

Modern Healthcare

Beyond the Headlines >> Written by Joseph Conn / HITS staff writer

A different EMR pricing structure: guaranteed ROI

Story originally published July 13, 2006



Frank Rhie

Frank Rhie has been selling information-technology systems targeting the tough-to-penetrate, small physician-office market for nearly a decade and, in a recent candid interview, said he has the mistakes to prove it.

Alteer Corp., which Rhie co-founded in 1996, started as an application service provider, hit the same wall as other ASP electronic medical-records system vendors with early buyer resistance to that approach and followed the market to a site-license sales model. Alteer is now refocusing on selling ASP services for its suite of electronic medical-records and practice-management systems, but with a kicker, reducing physician's fear of risk in investing in IT by offering the software free upfront, while guaranteeing them a return on investment within the first 12 months.

The Irvine, Calif.-based company also went national, signing up 800 physicians in a single year, 2003, but is now pulling back, supporting the customers it has, while currently targeting sales only on the West Coast, said Rhie, Alteer's chief medical officer.

"Now we have about 1,600 docs in 40 states, which is good and bad," Rhie said. "The good is we are accepted by 30 different specialties. We're widely accepted. But the cost of doing business is high. Support, training and installation are high. We tried a VAR (value-added reseller sales model), but the quality of the VAR is so erratic, you don't get the level of service you were expecting. The installation and training didn't follow the sales fast enough, and sometimes the customer didn't feel they were getting the best training and installation because we were flying people all over the country. But we had some of our customers say this was the best thing since sliced bread, and others were not happy because of training and installation. That was 2003 and 2004. We scrapped that.

"But even the people who were not happy, we asked them if they wanted to go back to paper and they said, 'No,'" Rhie said. That gave Rhie and his colleagues comfort, knowing that the software itself was not the problem, but that human factors were. They also observed that success with their EMR correlated with the strength of leadership within the practice and its location.

Those practices doing the best with their installations had "a very strong physician champion, who either ruled with an iron fist, or the other doctors were employees, or they had a practice administrator who was very strong, or they were close to us and decided they were going to make the practice a reference site. But the practices we left, they were the ones that were complaining they didn't get the results."

So, the Alteer folks concluded, if they wanted to have that uniform level of success with every practice, they had to replicate in every sales location the same level of intense service they were providing their customers who were serving as demonstrators, and they had to ensure that each practice had access to the same level of business acumen possessed by those practices that had the strongest business managers.

To do that, Alteer developed a service and pricing model in which it not only supplies the software upfront, free of charge, but also guarantees the system pays off financially for the practice. Each practice undergoes a thorough financial assessment before the sale, and each is assigned a member of a team of practice-management experts hired by Alteer to act as that practice's permanent counselor after the IT system is installed. The new model, launched last October, is called Alteer Premiere.

"It's a new pricing model where we put our fee at risk if they don't get the things we say they'll get," Rhie said. "We ask about revenue, collection rate, patient volume, how many office visits, follow-ups, consultations, the overhead rate, how many staff they have and their job descriptions. We come up with an approximation of what we think the increase in revenues might be and what the decrease in overhead might be."

Alteer's fee, paid quarterly, is based on a percentage of that estimated improvement, Rhie said.

"Every three months we reconcile the differences. At the end of the year, if they didn't get the amount of money they thought they were going to get, we refund their fee."

"Software is only part of the solution," said Rhie, a physician who has a master's degree in business administration from the University of California at Irvine. "One of the major reasons for the failure (of IT) is the staff does not understand the complexity of the medical billing and the savings possible with the system."

Alteer's target market is physician practices of 15 docs or fewer, he said. Most of the practice managers in offices of that size either have worked their way up from within that practice, or within the industry, and while they are good at keeping things running, they often lack the analytical training to make full use of the technology, according to Rhie.

"They don't have MBAs," he said. "They need some administrative expertise. We set that up for them after investigating their practice. We have about four or five MBAs who used to be practice managers who are assigned to their practices. We look at a dashboard to see how their practice is doing. We have consistent support every week."

