

PHYSICIANS FIRST

BILLING AND CLAIMS

January 2003

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1.0 Executive Summary

Billing services currently exist to manage medical practices. These services relieve medical professionals of tedious detail work, but rarely do they offer a means to substantially maximize the practice's bottom line. Physicians 1st Billing and Claims will not only free office staff for more crucial tasks, but will also maximize returns from insurance carriers.

National statistics show that only about 70 percent of insurance claims, initially submitted on paper, are ever paid by insurance carriers. With electronic submissions Physicians 1st Billing and Claims can increase the percentage of claims paid to around 98 percent.

Additional statistics indicate that it currently costs a medical practice between \$8.00-\$10.00 per claim to process insurance for their patients. Physicians 1st Billing and Claims can reduce these costs by 50 percent or more.

Statistics show turnaround on paper insurance claims to be 30, 60, even 90 days or longer, creating serious outstanding receivables for the practice. By submitting claims electronically, Physicians 1st Billing and Claims can generally have money in the physician's hand within 14-18 days. Of course, this reduces outstanding receivables proportionately and tremendously improves cash flow.

Statistics also show a 30 percent suspension/rejection rate for paper insurance claims. This doesn't mean that the claims are never paid. What it does mean is medical staff must hassle with insurance carriers over payment. With the extensive editing performed on electronic claims prior to their transmission to carriers, this percentage is reduced to 2-3 percent. Claims are submitted with a 98 percent accuracy rate.

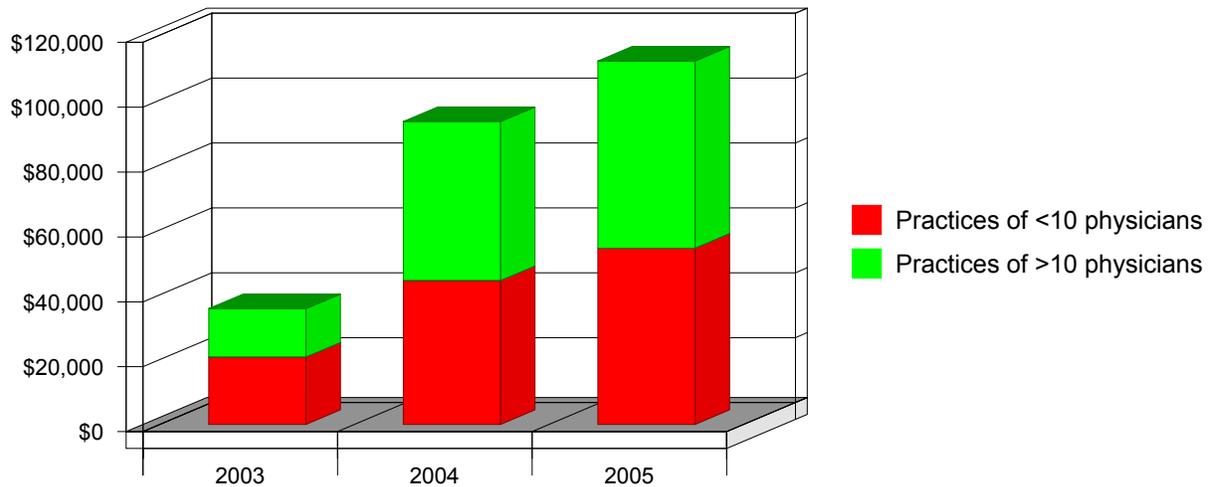
For many years physicians graduated from medical school under the premise that they were going to run a "practice." "Businesses" were for other professionals. Many simple administrative procedures were neglected, such as:

- Keeping current with insurance specifications and regulations, so that claims were paid on a timely basis,
- Concentrating on collecting receivables and co-payments,
- Ensuring that fees were kept at the maximum allowable that insurance carriers were paying, or
- Procedure codes were current so that claims weren't suspended or rejected.

For many offices, outstanding receivables grew tremendously and annual bad-debt write-offs became routine. But adequate profit margins allowed medical practices to ignore sound business procedures. Physicians' heads raised and they began taking note of public opinions toward health care reform issues during 1998 and 1999. With the onslaught of managed care organizations upon the industry, physicians are finding profit margins shrinking. They are now alert to the fact that in order to remain in business into the 21st century, they will have to adopt more efficient business practices.

Physicians 1st Billing and Claims plans to capture the inevitable evolving niche of electronic medical claim filings through a focused, customer-centric business model.

Annual Sales Forecast



2.0 Situation Analysis

Physicians 1st is entering their first year of operation. Electronic medical claim filings has been well received and marketing will be critical to drive demand. Physicians 1st offers a well-designed system of electronic claims filings and billings for medical practitioners. The basic market need is an easy to use claim filing system that is more accurate, faster, and more efficient.

