

# New Business Model for Medical Billing Companies

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## **Introduction**

I've worked in the medical billing world for the past 20 years, both for billing companies and as the owner of an auditing firm. Never have I seen such rapid changes in the industry. Automation, outsourcing, and new workflow processes are driving these changes, with some billers struggling to keep up.

What can billing companies do to stay abreast of changes and shore up profit margins while retaining clients? Let's look at the current state of billing firms today, and then imagine we are gazing through the looking glass at billing companies 10 years from now.

*"All businesses must make a margin to survive if your EBITA is 20% and you lose 20% of your margin then you are just treading water"*

## **The Current State**

The key in any industry is to make a margin — that difference between cost and revenue, the part you get to take home every two weeks so little Tommy can have a new iPad. As change takes place, companies that fall short of this margin inevitably fail. They may leverage themselves with loans or lower their costs by decreasing output, but sooner or later the bills have to be paid.

In the medical billing industry, companies have literally searched far and wide for this margin. Over the past 10 years we have seen considerable use of Business Process Outsourcing (BPO) firms that handle various parts of the billing process overseas.

In the beginning many years ago, basic data entry tasks were outsourced to India; next came off-shore call centers in Costa Rica, then information technology consultants from China. Billing became a world-wide effort. Now as we are further into the integration of services, we see entire billing platforms off-shored with editing, coding, credentialing, call centers and even denial management.

Some billers who outsource may have gained a solid margin and given solid results to their clients. Others have chosen less attractive business partners and both they and their customers have found flawed results. As a result, several companies at the recent Healthcare Billing and Management Association (HBMA) conference noted their billing firm was beginning to "re-patriate" their outsourced work.

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I talked with Randal Wall, Senior Vice President of Business Development of GeBBS Healthcare Solutions, about these changes. His comments brought to light many of the issues billers consider when deciding whether to outsource.

“There are several metrics used to determine whether or not RCM services can or should be outsourced to a global delivery company,” Wall remarked. “The three main items that tend to trigger this decision are scalability, cost and cultural fit.

“Many may wonder why scalability is listed first: Partnering with a solid global vendor allows a billing company to pursue, manage and sustain the needs of much larger, more profitable provider clients — ones that would be cost-prohibitive if undertaken without this type of model.

“As for cost, a billing company could ostensibly charge a more competitive (read: lower) contingency rate to their clients while making a higher profit. These net margins, or EBITDA, become the magical figures that tend to attract buyers when evaluating the merits of making an acquisition. Of course at the end of the day, there must be a cultural fit, or at least a cultural integration of sorts, for this type of business model to make sense to the billing company.

“Rising provider expenses, intense regulatory pressure and the uncertainties of healthcare reform has resulted in declining reimbursements for many providers, which has a direct impact on billing companies’ profits. Outsourcing key RCM service components to a knowledgeable, skilled and less expensive workforce is a perfect way to combat the effects of these industry forces.

“To remain competitive, billing companies, like their provider counterparts, must find ways to minimize their costs while simultaneously increasing collections. As that old sage, Calvin Coolidge, once said, ‘Business will be better or worse.’ It’s up to the billing companies to decide on which end of that spectrum they land. Outsourcing certainly isn’t the only choice, but it’s a great place to start.”

Billers not taking advantage of these outsourced services have struggled, or perhaps they have raised their rates to compensate for the higher cost of doing services. Many have a mixed model where they do some services themselves, and some they outsource.

You could argue those that do not take advantage of outsourcing will in time surely fail.

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Yet no matter on-shore or off-shore, the goal of all firms is to not only make a margin for themselves, but just as importantly to make a margin for their customers, and to keep the customer happy.

### **Billing Firms and Services Offered**

Many billers are working hard to become the one-stop-shop for their clients. Besides billing, they provide CPA services, IT services, internal auditing and practice management services.

The old school billing services only offered the basics and struggled to provide services above and beyond their limited scope. These companies specialized in getting a claim out the door and getting an EOB back. Now firms are scanning all their documents and getting all their payments electronically. Many have outsourced their statement mailing, their self-pay call notices, and even all of their account receivable work.

The only thing they have not outsourced, yet, is their practice management. Almost everything else has been outsourced or made into a commodity.

As we look to the billing company of the future, we see some things that need to be added to this mix, the most obvious being data. If we move to a true Accountable Care Organization (ACO) model, then all practices will need to know their data. Why? Because data will be used to determine the practices' margin. Only the best companies will be able to provide this information as it will take an accumulation of many data points to determine cost, revenue and actual margin per procedure.

### **Why Data Matters**

As we move from a volume-based medical world to one that is value-based, the medical billing company of the future must have industry-specific knowledge, solid client retention, and practice management process and wave data.

Most medical practices now operate without true business intelligence. Although there are many "client dashboards," few of their instruments have any data related to cost or actual margin. The issue is not that the dashboard makers have not thought about margin per case; it is that the integration and actual need for the margin data is several years away.

Once we truly achieve a value-based model, practices will need distinct margin data for each type of service provided. As CMS and the rest of the payers consolidate and bundle payments, groups that know exactly how much it costs to do a certain procedure or test will have a huge advantage over the older practices stuck in volume-based thinking.

