

Interview: Hari Sabnani - Managing Director Puerto Rico & Caribbean Region, Quest Diagnostics



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In 2014, Hari Sabnani moved from Cardinal Health's Puerto Rican affiliate to take the helm of Quest Diagnostics Puerto Rico, the country's largest clinical lab. He discusses the change in position and emphasizes the importance of ensuring that equipment is being used to its fullest potential in a time of uncertainty regarding Puerto Rico's healthcare system.

How did you find the transition last year?

Prior to Quest, I led Cardinal Health's entire sales and marketing organization and business development strategies to acquire Puerto Rican companies. Quest was looking for someone with experience in the Puerto Rican market connected with managed care organizations, government and hospitals to turn around their business. Quest is the biggest reference lab in Puerto Rico with 15 rapid response labs (RRLs) around the island that provide services related to patients. We have invested around USD 6.5 million in buying and converting this facility from Merck from a distribution center into the biggest reference lab in the country that handles the more complicated testing.

At Cardinal my biggest customers were hospitals and pharmacies. Here the customers are patients and physicians; the technical staff here are talking constantly with physicians and answering questions about potential conditions of patients. Unlike the distribution of medicines and equipment, Quest manages samples from humans. It is like a small manufacturing company; we

are constantly processing samples from everywhere in Puerto Rico, providing services to 40 hospitals here, and managing labs for very important government hospitals like UPR School of Medicine as well as for Puerto Rico's correctional facilities. We work with important hospitals like Menonite Group, not just helping patients directly in their own labs but also receiving samples from across the island. We can process for hospitals that do not have the equipment or capabilities. 15 percent of our volume goes to Quest in the US for esoteric testing which is for very complicated conditions in areas like neurology or oncology which might not have the volume in Puerto Rico.

The first couple months here were complicated, especially in my first meetings in terms of technical aspects. At Cardinal I was able to share much more of my own ideas with teams. I manage the business and investments, making decisions to help the team think through ideas, and be a bouncing board for the prioritization of company strategy. In my first three months, I spent a lot of time learning the ropes and understanding the client. I visited many customers, understanding their concerns and why they were or were not using Quest as their reference lab. As a general manager I have always been very close to the client, as they are the ones providing perspective on what you need. That is especially true for Quest.

As the leading diagnostics provider in Puerto Rico, what is the strategy to maintain market share?

Quality is a key aspect. Working in diagnostics, you support a physician's decision on a patient, be it treatment, medication, surgery or bracket testing. Quality is the number one priority when people make life-altering decisions based on bracket testing. It is the same for everything, from mastectomies to cancer treatment; doctors need pathologies and blood testing to decide which chemotherapy to select for the patient, as an example. It is imperative to ensure that any decision being taken on a patient's life is done with the best information available.

Secondly, you must have the best quality at the lowest price. We are having a crisis in Puerto Rico's economy, and other Caribbean islands like the Dominican Republic are growing but are still considered developing. You have to understand the market in which you are doing business. Simultaneously, we will never sacrifice quality. We are the only CAP-certified lab in Puerto Rico, and we invested heavily as a company to ensure we were certified as such in Puerto Rico. This means we are under constant scrutiny and audit from this organization to maintain those standards. This can be expensive to maintain but it means we can offer the best quality service in Puerto Rico.

Customer service is the third aspect. Timing is everything in this business. When you have a specialist in a hospital with a patient hooked to an IV waiting for your result to take action, two

hours can make a big difference. I am investing in bringing the best talent onboard to ensure we have the level of technical expertise that Puerto Rican physicians, hospitals and agencies need to ensure we are fast, cost-competitive and with the highest quality. Quest operates 24/7, and in Puerto Rico we manage over 8,500 samples per night for over 4,000 patients per day in this facility alone.

Puerto Rican hospitals are very picky as they have to comply with US certifications regarding turnaround times for testing and quality of sample management. Much of our activity requires lots of technical support. More than half of our daily client calls are customers clarifying on how a sample should be taken; if they do not have the supplies, Quest provides them.

Are you attracting business from other parts of the Caribbean?