2.1 Market Summary

Physicians 1st possesses good information about the market and has a good grasp of who the target customers are. This information will be leveraged to better understand who is served, their specific needs, and how to better communicate with them.

Target Markets

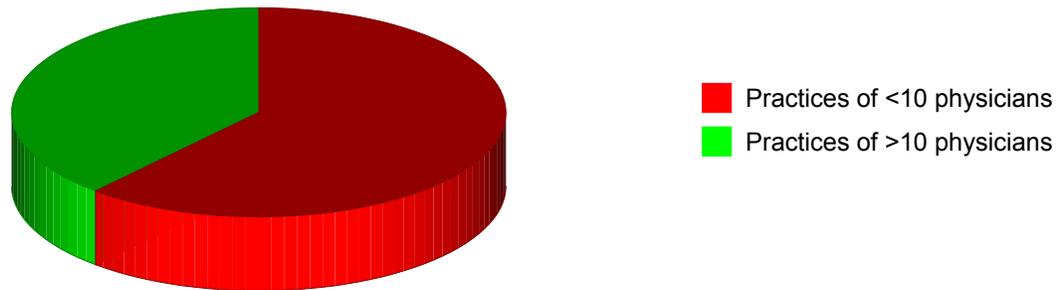


Table 2.1: Target Market Forecast

Target Market Forecast	Growth	2003	2004	2005	2006	2007	CAGR
Potential Customers							
Practices of <10 physicians	2%	654	667	680	694	708	2.00%
Practices of >10 physicians	3%	410	422	435	448	461	2.97%
Total	2.38%	1,064	1,089	1,115	1,142	1,169	2.38%

2.1.1 Market Demographics

The profile for Physicians 1st' customers consists of the following geographic, demographic, and behavior factors:

Geographics

- The initial geographic area is the city of Cleveland with a population of 1.7 million people.
- A 60-mile radius will be the initial target area.
- The total targeted population is 1,064.

Demographics

- The average number of partners in a practice is nine.
- The physicians have on average been practicing for 13 years.
- 89% of the physicians have a specialty.

Behavior Factors

- Have constant pressure from insurance companies who are steadily reducing the practice's profit margin.
- Would prefer a simple billing solution that is accurate and efficient.
- Do not enjoy the business aspect of their business, would rather just practice medicine.

2.1.2 Market Needs

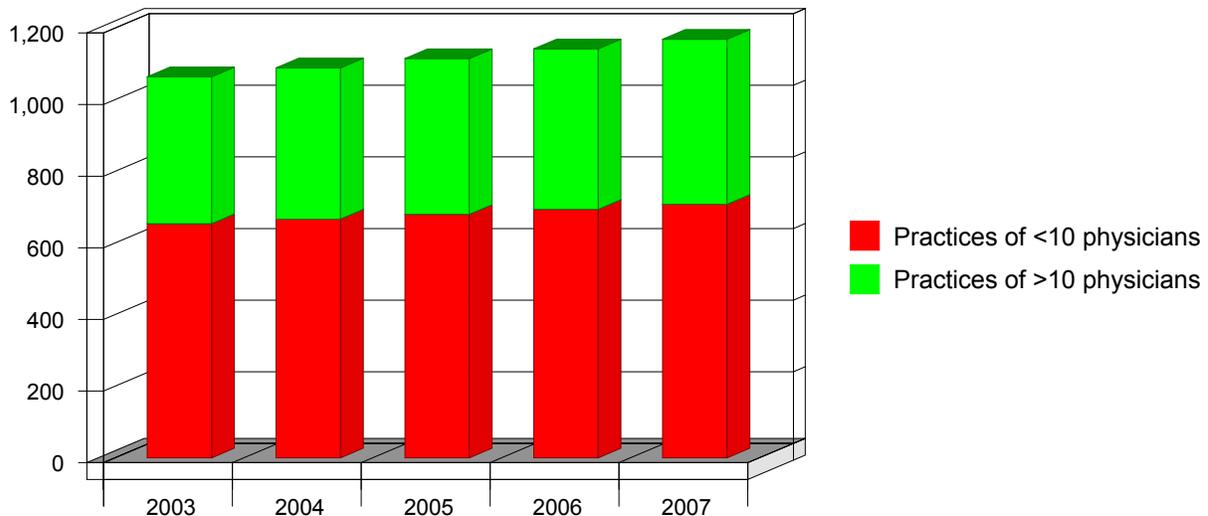
Physicians 1st is providing its customers with efficient claim submission and billing processes that allow them to recover some of the disappearing profit margins. Physicians 1st seeks to fulfill the following benefits that are important to customers:

- Accuracy- Errors cost time and money.
- Increased efficiency- Insurance companies are reducing the physician's profit margins quite steadily.
- Customer service- Doctors deal with medical claims all the time so they value a service that has strong customer service.