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Paul Parmar, Chairman and Owner of Pegasus Blue Star Fund, has made large investments in the healthcare industry. This nationally renowned industry innovator is working aggressively to change the competitive landscape in the medical billing space.

His flagship company, Constellation Healthcare, is offering a broad range of services to medical practices and hospitals. Mr. Parmar clearly understands the needs of practices in a value-based medical world. He explains his company's strategy this way: "Today there are many disparate companies offering partial solutions to medical practices, but Constellation Healthcare is the first to offer a broad range of services, which are completely integrated to provide the most efficient processes at the lowest cost resulting in include a patient portal, payroll, HR, Billing, Office Management, Accounting, a Group Purchasing Organization (GPO), Electronic Health Records, Management Reporting, Business Intelligence, and Analytics. These fully integrated services are completely automated, resulting in the elimination of redundant data entry and reduced staffing requirements. We at Constellation Healthcare believe that this is the business model of the future for medical practices."

### **The Medical Biller of the Future — Focused on Margin for Billers & Clients Alike**

The new medical billing company in the future will need to provide solid data metrics to their clients to stay in business. Besides managing their own profit, they will have to develop a process to monitor their clients' profits.

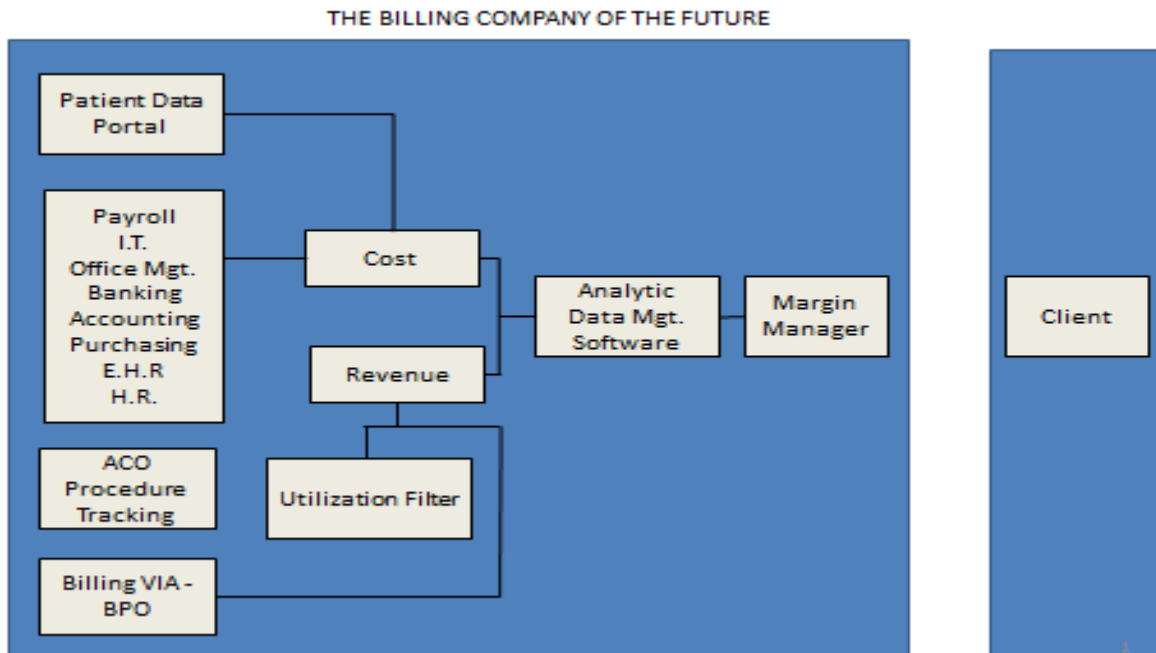
This means new software and hardware to not only track billing and procedures, but also track unit cost, overhead, and profit by case. In short, analytics.

They will need solid Client Managers to interpret and communicate the changes and track the margin. Their Practice Managers will have to be transformed into Margin Managers — someone with expertise in charge capture processes to track procedures done by the ACO; managed care negotiations to negotiate a good rate per procedure; auditing to ensure all procedures performed where actually paid; and finance to show the actual margin per case.

The billing component will also transform. No longer will billers be required to have large armies of workers sending claims and posting payments. Instead,

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they will have a much leaner team of data and margin specialists tracking data and adjusting utilization to keep costs down. This transformation alone could end the BPO trend.



### Summary

The medical billing firm of the future may only have an administrative and sales and marketing arm they will likely outsource any actual billing and even their practice management. They will surely use better software and hardware to track analytics and margins per case.

Their team will be composed of Margin Managers to oversee utilization and costs for each client and communicate these issues.

Billers will be much condensed from the current state. They may outsource the billing or data tracking entirely to an off-shore BPO, or have a much smaller on-shore staff that is very specific to their industry.

Using this model, it may be that these new streamlined billers will themselves be more profitable, allowing them to develop margin-friendly dashboards to track utilization and costs per test, as well as return on investment per procedure, instead of days in AR or gross dollars billed.

This focus on margin for the client through a solid management process delivered via margin management will be key for the billing company of the future to be successful.

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