



## 2013 North American Physician Practice Management Customer Value Enhancement Award



F R O S T & S U L L I V A N



**50 Years** of Growth, Innovation & Leadership

## **Customer Value Enhancement Award Physician Practice Management North America, 2013**

### **Frost & Sullivan's Global Research Platform**

Frost & Sullivan is in its 50th year in business with a global research organization of 1,800 analysts and consultants who monitor more than 300 industries and 250,000 companies. The company's research philosophy originates with the CEO's 360-Degree Perspective™, which serves as the foundation of its TEAM Research™ methodology. This unique approach enables us to determine how best-in-class companies worldwide manage growth, innovation and leadership. Based on the findings of this Best Practices research, Frost & Sullivan is proud to present the 2013 North American Customer Value Enhancement Award in Physician Practice Management to Kareo.

### **Significance of the Customer Value Enhancement Award**

#### **Key Industry Challenges – Medical Practices Adapting to Health Care Transformation**

America's physicians are struggling with unprecedented disruption brought on by the transition to electronic health records (EHR's), pending changes due to the Accountable Care Act (ACA), and the emerging shift to value-based reimbursement, all of which exert growing pressures on medical practice finances. Frost & Sullivan estimates that the numerous administrative inefficiencies and redundant paperwork that physicians must deal with in order to get paid cost approximately \$120 billion annually. Financial pressures and challenges around reimbursements are often cited as a leading cause of the shrinking number of independent physician practices, as many seek refuge under the umbrella of hospital ownership or join forces with larger practice groups or integrated delivery networks.

While the vast majority of physician practices currently deploy some kind of IT solution to help manage the administrative and financial aspects of their practice, including patient scheduling / registration, medical billing, claims processing, and so on, many of these solutions are outdated, stand-alone applications, and often provided by a variety of different vendors. Thus, Frost & Sullivan notes that these solutions are not fully integrated with other business and clinical solutions used by the practice, including EHR's, a situation which leads to data and information gaps that can increase the rate of claims denials and bad debt.

The vast majority of healthcare services in the U.S. take place in ambulatory physician practices. More than 60 percent of practicing physicians in the U.S. are in small practice groups. The demand for physician services is projected to increase significantly over the

next two to five years, given the impact of ACA, population growth, the aging US population, and an improving national economy. Frost & Sullivan independent analysis indicates that the market for physician practice management and revenue cycle management (RCM) solutions and services is primed for transformation, as medical practices prepare for increased patient loads and new payment and delivery models.

Physicians must now truly improve how they manage their billing, along with other financial and administrative functions, so they can ensure maximum and timely collections that can help them survive as independent businesses. In terms of technology, standalone billing and practice management solutions are on the wane in the market today, as medical practices move toward integrated, end-to-end systems that unite front and back office data flows, provide seamless access to clinical data from EHR's, and rationalize and streamline the entire RCM process. Physicians are increasingly shifting to integrated, web-based solutions that provide the ease of use, flexibility, and quick implementation needed in today's highly dynamic market. The trend towards web-based solutions will accelerate significantly, particularly among small physician practices, as providers seek low risk and low cost solutions to help them cope with growing reimbursement challenges.

### **Best Practice Award Analysis for Kareo**

The Frost & Sullivan Customer Value Enhancement Award is presented each year to the company that has demonstrated excellence in implementing strategies that proactively create value for its customers with a focus on improving the return on the investment that customers make in its services or products. This Award recognizes the company's inordinate focus on enhancing the value that its customers receive, beyond simply good customer service, leading to improved customer retention and ultimately customer base expansion.

#### **Kareo's Performance in Information Technology Solutions for Physician Practice Management**

Kareo, based in Irvine, CA, is a vendor of web-based clinical and financial technology solutions, targeted primarily at small medical practices consisting of fewer than five physicians. Kareo was founded in 2004 and started out by selling billing and RCM solutions exclusively to billing services that catered to small physician practices. In 2008, Kareo started to focus more on serving physicians directly, rather than selling to billing companies. The company properly learned that they could be successful selling products directly to physicians via the Internet by leveraging search engine optimization (SEO) techniques and lead generation to drive potential physician customers to its website.