2.1.3 Market Trends

One of the most prevalent trends in the medical industry is a reduction of profits from the physicians by the insurance companies. Insurance companies negotiate allowable fees for every procedure and if the physician is to accept this type of insurance, they must agree to the allowable amount. The insurance payments have forced physicians to achieve efficiencies in their practice in order to maintain a sufficient profit margin. This trend in the medical industry has fueled growth in electronic filing industry.

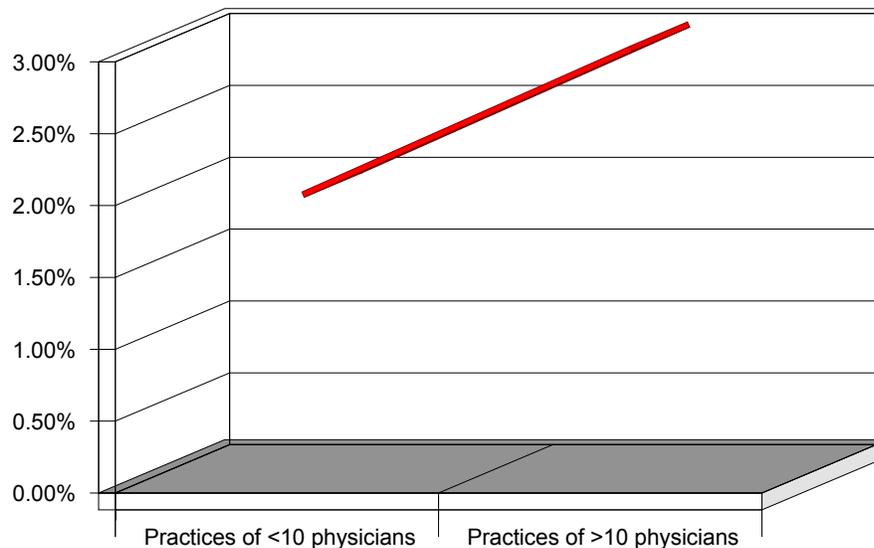
Market Forecast



2.1.4 Market Growth

The broad electronic filing market is currently in its infancy. Electronic filing is not just present within the medical industry, it is growing within the legal field as well as many other professional and administrative areas. The growth of electronic filing can be attributed to the cost efficiencies that are gained through electronic submission and storage.

Target Market Growth



2.2 Service Business Analysis

The Federal Government's influence is quite positive. In May, 1996, the Health Care Financing Administration, the governing body for Medicare, established what they call "payment floors" for Medicare claims. Carriers contracted to pay Medicare claims were told to hold paper claims' payments until "at least the 27th day after receipt." Electronic claims were to be held until the 14th day, but had to be paid by the 19th day. If "clean claims" (claims that are error free) were not paid by the 19th day after receipt, the Federal Government would have to pay interest on the claim amount. No payment penalties were placed on paper claims. Program Memorandum AB-92-5 described above, was beneficial for the electronic medical claims industry.

Several states have passed mandates of their own since 1996, but until now there has been no real action by the Federal Government on this issue. It is expected that Congress will mandate electronic submission of Medicare claims in the near future and the cut-off date for paper claims will follow soon after. After the cut-off date, paper Medicare claims will not be accepted.

If history is any indication and current trends continue, commercial insurance carriers will follow suit within a short period of time. It is in their best interest as well. Statistics show that it currently costs a commercial carrier between \$2.60 to \$20.00 to process a claim. The same claim can be processed electronically for approximately \$1.10. The conversion costs of moving from paper to electronic processing can be extensive, but in the long run these savings will be substantial.

2.3 SWOT Analysis

The following SWOT analysis captures the key strengths and weaknesses within the company, and describes the opportunities and threats facing the industry.

2.3.1 Strengths

- Robust software.
- Well thought out workflow processes.
- Strong customer support.

2.3.2 Weaknesses

- Initial costs for software development.
- A limited marketing budget to develop brand and niche awareness.
- The struggle to turn non-technology physicians into willing consumers of computer medical technology.

2.3.3 Opportunities

- Participation within a growing industry.
- Increased margins as the customer base grows.
- Possible mandates by insurance companies to use electronic filing.

2.3.4 Threats

- The unequal negotiating power of the goliath insurance companies.
- Future competition from an established software vendor.
- Security/confidentiality concerns regarding electronic filing.

