The Importance of Revenue Diversity, Growth and Continuity

By Charles Pope, November 22, 2016

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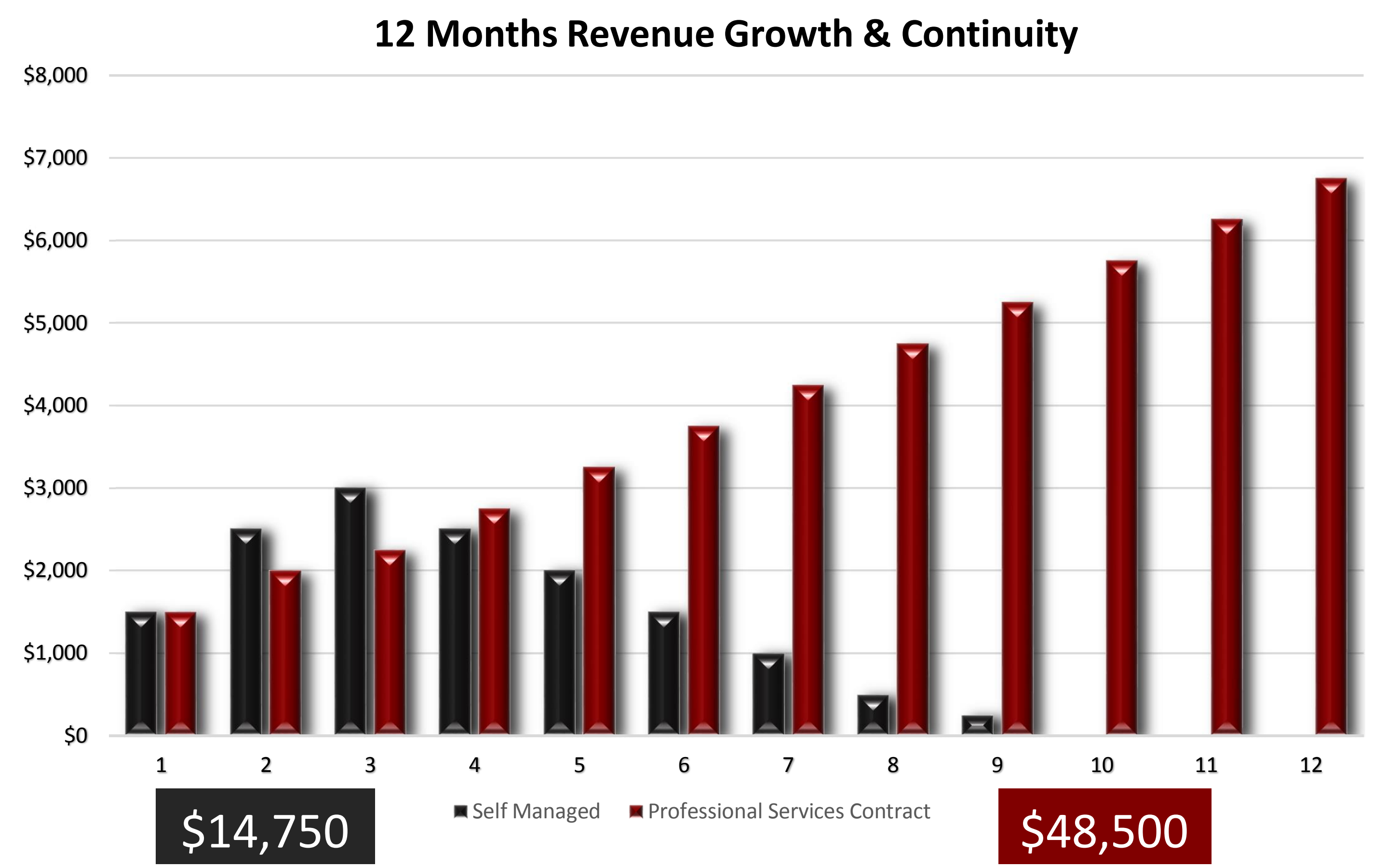
On the "short list" of what bankers look for when evaluating a medical practice for a loan is the diversity of the revenue source of the practice. The continuity of the revenue sources and their growth trends are also of critical importance. Adding additional revenue services that diversify the practice income *"can be counted in calculations - so long as there is solid evidence that it will continue."*

However, they do not want their borrower to heed their advice hastily. Lenders stress their need for certainty that this income stream will continue. If this income has a history which is proven by tax returns over the past three years, the scrutiny will be much less than if the diversity and growth initiative is recent. It's the purpose of this paper to provide answers on the two methods of implementation and introduce a concept I call ***Revenue Management***.

As a Certified Commercial Lender, I looked through the archives of practices that I've financed to find common elements that have differentiated the success or failure of individual practices. All practices reviewed had at least a years' worth of operating figures to analyze. This is what I discovered:



The above chart represents a sampling of medical practices striving to create growth and diversity, on a long-term basis, for their respective practices. Following is a discussion of these events.

Self-Managed

After 1 year of good intentions, the practices that embarked upon this initiative came out-of-the-box in a flash, revenue rose for three months and then began to wane for a myriad of reasons.