Kareo became highly successful serving this market segment by focusing on an easy, intuitive process for connecting its solutions with potential customers by offering complete and transparent information, including online demos available without having to talk to a

sales person, simple and transparent pricing, payment via credit card, and a 30-day free trial offer. All of these initiatives allowed the company to quickly grow its business with physician practices in a very cost-effective and efficient manner. The company has recently launched two additional solutions – a free web-based EHR, initially developed by Epocrates and acquired by Kareo, and a new RCM billing service.

Today, Kareo has over 20,000 physicians using its cloud-based practice management solution, which has been very successful at replacing outdated, legacy installed PM systems that are not suitable for the numerous new challenges facing physicians, as well as its new electronic health record solution. Kareo's staff has doubled year-over-year since 2008, and the company now has more than 200 employees. Kareo ranked among the top 100 in Forbes list of America's most promising companies, coming in at #1 in Orange County and at #58 nationwide. The company's growth was estimated at 119 percent from 2011 to 2012, with 2012 revenue estimated at approximately \$20 million. In January 2013, Kareo announced it raised \$21 million in equity funding from Stripes Group and Western Technology Investments.

### **Key Performance Drivers for Kareo**

#### **Full Suite of Integrated Solutions and Services Address the Unique Needs of Small Physician Practices**

Kareo began as a vendor of web-based solutions to billing companies that primarily serve small physician practices. Out of that experience, Kareo developed an in depth understanding of the challenges facing small physician practices across the entire RCM process, including front and back end workflows. Kareo understands that small practices face a number of unique hurdles in the deployment of IT, as well as in revenue cycle management. First, the staffing element can be difficult. It is often hard to find and hard to retain qualified people, and many employees need to wear multiple hats. Second, the cost and complexity associated with deploying and managing clinical and financial IT solutions, as well as keeping on top of the reimbursement process, can be formidable for small practices, requiring many to turn to outside help.

In offering both technology and services, Kareo can help small practices address their pressing needs around both areas by providing a full suite of integrated solutions that can serve as an overall platform upon which to run the entire practice. Kareo offers three complimentary product lines that provide exceptional synergy. The Kareo EHR, launched in 2012, is a free web-based solution that features a variety of functions to help providers meet Meaningful Use; the Kareo Suite, which is the combined EHR and Practice Management solution that provides end-to-end functionality to enable efficient RCM; and the billing service offering for those practices seeking to outsource their RCM function. Frost & Sullivan appreciates the fact that Kareo is clearly committed to understanding and supporting the realities of small practices and by offering integrated, cost-effective

solutions that make running a small practice intuitive.

### **Cloud-Based Technology Enables Convenience, Ease of Use, and Low Risk**

Kareo believes that small physician practices have been underserved and ignored by vendors selling traditional client / server technology. Those systems can require a level of financial and human resources that most small practices cannot easily manage or afford. Furthermore, from the vendor perspective, small practices usually have many of the same technology requirements as large practices, so offering price discounts based on practice size has not always been feasible. As such, many small practices have turned to cloud-based vendors that can offer convenience, ease of use, and low risk. In terms of convenience, the cloud is ideal for small practices that need to be up and running with a new IT system immediately, without taking out a lot of time for a complex and lengthy installment or training period. Ease of use is also another of Kareo's key attributes.

CEO Dan Rodrigues is a seasoned IT entrepreneur, whose background includes a strong experience in the consumer software space. Dan brings this consumer perspective to Kareo and is fully committed to the philosophy of offering consumer-like interfaces to business applications, so that they are more intuitive for end-users. Finally, with the cloud, there is a lower financial risk for customers. Once installed, licensed software solutions require money upfront and a significant time commitment. Kareo offers a free, 30-day trial period, so customers do not need to expend time and money - only to find out the product is not suitable for them. Finally, Kareo solutions are accessible 24/7 from any device, including mobile solutions.

### **Flexible and Scalable Pricing Models Provide Exception Value**

Kareo's lean cost structure enables it to serve customers well and keep prices quite low. Kareo's core business model is to offer a low-cost, subscription-based software platform for a low monthly fee of \$299 per provider for the combined PM / EHR solution (the Kareo Suite). This fee includes the software, training, support, and plenty of educational resources. The Kareo web-based EHR is a free and full-featured solution and does not depend on advertisement, unlike other free EHR's. The goal in offering the solution for free is to entice customers to upgrade to the Kareo Suite and / or to deploy its new technology-enabled RCM service. The RCM service is ideal for practices that need extra help in managing reimbursements and is an affordable option, with charges ranging between 4 to 8 percent of collections, depending on practice specialty and claim volume.