2.4 Competition

Physicians 1st main competition is Bi-State Medical Consulting. They provide full service medical claims management.

Their strengths are:

- Experience.
- Education.
- Large client base.

Their weaknesses are:

- One-way claims communication and software.
- Limited advertising ability.

The strengths and weaknesses, however, seem of little consequence as the local market by all

accounts is untouched, and no other company in this area can offer the software features or the dedicated service that Physicians 1st Billing and Claims is able to offer.

The bottom line of Physicians 1st's ability to compete lies in their ability to provide any and every physician with free practice management software, two-way computer communications which allow for next day patient records updating, and substantially improved cash flow for the physician.

2.5 Services

Physicians 1st Billing and Claims' number one goal is to provide outstanding service.

Physicians 1st shows their dedication to service by providing the medical professional one-stop shopping for all his or her billing and claims needs. The services they provide are as follows:

- Complete patient record setup.
- Electronic and manual medical claims filing.
- Claims posting and patient record updating.

The computer software that is the crux of Physicians 1st Billing and Claims' medical reimbursement business is state of the art. Physicians 1st Billing and Claims is running in Windows 98/2000/XP. The software was specifically developed as a tool for medical reimbursement consultants. This is important because some software being sold is written to manage a doctor's office and does not necessarily incorporate all functions that are needed for consultants. The software also includes the latest features needed for managed care organization management, including tables for the numerous fee schedules which may be required, and customized reports to evaluate contacts.

The ET&T clearinghouse, which verifies the claims data, is highly respected in the industry. They are members of and have been certified by AFECT, a national policing organization. They utilize the American National Standards formats recognized by Medicare and most commercial insurance carriers. They guarantee claims are 98 percent accurate before being sent on to carriers.

2.6 Keys to Success

Since 1990, the Federal Government has been urging the health care industry to submit insurance claims electronically. Statistics prove that electronic submission can save millions of dollars annually for the industry. Presently, 95 percent of all pharmaceutical claims and 70 percent of hospital claims are submitted electronically. Physicians and dentists trail far behind, with only 25-30 percent.

The Federal Government is not happy with this situation so in 1996, Congress mandated that physicians are required to file claims on behalf of all their Medicare patients. Many doctors were not prepared for this deluge of paperwork. Eight years later doctors are still climbing out from under the paperwork. In 1999 the motions calling for electronic submission of all Medicare claims were being echoed throughout the halls of Congress. No mandate was passed but the paperwork continues to mount up and as baby boomers near retirement age the paper problem will only get worse and those echoes will turn into screams. This year in the U.S. over 1 trillion dollars worth of medical charges will be issued. This amounts to 9 billion medical claims. Medical practices will be forced to meet the mandates, and growing mountains of paper, and most are not currently equipped to handle the transition. The sensible solution is to out-source the process to experts that are prepared to save the practices money, produce a much faster return from insurance carriers, and handle the claims with a high degree of accuracy. There aren't many businesses that can say the Federal Government is behind them all the way.

The first key to success is addressing this soon mandated environment of electronic submissions.

A second key to success will be flexibility. Physicians 1st Billing and Claims understands that each medical practice is unique. Even practices of the same specialty will have different staff and offer different services. Physicians 1st Billing and Claims will evaluate the needs of each practice and offer solutions to help the practice become more efficient. Some may want all the services Physicians 1st offer and some may select only a few. The billing will be customized to each office's needs.

A third key is our diversified services. Physicians 1st Billing and Claims offers a one-stop-shopping experience for medical administrative services.

2.7 Critical Issues

Physicians 1st is still in the speculative stages as a start up venture. The critical issues that they face are:

- Pursue controlled growth that dictates that payroll expenses will never exceed growth.
- Establish Physicians 1st as the premier electronic medical billing company.

3.0 Marketing Strategy

There is a marked increase in results when multiple items are used in concert to attain a goal, such as a contact between a service provider and a health care practice.

The basic plan is divided into five segments:

1. Contacting the medical practice for the first time.
2. Identifying the gatekeeper and making contact with them.
3. Mailing or dropping off information
4. Scheduling an appointment for a presentation.
5. The presentation.

Contacts to implement this marketing strategy will be from a developed database of physicians who currently do not file medical claims electronically. This information is obtained from public records.

3.1 Mission

Physicians 1st Billing and Claims is an electronic medical reimbursement filing service provider dedicated to helping medical practices become more efficient and save money by allowing them to out-source their insurance processing and medical billing to an expert reimbursement service. We intend to make enough profit to repay our business-start-up loan and finance continued growth and development with our quality service.