We attract patients to come to Puerto Rico's RRLs. By law, Puerto Rican doctors cannot do blood draws in their offices; they have to send a medical request order to a RRL that can manage samples. We are trying to attract Caribbean patients to here, but we are also servicing Caribbean hospitals and physicians. Today, Quest has the logistics to manage the entire Caribbean to bring samples from any Caribbean island to Puerto Rico. We ensure that the samples get here based on specific timing based on their different requirements. We consolidate and process samples, and then send back the electronic reporting of results across the Caribbean. More than patients directly, we are pursuing business with hospitals, independent communities and many physicians. One of our biggest clients, VI, allows doctors to draw blood. That means the majority of my clients in places like the Virgin Islands of St. Thomas and St. Croix are physicians who send us their samples.

To what extent can you work with medtech companies in Puerto Rico to get the latest technology brought here?

Locally, there is not much manufacturing of laboratory medical equipment, despite the many medical suppliers here. We do work with manufacturers represented in Puerto Rico. Quest always implements its own standards in the lab, as we do national contracting for procurement and we always try to align to what the company as a whole decided or identified to run for a testing. This can be represented by the manufacturer or a distributor.

How important is Puerto Rico within the Quest Diagnostics corporation?

We report to the international division and represent 26 percent of international revenue, two percent of total revenue, and 30 percent of operating margins. 96 percent of Puerto Rico's

population has access to a managed care plan. That is not the case in many countries where Quest operates. There are 780,000 patients here in Medicare, which operates exactly as in the US. Our other international business is not like that; hence we are a priority.

What impact will the ACA's cuts to Puerto Rico's Medicare funding have on Quest?

This will have significant impact. A big portion of our business is Medicare, in which we do direct-to-patient billing. We do third-party billing, or we bill the managed care organization directly for patients that go to our own labs. But we also offer our clients that do reference testing with us to do the billing for the tests they send us. From the 780,000 Medicare patients in Puerto Rico, 76 percent are in Medicare Advantage (MA), the highest in the entire US. That means that the \$1 billion cut is in MA. In fact, traditional Medicare received a two and a half percent increase to their budget. Consequently, MA plans will reduce their free schedules. There is no way they will be able to sustain their businesses paying the same they are paying now for their providers. I foresee a lot of consolidation and preferred providers. Quest must continue being competitive and careful on how we manage the operation from a cost perspective. We have to do more with less money and our clients will be even more sensitive to price increases.

One of our biggest segments of business is reference to local labs. We provide services to over 600 labs twice daily across Puerto Rico. These are mom-pop labs that do basic analyses and refer everything else to us. In order for them to be able to survive in the business with a reduced free schedule, they will need better pricing from us. For that to happen, we need to economize what we do as an operation. We will also need to do better in procurement with suppliers, ensuring we obtain the best deals possible which will also have an effect on the economy. Like a domino effect, we will ask for better deals. Volume consolidation will also happen in the market. I am looking at big volume accounts to be able to use economies of scale, and with the equipment we have we can double the volume without adding people because of the equipment's capability.

We are also going over a route-optimization project across the entire island. 60 percent of the market is manual, not electronic. Quest has to deliver thousands of papers to different labs around the island every morning. That increases costs; route service representatives run around the entire island in their first shift delivering reports and results to patients. In the second shift, they pick up samples for the night shift. I am incentivizing our clients to move to electronic. We are paying them an office supplies fee in which we reimburse them for paper and ink for each patient they print in their own shops and we transmit to them electronic results. Some of these healthcare margins are so small, that these small businesses find printing materials a significant financial burden. I am also paying for the setup of electronic transmission through a company with expertise in electronic

transmission of results and requisitions. This is the only way; we have to do many things to bear the risk of all these cuts and maintain the same pricing. We have to make sure we move to technology that helps us to be better for market turnaround time. Quest is also considering new technologies to test at the same or better quality with new equipment that can use reagents, one of our biggest expenses, more efficiently. In some cases we can double or triple the capability of volume.

What do you want to achieve during your tenure here?

Our goal is to be the partner of choice of healthcare providers in Puerto Rico for service, pricing and quality. I also want to make sure that we double our market share by 2017. To accomplish that in a non-growing market, you have to be better than the competition. We are already growing 26 percent more in 2015 than 2014; in order to grow that much, you have to take market share from local or national competitors.

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