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### Outsourcing sees stimulus effect

Health reform, ailing economy prompt a closer look at use of contractors

By Maureen McKinney

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In recent years, hospitals have steadily warmed to the idea of outsourcing functions they had previously kept in-house, such as business processes and information technology. But a host of factors—including the passage of the Patient Protection and Affordable Care Act, the faltering economy and the increasing emphasis on quality and performance improvement—have pushed that trend into overdrive.

Faced with a potential flood of new patients and lean budgets, hospitals are carefully considering each department to determine which functions can be turned over to contractors, and more areas are fair game than ever before, says Reggie Hill, a partner at Waller Lansden Dortch & Davis, Nashville. Hill specializes in healthcare industry law and has authored numerous articles about outsourcing trends and pitfalls.

“Because of the perception that there will continue to be cuts in reimbursement and new reimbursement models, hospitals are looking for ways to cut expenses and maximize revenue,” Hill says. “If an outsourcing agreement looks like it will accomplish those goals, it’s going to be something a hospital will want to take advantage of.”

In particular, there has been continued growth in the number of organizations that are seeking out revenue-cycle management services, Hill says. “There are vendors that have shown they can add value, and more hospitals are giving it a try.”



Survey respondents in many sectors reported strong gains in clients, including surgery monitoring firm Biotronic NeuroNetwork, which posted a 22% increase in 2009.

[Download the survey charts](#)

According to *Modern Healthcare's* 32nd annual Outsourcing Survey, the number of facilities turning over their accounts receivable duties to an outside company climbed 13.7%, from 211 in 2008 to 240 in 2009. Forty-five companies voluntarily submitted data for this year's survey of outsourcing activity, compared with 51 respondents last year.

Conifer Health Solutions, for instance, reported a jump in the number of clients for its Frisco, Texas-based revenue-cycle services division (the company also has a patient communications division based in St. Petersburg, Fla.). Conifer secured the 20th spot on the list of the top 20 outsourcing firms for 2009, with 208 clients, up more than 25% from 166 in 2008.

Conifer's customers, which are mostly not-for-profit, faith-based organizations, are becoming more open to outsourcing for a number of reasons, says Stephen Mooney, president of Conifer Revenue Cycle Solutions. First, he says, the past few years have brought a "changing of the guard," with younger talent moving into senior posts and executives joining healthcare organizations from other areas such as the financial sector. Those new leaders are often more used to outsourcing and can change organizations' attitudes toward contracting services.

Also, Mooney says, after tapping into every other possible area, including food service, emergency departments and environmental services, revenue-cycle services are the next logical choice. "They've squeezed most of the nickels and this is the area that's left to look at," he says.

And for not-for-profit hospitals and healthcare systems, the potential revenue gains from outsourcing are especially attractive because they have had more difficulty accessing capital markets for cash, Mooney explains.

"They're trying to expand and do other projects and they have to pay for them," he says. "They need to get that money from internal operations and one of the easiest ways to do that is through revenue cycle."

Typically, a revenue-cycle outsourcing firm takes over some or all of a hospital's business office functions, which can include everything from patient registration, accounts receivable, billing and coding. They consolidate those functions into larger offices that serve many providers. The end result, outsourcing companies say, is a more efficient model that leaves more operating revenue for hospitals.

Those types of business arrangements will likely continue as cash-strapped hospitals see the potential for big savings, says Dean William Harvey, a partner at the law firm Vinson & Elkins in Dallas.

"In the last two years, I've certainly seen a big uptick in revenue-cycle outsourcing," Harvey says. "Billing is so complex already and with specialized vendors, there is a real opportunity for economies of scale."

But revenue management outsourcing has its share of pitfalls, most notably legal compliance, he adds. Providers need to be confident in a contractor's ability to manage the billing requirements of Medicare and other programs, while successfully complying with the Health Insurance Portability and Accountability Act of 1996.

The right outsourcing company can also help providers manage compliance, counters Mooney. Staying on top of ever-changing regulations can be difficult, especially for small, rural hospitals, and hiring someone whose job it is to pay attention to those things can be beneficial, he says.

"Revenue-cycle management is a very legally intensive business process to outsource, and I think

the growth of this kind of business testifies to the expense of doing it yourself," Harvey says. "For an individual hospital, it means they can save a lot of money and usually get better service."

## Keeping it up and running

Equipment management companies have also seen more interest from hospitals eager to find new ways to enhance revenue. TriMedx, a healthcare equipment services company based in Indianapolis, saw its client roster spike more than 35% in 2009, to 739 from 545 in 2008. According to Kristy Kainrath, the company's vice president of corporate and strategic development, that growth was fueled, to a large extent, by cost pressures.