3.2 Marketing Objectives

- Steadily grow the customer base.
- Experience a decrease in customer acquisition costs.
- Achieve the reputation as the premier service provider.

3.3 Financial Objectives

- Hold research and development, as a percentage of sales, steady regardless of the prevailing economic conditions.
- Increase the profit margin by .5% a quarter through operating efficiencies and scales of economies.
- Steady growth in operating revenues every quarter.

3.4 Target Markets

The market can be segmented into two groups:

- Physicians in practices of less than 10 partners.
- Physicians in practices of more than 10 partners.

These targeted groups are almost always in private practice. They also typically accept a wide range of insurance reimbursement plans.

3.5 Positioning

Physicians 1st will position themselves as the premier electronic medical claim submission service provider. This positioning will be achieved by leveraging their competitive edges.

Physicians 1st Billing and Claims can provide the following benefits:

1. Free state-of-the-art practice software.
2. Two-way computer communications.
3. Next day patient record updating.
4. Complete practice analysis.
5. Full service medical claims management.
6. Superior service.
7. Experience.

No one else in the local market can offer this service package.

3.6 Strategy Pyramids

The single objective is to position Physicians 1st as the premier service provider, quickly achieving significant market penetration. The marketing strategy will seek to first create customer awareness of the services offered, develop the customer base, and work toward building loyal, long-term customers.

The message that Physicians 1st seeks to communicate is that they offer a simple to use, accurate, cost effective medical claim submission system. This message will be communicated through a variety of different methods. The first method will be through a phone sales campaign. This method will seek to contact physician's offices and introduce them to the services that Physicians 1st offers.

The second method of communication is an advertising campaign in medical specific magazines and journals.

The last method will be a concerted networking effort. This will be particularly efficient as the medical community is close-knit.

3.7 Marketing Mix

Physicians 1st's marketing mix is comprised of the following approaches to pricing, distribution, advertising and promotion, and customer service.

- Pricing- # Patients Price Per Claim, 1-99 \$5.00, 100-199 \$4.50, 200-299 \$4.25, 300-399 \$4.00, 400 + \$3.50. A one time setup charge between \$150.00 and \$500.00 based on patient load will be assessed and will be due at contract signing.
- Distribution- All services will be distributed at the Physicians 1st office so there is a seamless blend of the doctor's billing and Physicians 1st's electronic system.
- Advertising and Promotion- A multi-pronged system will be used to generate awareness and brand equity for Physicians 1st.
- Customer Service- Having outstanding customer service is an important element of Physicians 1st's mission and all employees will be trained to provide the requisite level of care.

3.8 Marketing Research

Two types of market research were used when Physicians 1st was collecting market research. The first type of research was focus groups. The focus groups were collections of seven to nine people who were asked a series of predetermined questions with the responses recorded and discussed among the group members. In addition to the pre-established questions, there was a free-flow discussion format toward the end of the focus group that provided flexibility in allowing the participants to share information and insight with Physicians 1st.

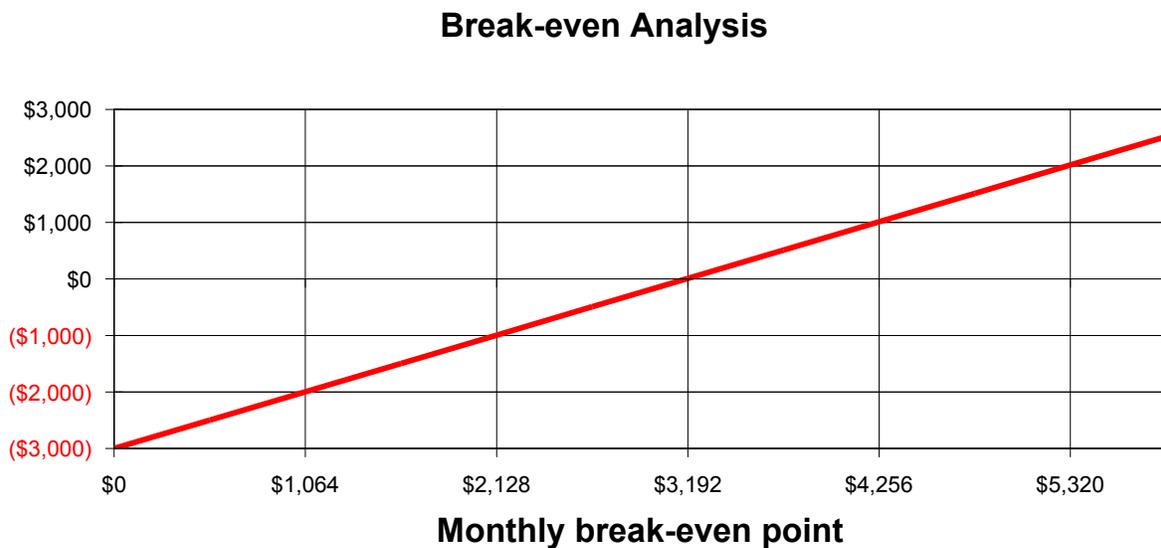
Additionally, questionnaires were used to collect market information from perspective customers. The questionnaires were submitted to a total of 200 potential customers. The response rate was 87, higher than expected. The validity and usefulness of the questionnaire was ensured by utilizing a graduate statistics student to develop the questionnaire. Overall, both forms of primary market research were insightful. This research confirmed many already held assumptions as well as introduced several valuable perspectives that Physicians 1st was not yet privy to.

