

Pros and Cons: Should Hospitals Sell Their Labs?

“Most people overlook the fact that the laboratory has more touchpoints with patients than any other area. While they may make up only 3 to 4 percent of the hospital’s overall costs, lab services contribute to more than 80 percent of the information in a patient’s EMR.”

Sherrie Perkins, MD, PhD,
CEO, ARUP Laboratories



Hospital executives increasingly face substantial offers to outsource or sell their lab services to commercial vendors. ARUP CEO Sherrie Perkins, MD, PhD, discusses what we’re learning from health organizations that have agreed to these acquisitions. “The first few years may be good, but then these hospital labs are at the mercy of the vendor.”

Q: Financially, what is the value of keeping the lab in-house?

A: While outsourcing may provide an infusion of cash into a health system, it comes with crucial trade-offs. When lab services are kept in-house, the health system retains the ability to contain costs. As we move from a decades-old, fee-for-service model that emphasizes volume to a model that places importance on quality outcomes with value-based reimbursement, it is essential to ensure that patients get the right tests for the best medical outcomes at the lowest cost.

Q: From a patient-care perspective, what is the value of keeping lab services in-house?

A: Selling your lab impacts patient care. The best care keeps testing as close as possible to the patient. Oftentimes when a lab is sold, testing goes to other sites, turnaround times increase, specimens may get lost, and it doesn’t allow for a close focus on utilization management or the development of lab practices to improve patient care.

Once your lab operations are off-site, it is very difficult to change ordering patterns and communicate with clinicians about appropriate testing. You lose that close communication that makes a healthcare team, including the lab and pathologists, effective.

Q: What should lab personnel know about the prospect of their labs being sold?

A: The decision to outsource or sell is often made at the executive level. Sometimes laboratory personnel are the last to find out, and often employees are let go. The C-suite may view lab testing as just another commodity

without fully understanding what value their lab brings to the overall healthcare organization.

Q: What can lab management do?

A: Be proactive. Articulate the value the lab delivers to the health system beyond test results. Develop a laboratory value proposition and make sure members of the health system executive team hear it. Make sure the lab is represented on patient-care teams. The key is to connect the dots between the laboratory, the providers, and their patients in ways that drive outcomes and cut costs.

Q: How difficult is it for a hospital to buy back its lab?

A: Very difficult. Hospitals cannot compete for outreach business for the length of the contract—typically five years. It is costly and complex to bring these services back in-house once they’ve been sold, both from finding staff and training, as well as repurchasing instruments or reagent contracts. Once the contract is up, the hospital must actively market and sell its services to community-based physicians, a process that typically requires a year to 18 months before a new contract is secured.

Q: How can ARUP help increase the value of hospital labs?

A: Hospital labs are inherently valuable, but this value often goes unrecognized. We help laboratories quantify their short- and long-term value in terms of revenue potential and impact on patient care. We show them how to improve operational efficiencies, grow outreach margins, or engage in laboratory stewardship to address and reduce misutilization.



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