Strategically Speaking

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Healthcare Market: Are We Missing the Target?

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Is it just me or does it feel like there's more to this healthcare thing than meets the eye? Make no mistake, all eyes are on the controversial legislation that's come to be known as ObamaCare. Lots of questions surround the Affordable Care Act (ACA): Will people sign up for coverage? Which states will offer the exchanges? What happens if the government can't hold up its end of the deal? Will the penalties actually take effect? … and many more. The big question is how we're going to pay for it? And one of the answers is by controlling cost. More on that in a minute.

The one thing we do know for sure is that healthcare as an industry continues to grow at a rate of 6-7 percent*. As the Baby Boomers come of age, retirement age that is, this number is expected to jump accordingly. This is primarily because folks over the age of 65 spend 85 percent more on healthcare than those who are under 65*. More people means more demand and that begs the question: who will meet that demand and how? Since this segment is primarily covered by Medicare and Medicare supplemental plans, the ACA shouldn't have much of an impact on them in the near term; or will it?

What the financial industry should really be concerned about within healthcare is the population wildfire that is set to break out. Over the next 20 years there will be 50 percent more people over the age of 65*. How will the industry provide the products and services that will be required for this expansion? Whether existing providers grow their operation or new businesses pop up, they will be in desperate need of working capital. And while most lenders would jump at the chance to loan money to the local hospital or physician's group, there is another significant segment of companies that gets largely ignored. Namely, the businesses that provide the goods and services after the patient has left an institution's care.

This hidden segment within the marketplace is grossly undercapitalized. Yet, these are the very providers who are positioned best to deal with the coming expansion. In fact, they are by far the most necessary part of the care chain because they largely provide their services outside of the institutions. As Medicare and other insurance providers try to control cost, they continue to limit the amount of money they will pay for "institutional services." That means that patients will be shown the door earlier and more often. There are already measures in place which are designed to reward Primary Care Groups called ACO's (Accountable Care Organizations) by keeping their patients out of institutions and sharing some of the cost savings. That leaves the non-institutional healthcare companies as the provider of goods and services over the long term of a patient's care.

Target the ancillary providers like Home Health, DME (durable medical equipment), Physical Therapy and Rehab, Medical Transport, and Specialty Pharmacies and you'll reap the rewards ahead of the curve. Not only will you be helping to provide working capital that creates new jobs in your community, you'll be positioning yourselves as the go-to source for financing in the local healthcare marketplace.

*Statistics from The Centers for Medicare and Medicaid Services

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