Close

THE CONVERSATION

Academic rigour, journalistic flair

Pathology is big business. Thirteen Of Clubs/Flickr, CC BY-NC-SA

True blood: cutting through confusion about pathology cuts

March 1, 2016 11.26am AEDT

Author

Bruce Baer Arnold
Assistant Professor, School of Law, University of Canberra

The pathology sector in Australia is no longer a cottage industry. It is dominated by a handful of billion-dollar enterprises that analyse blood, tissue and other samples. These tests enable timely diagnosis of a range of illnesses and allow clinicians to optimise treatment by ensuring patients get the right mix of medications for specific conditions.

The sector uses advanced technology, involving high-cost specialist equipment rather than individual pathologists equipped with a microscope. It's big business. The overall Sonic group, which includes one of the two leading services, last year reported annual revenue of more than A$4 billion.

As last week's Grattan Institute report and a new lobbying campaign indicate, it's also a sector full of confusion and controversy.

Confusion and controversy

The controversy comes from the proposed removal of bulk-billing incentives for pathology tests, announced in December. Critics claimed the changes will adversely affect the disadvantaged (who would be left out of pocket) or inhibit clinicians from ordering appropriate tests.

Health Minister Susan Ley responded that Medicare exists to foster public health. It is not a gift from the taxpayer to pathology service providers.

Some of those providers are owned by private equity firms, some are listed companies such as Sonic and Primary, and one – dominant in Western Australia – is the health services conglomerate St John of God, a religious entity.

Sussan Ley has defended the proposed cuts to pathology bulk-billing incentives. Mick Tsikas/AAP

Controversy also reflects the regulation of the sector. Several major players operate internationally and have diversified. Some, for example, offer diagnostic imaging, medical software services, insurance, drug testing and paternity testing. Some are parts of conglomerates that include clinics and hospitals.

Canberra has taken a light-touch approach to regulation, on the basis that oligopoly (market domination by a small number of enterprises) results in economies of scale, administrative convenience (it's easier for Canberra to deal with 50 rather than 5,000 players) and nationwide access to the tests that we take for granted.

Although bigness isn't bad, it does raise concerns. The dominant players continue to acquire established businesses and market entrants, with occasional push-back by the national competition regulator. They have also engaged in incentive practices that in other industries would raise eyebrows.

Profits and services

The sector is currently crying poor. The dominant players, however, continue to grow.

That growth is attributable to acquisitions and to a focus on cost reduction – offsetting fixed costs for premises, equipment and consumables through a scale that allows them to run tests continually. Insiders refer to ongoing reduction and casualisation of the overall workforce, alongside debt-servicing attributable to the cost of overseas expansion.

In thinking about conflicting claims, it is useful to remember that pathology services in the private sector are business, not philanthropy. In fiscal terms, they are good business: strong cash flows, respectable profits (A$363 million and EBITDA of 20% for Sonic last year) and positive signs for future growth.

It is also useful to remember that pap smears and other tests are not a luxury. They are social rather than specifically individual costs; they should be publicly funded.

Last week's Grattan report argued there was scope for reducing costs to the taxpayer without compromising quality. The savings are estimated at A$175 million a year. This wouldn't cause the collapse of the dominant players but might deter new entrants.

Pathology tests such as pap smears aren't a luxury and should be publicly funded. Monkey Business Images/Shutterstock

An ageing population and ongoing shift to high-tech medicine, especially in the treatment of some intractable conditions, mean we can look forward to more (although not necessarily better) tests in future.

Those tests are potentially clinically useful but, as importantly, are a reflection of defensive medicine. Clinicians will seek to comply with practice norms and minimise liability by ordering tests that provide clues to the treatment of complex conditions, or the adjustment of regimes involving multiple medications that potentially conflict with each other.

Treatment has moved on from the era when it was sufficient to prescribe only a single pill: we might now have a therapeutic regime involving medications for blood pressure, depression, diabetes, cancer and eczema.

What do we want from the sector?

For real reform in this sector, we first need to revisit the Harper Review, the experience of outsourcing in Victoria and the Department of Health's 2011 pathology services discussion paper.

The ACCC should forbid further acquisitions by Sonic and Primary. Their shareholders will squeal; the government should stand firm, foster competition but take a more considered approach to bulk billing.

More inventively, the national and state/territory governments should take a hard-headed look at proposals for outsourcing (or privatisation) of pathology services that public hospitals provide. Privatisation is likely to both reduce overall costs and reinforce the oligopoly.

Will privatisation necessarily foster better public health and lower costs? We don't know. It's time for a Productivity Commission inquiry into the sector.

More broadly, we need an informed national discussion about pathology services and health priorities. These services are too important to be left to health and treasury department economists, lobbyists and the executives of the dominant service providers.

Health Minister Ley, in contrast to her predecessor, Peter Dutton, has made a useful start. So has the Grattan report. Now we need to think about markets, expectations and sharing.

Medicare Pathology