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New policies fuel financial uncertainty

By John Andrews, Contributing Editor

The HME industry faces what arguably will be the most financially rigorous period in its history as competitive bidding, mandatory accreditation and a 36-month cap on oxygen reimbursement loom on the horizon. The providers who endure these challenges will do so because they performed critical due diligence ahead of time, financial specialists contend.

Seen as even more ominous than the Balanced Budget Act of 1997, the new Medicare environment threatens to sink HME providers who don't run the tightest financial ship possible. Whether it's scrutinizing claims, studying administrative procedures or reassessing market strategies, authorities recommend that HME providers be fastidious about understanding how every segment coalesces into cash flow--the lifeblood of the business.

What makes the latest package of policies so potentially damaging is that no one can really measure its impact, said Rick Glass, president of Tarpon Springs, Fla.-based Steven Richards and Associates.

"The difference between now and 1997 is that back then we knew what was coming," he said. "We weren't happy with it, but we knew we were still getting paid, and we put it behind us. But there are so many uncertainties (with the new measures) that no one really knows what it will mean. I've never seen a more difficult time than the one that lies before us."

Indeed, HME providers are facing challenges that "go way beyond BBA '97," agreed Bruce Perry, general manager of business development for Boca Raton, Fla.-based Sun Capital Group. These events are causing a ripple through the financial services sector, which translates to scarcer capital.

"With all the uncertainty, it's much tighter," Perry said. "Small HMEs--less than $5 million--will find it hard to get the cash to grow because they don't have the collateral lenders want."

Taking charge

The phrase "knowledge is power" may be simplistic, but it's sound advice for HME companies searching for ways to navigate the regulatory labyrinth ahead.

"Providers have to be smarter in generating the revenue for services," Perry said. "Conduct a profitability analysis of the services you provide. Look at the cost of supplies vs. what insurers will pay and determine which services bring you the most profit. Then focus on growing those lines so you have enough revenue to cover your fixed costs."

Mike Barish, president of Coral Springs, Fla.-based AnCor Healthcare Consulting, says a lot of HME companies are already doing that in the wake of drastic respiratory medication dispensing fee cuts.

"They're feeling the heat and getting out of the medication dispensing business to focus on other areas," he said. "To make up for revenues lost from oxygen reimbursement cuts, Apria is advertising for wheelchair sales reps in all marketplaces. They are migrating from less profitable to more profitable segments."

While there is no single formula for creating a "lean and mean" operation, Barish said, the most logical place to look with regard to controlling costs is personnel. Getting a fix on the ideal employee count can be tricky though, he said.

"No one can afford to be over- or understaffed," Barish said. "It starts by hiring quality people, which doesn't necessarily mean those with industry experience. Then it comes down to providing people with the right tools to do their jobs efficiently. You should also make sure to assign jobs that have a logical beginning and end to make each individual accountable for productivity and accuracy."

The need for employee productivity was the impetus for founding RemitData, Bently Goodwin, CEO, said. The Memphis, Tenn.-based software vendor offers an automation system designed to eliminate unnecessary and redundant activities related to patient records and documentation.

"The companies that will make it through the cuts are the ones who gamble with technology," he said.

Optimizing collections

To be sure, HME providers need to be thinking strategically about their product and payer mix, service tiers and overhead costs, but collections are still the heart of the business, said Nancy Burma, president of Jamestown, N.D.-based Alternative Billing Solutions. Slow collections mean high days outstanding levels and sluggish cash flow, which companies can no longer afford to withstand, she said.

"Back in the '80s it was no problem if you only collected 80% of your money, but today it is of utmost importance," she said. "Most companies do not know what to look for to improve their financials. Basically, they need to look at three things: revenue, DSO and amount of receivables over 90 or 120 days."

Burma continued: "They need to review their contracts and if they cannot make money on them, they need to try and re-negotiate or sever the relationship."