


**Diversifying Revenue Sources:
Bring Balance in Changing Times**



CPAs & ADVISORS

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2014 NAHC Financial Management Conference

Objectives

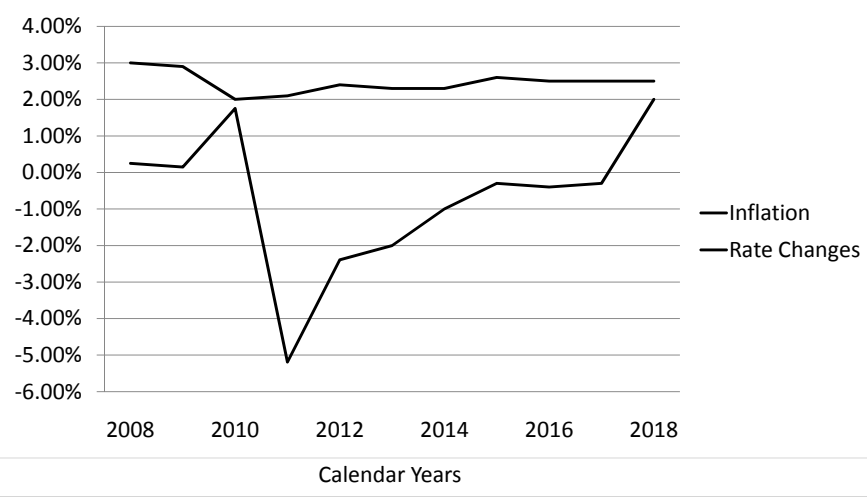
- // Recognize the importance of revenue diversification in home care and hospice
- // Understand the methods for evaluating the opportunities for revenue diversification
- // Identify the steps needed to plan and implement a diversification into new lines of home care business

Environment in Home Care & Hospice

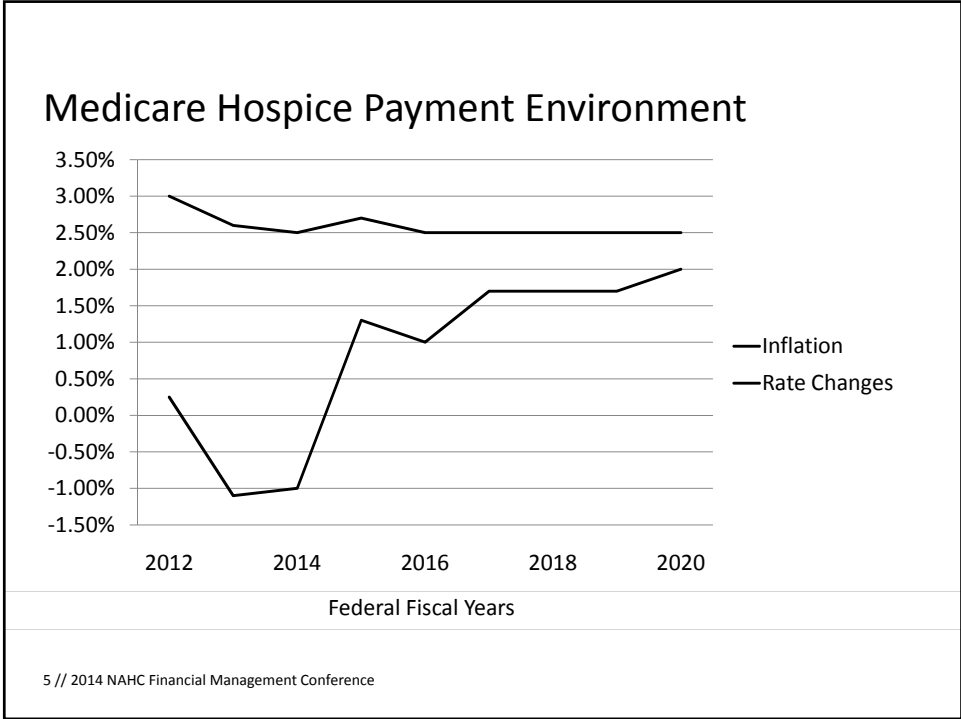
- // Payment rate issues
 - // Reliance on federal and state funding sources
 - // Tightening of Medicare/Medicaid payment rates
 - // Increased managed care penetration
- // Increased costs of doing business
 - // Increased regulatory requirements
 - // Increased compliance scrutiny
- // Shrinking of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

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Medicare Home Health Payment Environment



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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

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Why Focus on Revenue Growth?

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

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Alternatives for Revenue Growth

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

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Diversification

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

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Service Diversification Opportunities

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

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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

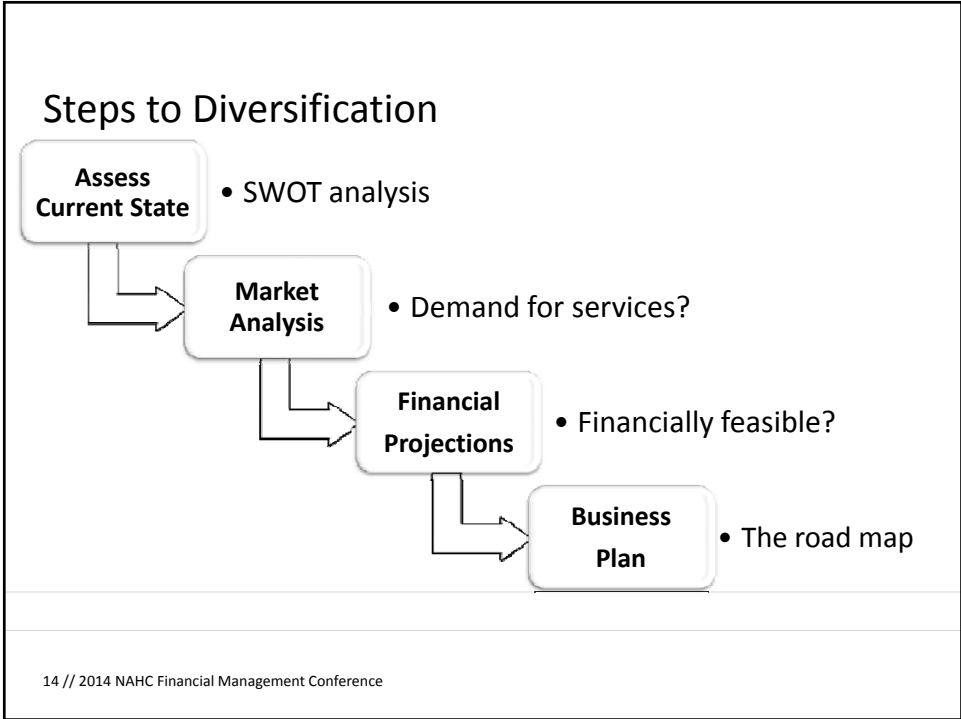
- // Managing a more complex organization
- // Additional administrative concerns
- // Additional regulatory compliance
- // Non-government funding more subject to economic downturns
- // Overextension of debt/capital
- // Loss of specialization/brand
- // Financial losses

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You can't afford not to grow revenue

You can't afford not to do it wisely

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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?

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Assessing Growth Opportunities

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

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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?

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Market Analysis

// Community support

- // Surveys

- // Focus groups

- // Current inquiries/referrals

- // Employers

- // Current health care providers

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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

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Market Analysis

// The intangibles

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

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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

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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

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Create the Business Plan

// Guides the process

// Include considerations for

// Organization

// Operations

// Marketing

// Financial

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Summary

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

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Thank you

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