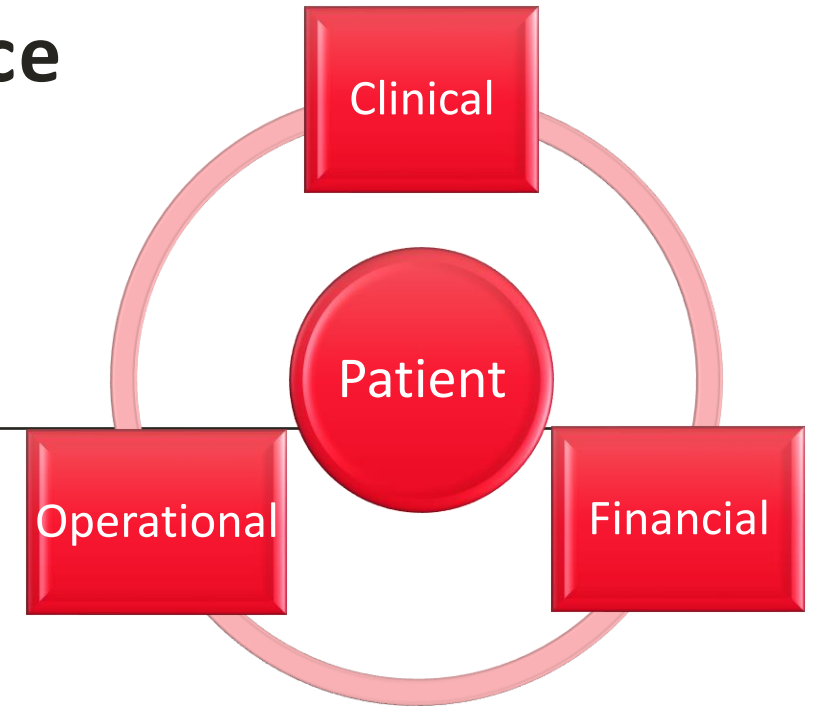
Clinical Decision Support

- Reduce Waste
- Manage Utilization

4

Deliver and Communicate Financial Value

- Net contribution (NOI)
- Total Cost of Care



Acknowledgements

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- CLMA. Body of Knowledge for Medical Laboratory Management. Domain 3: Financial Management. <https://www.clma.org/bodyofknowledge>
- <https://www.modernhealthcare.com/operations/revenue-growth-overtakes-cost-cutting-hospital-executives-top-priority>