4.0 Financials

This section will offer a financial overview of Physicians 1st as it relates to the marketing activities. Physicians 1st will address break-even analysis, sales forecasts, expense forecasts, and how they link to the marketing strategy. Please see the following tables and charts for graphical representations of this important information.

4.1 Break-even Analysis

The break-even analysis shows that Physicians 1st Billing and Claims has a good balance of fixed costs and sufficient sales strength to remain healthy. \$3,182 will be needed in monthly revenue to match the planned expenses.



Break-even point = where line intersects with 0

Table 4.1: Break-even Analysis

Break-even Analysis:	
Monthly Units Break-even	909
Monthly Sales Break-even	\$3,182
Assumptions:	
Average Per-Unit Revenue	\$3.50
Average Per-Unit Variable Cost	\$0.20
Estimated Monthly Fixed Cost	\$3,000

4.2 Sales Forecast

The following table and chart reflect the realistic goals that have been set.

Monthly Sales Forecast

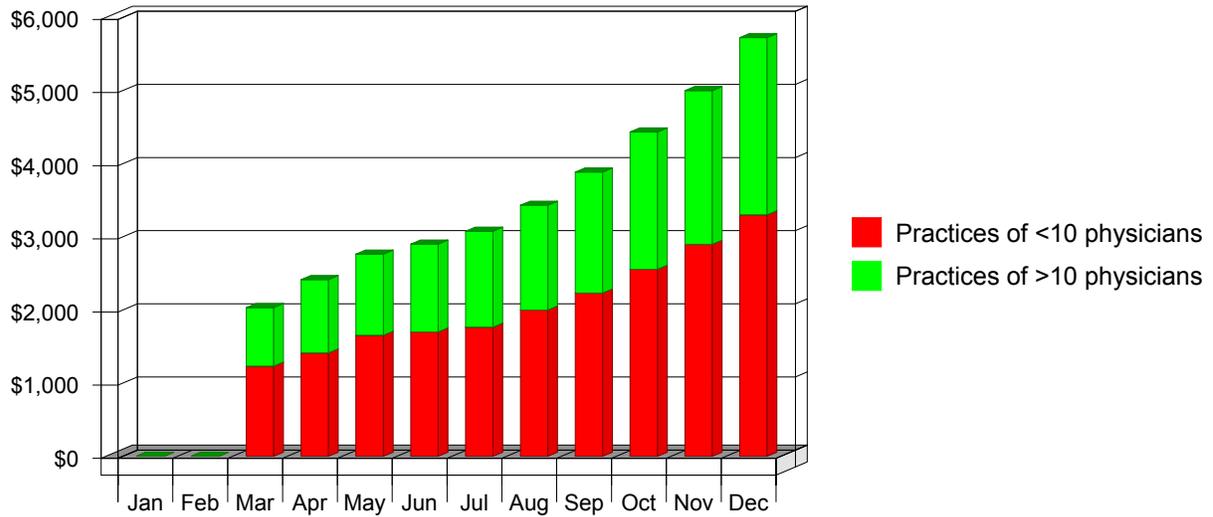


Table 4.2: Sales Forecast

Sales Forecast			
Sales	2003	2004	2005
Practices of <10 physicians	\$20,750	\$44,332	\$54,332
Practices of >10 physicians	\$14,911	\$49,008	\$57,664
Total Sales	\$35,661	\$93,340	\$111,996
Direct Cost of Sales			
	2003	2004	2005
Practices of <10 physicians	\$1,038	\$2,217	\$2,717
Practices of >10 physicians	\$746	\$2,450	\$2,883
Subtotal Cost of Sales	\$1,783	\$4,667	\$5,600

4.3 Expense Forecast

The marketing expense forecast will be a document that serves the organization by keeping the marketing department on target with their short- and long-term targets and will provide indicators if the goals are not being met.