Matthew Clark, a urogynecologist in solo practice in Newport Beach, Calif. Clark, said he had been using Alteer's EMR/PMS suite bought with a site license in May 2003.

"We applied it the best we could for the office," Clark said. "I think what Alteer found, and what was true for my practices, is that we use 40% to 50% of it. You had this huge tool in your toolbox that you weren't using."

Clark's tiny practice only recently added a nurse practitioner and has 4.2 FTEs, with an office manager working part-time on billing and bookkeeping. It was the business counseling that sold him on switching to the Premiere service four months ago, Clark said.

"Starting a small office, it's hard to have a full-time practice manager," he said. "I tried to do the management myself. For the first time, I'll have access to people who are really smart and trained. That's impressive. For me, I couldn't afford that on my own, but I want it. I'm accessing an experienced management team without having to pay upfront dollars for it. That concept sold me."

Clark said the budget worked out for his practice called for a 20% improvement for his bottom line. It's still too early to tell if that goal will be met, but Clark said he feels he's on the right track. Clark said he's using the system to reduce the amount of outside dictation, and he thinks an 80% to 90% reduction there is possible on a cost of \$200 to \$300 a month. And, Clark said, "I was undercoding out of fear. My coding is better, with their help."

"We're hopefully going to start seeing the effect in a couple of months," he said. "I have a lot of confidence in what they're talking about we can pull off."

The longevity and viability of that counseling relationship between the company and its customers is supported by an economic imperative, according to Rhie. "If they start to not make money, we lose money."

For an EMR vendor, a fee structure based on an ROI guarantee is unusual, if not unique, according to Vinson Hudson, a healthcare IT consultant from Austin, Texas.

"There are plenty of companies on the practice-management side that take a percentage of performance, but not the clinical side," Hudson said. Performing a practice assessment presale and coupling it with the ongoing services of a business analyst is smart, Hudson added.

"It's difficult to put your finger on how much it's going to cost to implement an EMR, because every practice is different," Hudson said. "If they have an MBA and he's going to understand what goes on in a doctors' office, that's a good idea. They can say they are true partners with a physicians' office."

Alteer made the leap to the new pricing model based on hard data after studying in detail about 30 of their most successful practices, Rhie said.

The data, he said, showed an average 15% revenue increase was achievable through 2% to 3% increases in patient volume; 2% to 3% increases in charge capture; 2% to 3% increases because of improved coding; and 6% to 8% increases in a practice's net collection rate, achieved through front-end eligibility checking before the scheduled patient shows up at the office and better claims-tracking.

Overhead typically drops 10% to 15%, for an overall average increase to the bottom line of about 22%, Rhie said.

Initially, Rhie said, the company, "struggled for a while" with the new service model. It required physicians to replace their practice-management systems, something many weren't keen to do, and there was skepticism about the price and the guarantee.

"Doctors didn't believe it," he said. "Now we have over 60 doctors signed up," he said. "We have about 10 practices that have had it more than three months and two (pilot) practices that have had it for more than a year. Now, we're getting clear results. About 30% of our (Premier services) customers are conversion customers from the old site-licensing model. Our target is to enlist all of our existing customers into the service model."

Looking back, Rhie said ASP vendors in healthcare "made a couple of strategic mistakes. They were focused on low-cost delivery, so they were focused on reducing the cost of service and training." That increased the number of dissatisfied customers and the failure rate of installations, which gave the ASP model a bad reputation.

ASPs also require a heavy investment in infrastructure, costs that were shifted from the doctor to the vendor, many of which were under-capitalized and failed when sales didn't materialize fast enough to reach a sustainable scale of operations.

Last August, two months before launching the new pricing model, four venture capital firms bet \$16.5 million in additional funding on privately held Alteer.

What do you think? Write us with your comments at hitsdaily@crain.com. Please include your name, title and hometown.

CORRECTION: The Alteer fee is paid monthly, not quarterly as mentioned above. Alteer Premiere is spelled with an "e" at the end of "Premiere."