Investment and Return on Investment:
Though stating the obvious, it should still be noted that any cash invested, similarly to a loan, must be paid back to the lender. Therefore, one needs to make sure that, should you invest in services that you are going to manage yourself, that you do so in such a fashion that there would be continuity of income to return your investment to you. As Will Rogers famously said, *"I am not so much concerned with the return on my capital as I am with the return of my capital."* If you deplete your cash reserves by investing in services that you are not assured of growth and continuity, it is a prescription for depleting your cash, having to borrow more money, and thus, getting yourself into a borrowing spiral downward.

In reviewing the practices to determine the trends, we found the above pattern which punctuates my point above.

Staff Concerns.
Initially, the drain on your time (as the provider and ultimate manager) can be significant. Over time, you realize that you need additional staff to help you which is about the seventh or eighth month with the performance falling off completely in the ninth month. As you add additional services, you'll need more staff and the management becomes even more demanding, further draining your resources.

Buy-in of Staff Can Be Very Difficult
Staff reluctance is discussed at every implementation meeting I've ever attended (there have been plenty). You make the case to them that this will assure the sustainability of the practice - hence their job. Then they leave for a job where they do not have to work so hard – done correctly, it doesn't have to be so difficult. None-the-less, I see many medical practices where the closet or exam rooms are full of unused machinery, equipment and diagnostic equipment.

Learning Curve for Providers Difficult
The medical practices which embarked upon such services for the most part are not specialists in their field. Therefore, they have a whole new specialty to learn which causes the time they can devote to their current patient load to fall off, thereby diminishing current revenue stream.

Provider and management interests begin to wane dramatically as claims start being denied. As you are on the phone to your representative asking how to get paid for such diagnostics, physician's time becomes totally consumed.

Subject to a recovery (RAC) audit and claw back.
Claims denial puts a negative spin on any service. Initially claims are paid because it fits the mold and you show medical necessity. After several months, as the claims work their way through the system, they are red flagged because you are not the specialist. This is called "self-referral" and I guarantee you they will put you through the rigors to prove your claim. Alternately, you can get an additional certification which takes you away from your focus of practicing medicine.

Patient billing concerns.
Anytime you must learn a new billing system and bill your patients for the new procedures, you run into patient resistance to deductibles. Your “balance billing receivables escalates - higher non-collectables. With today’s high deductible insurance plans, particularly at the beginning of the year, patients are not so easily sold to agree to the testing.

All is not lost however. In my years of experience, I’ve learned that this initiative can be positive when engaging with a managed service contractor. The first proof was in 1978 when I financed my first MRI. As the local staff and physicians attempted to manage this, it became obvious that the $500,000 (1978 dollars) investment was not getting amortized as it should. The DSCR was slipping as we monitored our credit. I was able to assist them in setting up a management arm which did the job. The chart below shows you the differences that you may run into.

Assuring Revenue Growth & Continuity

Self Managed

- Cash up front
- Hire & train additional staff
- Train existing staff drain on resources
- Buy-in of staff very difficult, add staff
- Learning curve for providers rough
- Staff interests diminish as claims get denied
- Subject to RAC audit, claw back. Claims denial; not medically necessary
- Claims are red-flagged, generated by a non-specialist.
- Patient resistance to deductibles; higher non-collectables

Professional Service Contract

- No cash up front
- Fully staffed
- Expert, Licensed, experience technicians
- Staff buy-in as decision support increases
- Report by specialists, no learning curve
- Patient outcomes improve as decision are now supported with expert diagnostics
- Your claims are for decision support, no denials
- Patient frequency & referrals increases
- Plan of treatment with our diagnostics

Professional Services Contract

Investment and Return on Investment:
With a managed services contractor, there is no contract or financial commitment until the service is utilized. Once the medical practice and the managing provider is satisfied, a fair market lease is developed which complies with Stark laws. However, if the provider has no patients for that particular service that month, he owes no money and no money is collected. The utilization of the services are performed one day at a time and can be anywhere from twice per week to once per month.

Staff concerns.

There is no disruption or change in workflow. The testing is ordered as it normally is, the only difference is that the patient has the convenience of being tested on premises. The physicians does not lose control of the patient's treatment plan – their plan is enhanced.

<u>Buy-in of staff very difficult</u>
Where is no need for the staff buying-in to this process. The testing is ordered and report is received. The test is interpreted by a specialist in that specific field. It is consistent with the current workflow.

<u>Learning curve for providers is rough</u>
There is absolutely no learning curve by utilizing the services of a managed service contractor. The provider receives the report just as he would if he were to refer the diagnostics to a local hospital or outside testing center.

<u>Subject to a recovery (RAC) audit and claw back.</u>
This threat is avoided since you do not bill for the actual procedure. The only bill is for your patient visit where you utilize the decision support of the procedure and its report. This confirms your diagnosis.

<u>Patient billing concerns.</u>
The patient's insurance company is billed by the managed service provider whereby, if contracted correctly, there is no balance billing.

Therefore, when evaluating a medical practice for diversity of the revenue source, growth and continuity, there is a prudent way to assure your success. This applies not only to your Cash Available for Debt Service (CADS) but for the growth and longevity of your practice.

Should you have any questions, please contact me directly.

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