

STRATEGIES FOR SMALL BUSINESS Business Plans

Showing docs where the money is

Fi-Med helps practices stay in business with financial management

BY BEN FISCHER

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Out of a cramped, two-story house on Milwaukee's west side, Fi-Med Management has quintupled its revenue in three years, even though its target market — small, independent doctors offices and medical laboratories — is shrinking.

Fi-Med, founded in 1993 by Christine Krause and Adrian Velasquez, is a 43-employee firm that outsources all of a health care practice's finances, including the arcane billing procedures, patient relations, insurance contract disputes and data analysis. For good measure, they can transfer any paper records to an electronic document stored on their Web site.

Doctors certainly need the help, say industry experts. The cost of equipment and supplies is soaring, insurance companies and major employers are demanding better rates, and the federal Medicare program is demanding more paperwork than ever before. Squeezing every bit of extra revenue to be had or cutting overhead to the bone is the only way to eke out a profit.

The challenge facing Fi-Med and the medical billing industry is that doctors increasingly are abandoning independent practice, choosing to merge with large clinics or hospital systems. Even larger doctors' practices such as Medical Associates Health Centers, Menomonee Falls, are weighing mergers with hospitals in order to better cover costs.

"I think it's completely unnecessary, if physicians really brought a business focus into their practices," said Krause, a former bank official, referring to the gradual decline of solo practices.



SCOTT PAULUS

Adrian Velasquez (right, with Christine Krause) ... "We do all the billing and contracts to get at the good stuff — the data."

| LESSONS LEARNED |

What was your best business decision? "Our technology investments. These investments really put us on the leading edge of managing the business aspects of our health care clients. It has allowed us to increase efficiencies, reduce compliance risk for our physicians and eliminate redundant tasks for our staff."

Why did you start your business? "To give the independent physician the tools needed to remain independent."

What is your guiding principle? "Honesty in all communications. We openly communicate the good and bad news to our clients and staff. This creates an environment of trust in which we can all communicate openly without fear of retribution."

What would be your first move with a capital windfall? "Create our own in-house day care center, gym and serve breakfast and lunch for our staff."

What was your biggest business risk? "Our technology. Everyone told us it was too great a risk and too expensive to go down this path. We had to finance through leases and credit cards."

Christine Krause, Fi-Med Management

FI-MED: Local firm handles the bills for independent doctors' practices

Consolidation is occurring at different rates across the country, however, said Bruce Kruger, executive vice president of the Medical Society of Milwaukee County, and a former doctors' office administrator. Certain regions are more apt to contain viable small-shop practices, such as the Northeast. Fi-Med has major client bases in both Connecticut and the New York City area.

"There are a large number of doctors in the Northeast that can still survive being independent," said Kruger.

Velasquez said Fi-Med's toughest competitor is usually the doctors' own office manager, who may be reluctant to relinquish control to an outsourcer.

By playing off those sustained cost pressures and concerns about long-term viability, Fi-Med has grown. Velasquez and Krause tell clients that they can remain independent if they are committed to that goal and hand off their financial duties.

By squeezing out inefficiencies in the three-way, doctor-insurer-patient relationship, Fi-Med boasts it can increase a practice's income by 3 percent to 5 percent in six months. It's not uncommon for doctors to wait three to six months to be paid for basic procedures; Fi-Med tells clients it will cut that time to 48 days.

It's apparently a successful pitch. Since emerging from a multi-year downturn in the early part of the decade, Fi-Med has grown revenue from less than \$500,000 in 2004 to \$2.6 million in 2006.

OFFICE EXPANSION

The firm projects \$3.5 million in revenue this year, and has continued to add employees to the point where the company needs more space. On March 8, the company will relocate from a residential neighborhood on Center Street to the 13,000-square-foot second floor of 2200 N. Mayfair Road, Wauwatosa.

Also, the firm is negotiating to buy a small California billing outsourcer, Velasquez said. It would be Fi-Med's first acquisition, if it can close the deal, and would extend its reach into southern California for the first time.

The company's slowdown between 2000 and 2002 was a tough time, Krause said. She blamed large-scale technology investments in the late 1990s that totaled \$500,000, plus the general economic recession. In 1998 and 1999, the company bought a series of data servers and software with expectations of automating much of the billing process.



SCOTT PAULUS

Karla Brown, an employee at Fi-Med Management Inc., works in the firm's office.

Lenders were extremely dubious, Krause said.

"They thought our venture to automate our systems was way too risky, and basically a bank wouldn't touch us," Krause said. "So we basically financed ourselves through credit cards and leases. Basically, we scraped by for three years."

The company never had to fire or lay off employees, but profits were nonexistent and revenue growth was stagnant in those years. Velasquez said they got so focused on building up the computer systems that they neglected the existing business. Initially, it seemed as if the lending industry might have been right.

But their client base started to grow again as the software investments began to dramatically improve efficiency in 2003, leading to the sustained growth today.

One client, Dr. Tom Clark, is one of only two neurologists practicing in Ft. Mojave, Ariz., so joining a large practice isn't an option. When he first opened the practice in early 2003, he couldn't make money, even though business was brisk.

"If you're busy, it's hard to keep an eye on people," Clark said. "Often the billing person is the office manager. If they're really screwing up bad, it takes a few months before you really get a feel for it. You keep looking at cash flow, and it's just not there."

But in mid-2005, his accountant in Minnesota recommended Fi-Med. Within hours of

FI-MED MANAGEMENT INC.

HEADQUARTERS: 7620 W. Center St., Milwaukee

YEAR FOUNDED: 1993

OWNERS: Adrian Velasquez, president, and

Christine Krause, vice president

ANNUAL REVENUE: \$2.6 million

EMPLOYEES: 43

BUSINESS MODEL: Outsourcing for bill collection, data entry and analysis, general financial consulting for small, independent doctors' offices and medical laboratories

GROWTH PLAN: To acquire smaller billing companies to be able to expand service territory and referral base

the first visit from Velasquez, Clark said, they were seeing problems in the practice's financial protocol and began to fix them. Since then, the clinic's office has been stable, Clark said.

Handling the day-to-day financial work is helpful, Velasquez said, but he believes his company's best work is analyzing the office's entire methods to pinpoint where a paperwork slowdown or misunderstanding of an insurance company's coverage leads to payment slowdowns. Then, the firm can recommend management changes that will, in theory, speed up payments, increase revenue and decrease costs.

"We do all the billing and contracts to get at the good stuff — the data," Velasquez said.