Monthly Expense Budget

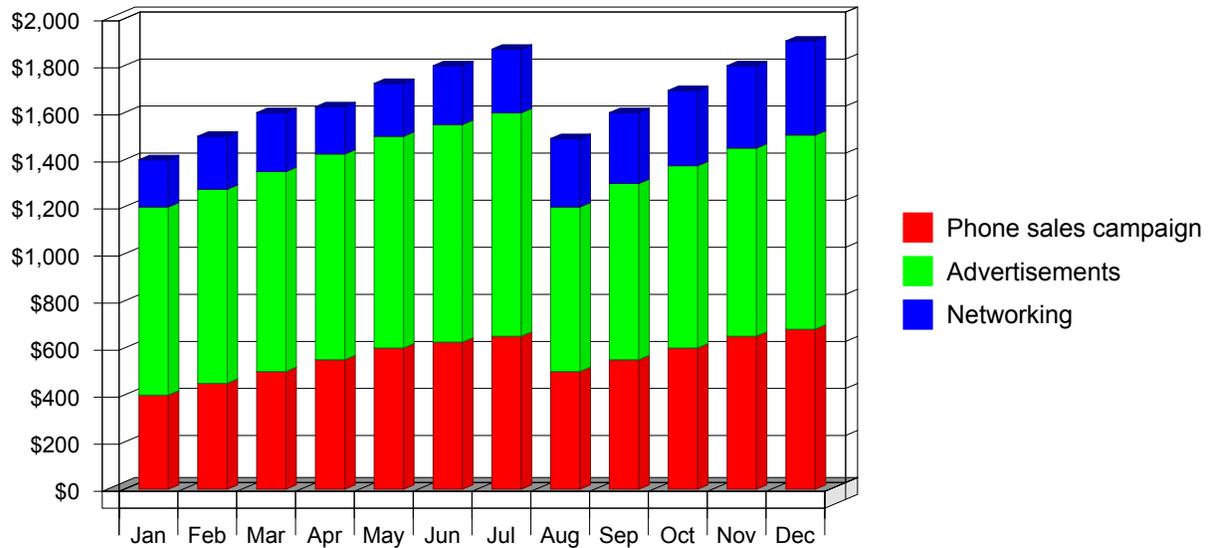


Table 4.3: Marketing Expense Budget

Marketing Expense Budget	2003	2004	2005
Phone sales campaign	\$6,755	\$7,500	\$8,000
Advertisements	\$9,975	\$12,000	\$14,000
Networking	\$3,280	\$4,000	\$4,500
Total Sales and Marketing Expenses	\$20,010	\$23,500	\$26,500
Percent of Sales	56.11%	25.18%	23.66%
Contribution Margin	\$13,868	\$65,173	\$79,896
Contribution Margin / Sales	38.89%	69.82%	71.34%

5.0 Controls

The purpose of Physicians 1st marketing plan is to serve as a guide for the organization. The following areas will be monitored to gauge performance:

- Revenue- monthly and annual. The revenue performance will be measured against the planned sales projections.
- Expenses- monthly and annual. The expense reports will be compared with the forecasted expenses.
- Customer service- a measurement of repeat business as well as the generation of active customer referrals.

5.1 Implementation

The following milestones identify the key marketing programs. It is imperative that each one is accomplished on time and on budget.

