

Case Study**Cost/Benefit Analysis**

You are the laboratory manager. The hospital administration wants to penetrate the market and expand the business by performing Parathyroid Surgeries (reimbursement \$15,000). They have enticed a prominent surgeon to join the staff. He plans on scheduling four surgeries per week – two on Tuesday and two on Thursdays. Every case will need an intact Parathyroid Hormone (PTH) performed STAT during surgery. You currently send this test to your reference laboratory with a minimum 24-hour TAT. None of the analyzers currently in your lab are capable of running this test. The best pricing you obtain is from Siemens Diagnostics for an Immulite 1000. The price of the analyzer is \$75,000. The price of the test kit is \$800 for 100 tests. The test requires three levels of controls run per 24 hours. The stability of the test kit once opened is eight weeks. Reimbursement for the test is \$20. You realize that you will only be able to run on average 32 tests (patient reportable results) before discarding the reagent (\$25 per test for reagent alone).

Issues and Questions to Consider:

1. Would you bring the test in-house as per the physician's request?
2. What other departments need to be involved in developing this service?
3. What assumptions should be made modifying the Chemistry operating budget?
4. What financial tools would be useful in justifying the addition of this test?
5. Would further explanation be needed in justifying the addition of this test as addition does not appear to be warranted on its own merits?

INTRODUCTION

One of the most important tasks of a laboratory manager is assessing and comparing expense (cost) with associated revenue (benefit), a process known as a cost/benefit analysis. This chapter provides the reader with a global perspective on using financial information followed by details on the nuts and bolts of cost/benefit analysis including evaluation of expenses, evaluation of revenues, and pricing formulas. Two related topics—making business decisions and capital purchases—are also discussed. Finally, the chapter includes suggested resources to assist laboratory managers in evaluating the financial position of their institutions, as well as to compare their findings to financial situations of other comparable institutions.