TriMedx's management services, Kainrath says, include off-hours support, regular maintenance and average uptimes of about 99%—a number mentioned by several other equipment management vendors. TriMedx also addressed issues related to vulnerability of patient data when it recently launched eProtex, a separate sister company focused solely on protecting patient information on medical devices. And those offerings have helped persuade providers to loosen the reins and give up more control.

"Hospitals are coming to understand that their expertise is in patient care and they're looking for other companies that help them do what they do best," she says.

Wayne Schell, president and CEO of Denver-based HSS, echoed Kainrath's sentiments. HSS also specializes in medical equipment management, as well as security services for the healthcare, aviation and government services industries. And as hospitals have looked outward for services, HSS' equipment management business has grown, Schell says. The company's number of clinical and diagnostic equipment management clients rose about 9%, to 491 in 2009 from 449 in the previous year.

Specialized contractors are able to adhere to set maintenance schedules, provide documentation and track repair costs—an attractive prospect for hospitals that are nervous about impending changes, he says.

"Health reform has created an environment of uncertainty, and there's continued focus on being cost-efficient," Schell says. "Our clients want to be able to focus on their core competencies as much as possible."

Hospitals that choose to outsource management of their clinical and diagnostic equipment also usually have access to a higher degree of efficiency and expertise than they likely would have if they relied on in-house staff, says Raymond Zambuto, president of Linc Health, a division of Linc Facility Services, a Holliston, Mass.-based company that specializes in facility and equipment management services. Linc reported a 17.4% increase in its number of equipment maintenance contracts, to 216 in 2009 from 184 in 2008.

"I think what hospitals run into is that no one person can handle all of the different types of technology," Zambuto says. "We have the means to train employees at a higher level than a facility that is trying to do it all on their own."

Despite growth in the industry, the foundering economy has made some providers skittish about first-time outsourcing deals, he says. But another motivating factor that is convincing many to take the plunge is the need for standardization, Zambuto says. Outsourcing to a vendor can help ensure processes are done the same way each time at every location, which reduces the probability of errors, he says.

## Setting the standards

Standardization is also high on the priority list for large health systems and group purchasing organizations, says Gene Balzer, president and CEO of Biotronic NeuroNetwork, a neurophysiological intraoperative monitoring services company based in Ann Arbor, Mich.

Biotronic monitors patients' brain, spinal cord and peripheral nerve function during surgery, using a two-part system. First, on-site staffers monitor the procedure from the operating room by stimulating nerve pathways and checking for any changes that may indicate neural damage, Balzer says. Meanwhile, Biotronic's remote technicians and neurologists have access to all neural monitoring data and can provide immediate feedback.

The number of healthcare facilities for which Biotronic provides services increased 22% to 426 in 2009 from 349 in 2008. The biggest change among clients, Balzer says, is the number of GPOs and big systems seeking out Biotronic's services, he says.

"There's more of a focus on quality and safety, and one of the things that GPOs and systems like is standardization," Balzer says. "They want to have a sole-source vendor that can provide quality assessment reports and that can follow set protocols."

And as more hospitals consolidate with one another and align with physicians in preparation for health reform, the move toward outsourcing will likely grow, he says.

"The biggest trend for us is that the hospitals we work with are looking at outsourcing as a standardized risk-management tool to give better care to patients," he says.

EmCare, a Dallas-based company that provides physician services to hospitals, started out specializing in emergency medicine, says Todd Zimmerman, the company's president. And although the bulk of their business is still in emergency departments, the company has introduced additional service lines, including radiology, anesthesiology and hospital medicine, because hospitals are finding it easier to contract physicians in different departments to work together as a single group, he says. EmCare's total number of healthcare clients in 2009 was 535, up more than 8% from 494 in 2008.

Managing throughput, decreasing wait times and maximizing patient satisfaction are high on clients' priority lists, Zimmerman says.

The need to improve quality of care is also driving business at Beryl Cos., a Bedford, Texas-based company that specializes in patient referrals, marketing, scheduling, follow-up calls and other services. Looming penalties for poor performance are convincing hospitals that it's in their best interest to focus their energy and resources on patient care while outsourcing other services to experts in the field, says Paul Spiegelman, Beryl's founder and CEO.

The trend toward physician alignment and accountable care organizations is also spurring interest for the company's services, he adds, because providers are looking for ways to coordinate care efficiently. Using clinicians for tasks such as post-discharge follow-up calls will not be feasible as the number of insured patients increases, he says.

"It's difficult because, for a long time, healthcare has been looked at as a command-and-control enterprise," Spiegelman says. "But when you have to coordinate care for thousands of people, you need to do it in a way that is cost-effective. In most cases, hospitals are realizing it's better to buy

than build.”



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