Milestones

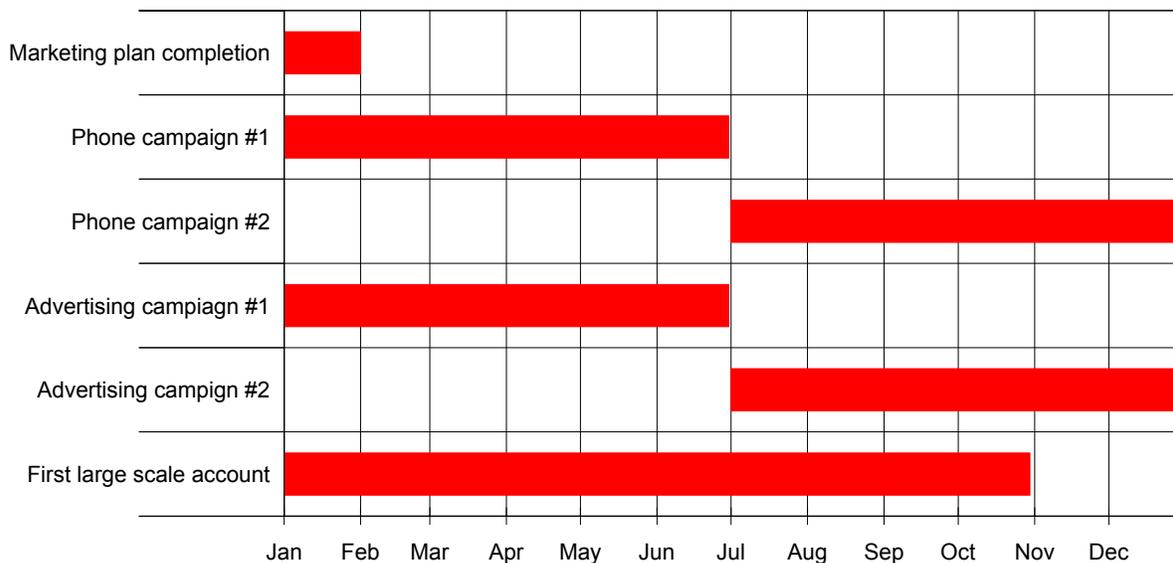


Table 5.1: Milestones

Milestones	Plan					
Milestone	Start Date	End Date	Budget	Manager	Department	
Marketing plan completion	1/1/03	2/1/03	\$0	Mary	Marketing	
Phone campaign #1	1/1/03	6/30/03	\$3,125	Mary	Marketing	
Phone campaign #2	7/1/03	12/30/03	\$3,630	Mary	Marketing	
Advertising campaign #1	1/1/03	6/30/03	\$5,175	Mary	Marketing	
Advertising campaign #2	7/1/03	12/30/03	\$4,800	Mary	Marketing	
First large scale account	1/1/03	10/30/03	?	Mary	Marketing	
Totals			\$16,730			

5.2 Marketing Organization

Mary Biller will be responsible for the marketing activities. This will include assessing the performance of each marketing effort based on the return it provides. This ROI analysis will be used to determine the effectiveness of the effort and whether it should be used in the future.

5.3 Contingency Planning

Difficulties and risks:

- Problems setting up sufficient number of physician practices.
- Achieving sufficiently consumer visibility.
- An entry in to the market from an already existing software company.

Worst case risks include:

- Determining that the business cannot support itself on an ongoing basis.
- Having to liquidate equipment or intellectual property to cover liabilities.

Appendix: Physicians 1st Billing and Claims

Table 4.2 Sales Forecast

Sales Forecast	Plan											
Sales	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Practices of <10 physicians	\$0	\$0	\$1,232	\$1,412	\$1,654	\$1,699	\$1,765	\$2,000	\$2,232	\$2,556	\$2,899	\$3,301
Practices of >10 physicians	\$0	\$0	\$800	\$1,003	\$1,109	\$1,202	\$1,311	\$1,432	\$1,654	\$1,877	\$2,101	\$2,422
Total Sales	\$0	\$0	\$2,032	\$2,415	\$2,763	\$2,901	\$3,076	\$3,432	\$3,886	\$4,433	\$5,000	\$5,723
Direct Cost of Sales	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Practices of <10 physicians	\$0	\$0	\$62	\$71	\$83	\$85	\$88	\$100	\$112	\$128	\$145	\$165
Practices of >10 physicians	\$0	\$0	\$40	\$50	\$55	\$60	\$66	\$72	\$83	\$94	\$105	\$121
Subtotal Cost of Sales	\$0	\$0	\$102	\$121	\$138	\$145	\$154	\$172	\$194	\$222	\$250	\$286

Appendix: Physicians 1st Billing and Claims

Table 4.3 Marketing Expense Budget

Marketing Expense Budget	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Phone sales campaign	\$400	\$450	\$500	\$550	\$600	\$625	\$650	\$500	\$550	\$600	\$650	\$680
Advertisements	\$800	\$825	\$850	\$875	\$900	\$925	\$950	\$700	\$750	\$775	\$800	\$825
Networking	\$200	\$225	\$250	\$200	\$225	\$250	\$270	\$290	\$300	\$320	\$350	\$400
Total Sales and Marketing Expenses	\$1,400	\$1,500	\$1,600	\$1,625	\$1,725	\$1,800	\$1,870	\$1,490	\$1,600	\$1,695	\$1,800	\$1,905
Percent of Sales	0.00%	0.00%	78.74%	67.29%	62.43%	62.05%	60.79%	43.41%	41.17%	38.24%	36.00%	33.29%
Contribution Margin	(\$1,400)	(\$1,500)	\$330	\$669	\$900	\$956	\$1,052	\$1,770	\$2,092	\$2,516	\$2,950	\$3,532
Contribution Margin / Sales	0.00%	0.00%	16.26%	27.71%	32.57%	32.95%	34.21%	51.59%	53.83%	56.76%	59.00%	61.71%