Diversifying Revenue Sources: Bring Balance in Changing Times

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Objectives

// Recognize the importance of revenue diversification in home care and hospice
// Understand the methods for evaluating the opportunities for revenue diversification
// Identify the steps needed to plan and implement a diversification into new lines of home care business
Environment in Home Care & Hospice

- Payment rate issues
  - Reliance on federal and state funding sources
  - Tightening of Medicare/Medicaid payment rates
  - Increased managed care penetration
- Increased costs of doing business
  - Increased regulatory requirements
  - Increased compliance scrutiny
- Shrinking of margins
- Increased competition
- Dynamics of healthcare reform

Medicare Home Health Payment Environment

<table>
<thead>
<tr>
<th>Inflation</th>
<th>Rate Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calendar Years</td>
<td></td>
</tr>
</tbody>
</table>

2008 2010 2012 2014 2016 2018

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Dealing with Financial Challenges

“You cannot simply cut your way out of financial difficulties. This will eventually become a death spiral for your agency. You must look at ways to increase your revenues in order to get back to full health.”

Source: HHFMA White Paper on Cost Containment Practices
Why Focus on Revenue Growth?

// Ensure sustainability
// Gain economies of scale
// Fulfill mission
// Create opportunities
// Defend against competition

Alternatives for Revenue Growth

// Increase market share in current business
  // Truly organic
// New geographic markets
// Mergers or acquisitions
// Diversification
Diversification

// Add new lines of business
// Could be new
  // Service offerings
    // Other Medicare programs
    // Other programs
  // Payer sources
  // Patient population

<table>
<thead>
<tr>
<th>Medicare</th>
<th>Other Programs and Private Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Health</td>
<td>Telehealth, Pediatrics, Rehabilitation Therapy</td>
</tr>
<tr>
<td>Hospice</td>
<td>Palliative Care, Mental Health, Adult Day Care</td>
</tr>
<tr>
<td>Durable Medical Equipment Infusion</td>
<td>Transitions in Care, Population Health Management, AIDS Care</td>
</tr>
<tr>
<td></td>
<td>Skilled Nursing, Companionship, Respite Care</td>
</tr>
<tr>
<td></td>
<td>Medication Management, Bathing, Dressing, etc., Financial Assistance</td>
</tr>
<tr>
<td></td>
<td>Geriatric Care Management, Housekeeping, Live-in Assistance</td>
</tr>
<tr>
<td></td>
<td>Wound Management, Shopping, Incontinence Assistance</td>
</tr>
<tr>
<td></td>
<td>Post-Surgery Recovery, Transportation, Management Services</td>
</tr>
<tr>
<td></td>
<td>Chronic Disease Management, Meals, Education</td>
</tr>
</tbody>
</table>

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Service Diversification Opportunities

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### Benefits of Growth

- Can improve long-term sustainability
- Can reduce risk of too much dependence on one source of business
- Can increase volume of current business
- Can enhance ability to fulfill mission
- Can boost local economy
- Can provide rewarding career opportunities

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### Potential Risks of Growth

- Managing a more complex organization
- Additional administrative concerns
- Additional regulatory compliance
- Non-government funding more subject to economic downturns
- Overextension of debt/capital
- Loss of specialization/brand
- Financial losses

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You can’t afford not to grow revenue

You can’t afford not to do it wisely

Steps to Diversification

- SWOT analysis
- Demand for services?
- Financially feasible?
- The road map
Assessing Growth Opportunities

- Analyze your current status
  - SWOT analysis
- What are your greatest opportunities?
- Can you administer the program competently?
- Does the expansion make sense in your overall business strategy?
- Can you staff it adequately?
- Purchase or grow from scratch?

Assessing Growth Opportunities

- Can you make it profitable?
  - Feasibility analysis
    - Management team
    - Market analysis
    - Program margin analysis
Market Analysis

// Define targeted service area
  // Area for which 80% of your clients will come from
  // Counties, cities, zip codes, or radius
  // Base on historical client location if available

// Analyze demographics in area
  // Trends and projections
    // American Factfinder (US Census Bureau)
    // Neilson (formerly Claritas)

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Market Analysis

// Define target populations
  // Age class
    // Seniors
    // Adult children
    // Children
  // Health conditions
  // Income levels
  // Marital status

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Market Analysis

// Assess potential demand
  // Who meets criteria for services?
  // Based on historical use rates
    // Compare projected demand to current supply
  // Market saturation analysis
  // What level of market share do we expect to obtain?
  // Who are the potential referral sources?

// Community support
  // Surveys
  // Focus groups
  // Current inquiries/referrals
  // Employers
  // Current health care providers
Market Analysis

// Assess competition
  // Is the market already saturated with competitors?
  // What is their price?
  // Pull their cost report and see the non-Home Health programs
  // Consider all potential competition

// Determine your pricing strategy
  // Price leader/low cost provider
  // Price should cover costs

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Market Analysis

// Assess barriers to entry
  // Regulatory restrictions
  // Certificate of need
  // Home health and hospice licensure and certifications only through accreditation
Market Analysis

// The intangibles
// Need versus choice
// Visibility
// Quality and reputation
// Accessibility
// Available services
// Affordability

Financial Projections

// Program financial forecast
// Based on market assessment
// Project revenues (volume x price)
// Project costs
// Start-up costs
// Capital needed? Can you get it?
// Direct costs - salaries, supplies, contract labor, direct equipment
// Use benchmarks
Financial Projections

// Indirect costs
  // Allocations from existing administration
  // Additional administration
// Can you sustain the costs until the program becomes profitable?
  // ROI period
// Impact on other operations
  // Ability to cross refer internally
  // Improve visibility and reputation
  // Loss leader?

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Financial Projections

// Other considerations
  // Preparer qualifications
  // Requirements under debt covenants
  // Don’t be too aggressive in assumptions
  // Perform sensitivity analyses
  // Compare back to forecasts

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Assessing Mergers and Acquisitions

// Sufficient due diligence a must
  // Financial
  // Compliance
  // Operations
// Know what you’re getting

Create the Business Plan

// Guides the process
// Include considerations for
  // Organization
  // Operations
  // Marketing
  // Financial
Summary

// Understand the current environment
// Evaluate opportunities for diversification
// Perform sufficient due diligence
  // Market assessment
  // Financial projections
// Develop business plan to guide the effort
Thank you

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