In addition, Kareo offers a "customer for life" guarantee with the RCM service. Customers who sign up for the service, but then decide to bring the RCM function back in house (a common scenario with small practices), can easily and seamlessly transfer their data over to the Kareo PM solution.

## Conclusion

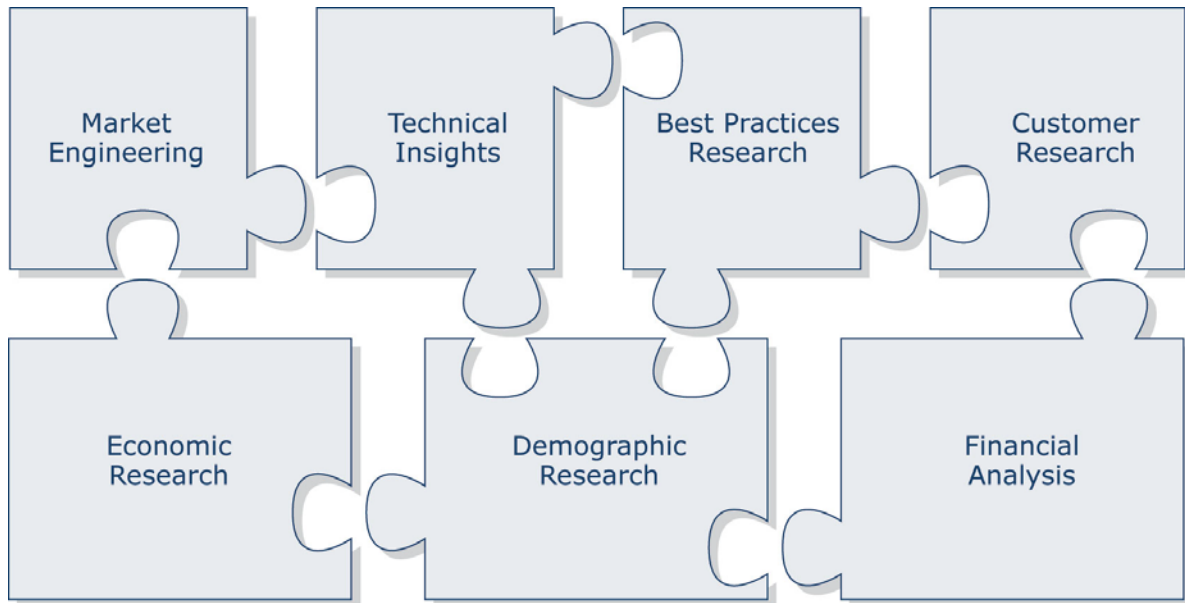
Today, revenue cycle processes and workflows are receiving unprecedented attention, as medical practices realize they must take every measure to maximize revenue and address inefficiencies and shortfalls in getting paid fully - and on a timely basis. The desire to achieve value-based reimbursement drives many practices to seek solutions that offer robust integration between clinical and financial systems.

Frost & Sullivan firmly believes that Kareo is the ideal vendor partner for physicians in need of a flexible, affordable, and low risk clinical and financial platform that can help them better cope with a healthcare system undergoing dramatic disruption. The driving philosophy behind Kareo's success is its vision that physician practices and medical billing services need - robust but easy to use tools that enable them to proactively manage the complexity of medical reimbursement. Kareo has long been an innovator in offering web-based medical billing and practice management solutions and provides exceptional customer value enhancement through its flexible monthly subscription model, user-friendly technology interface, and low risk business model. Kareo continues to improve value for customers with the new Kareo EHR, as well as the new RCM service for practices that want to engage external resources to help manage reimbursement.

Frost & Sullivan is therefore proud to present Kareo with the 2013 Customer Value Enhancement Award for its outstanding performance and success in Physician Practice Management.

## Critical Importance of TEAM Research

Frost & Sullivan's TEAM Research methodology represents the analytical rigor of our research process. It offers a 360-degree view of industry challenges, trends, and issues by integrating all seven of Frost & Sullivan's research methodologies. Our experience has shown over the years that companies too often make important growth decisions based on a narrow understanding of their environment, leading to errors of both omission and commission. Frost & Sullivan contends that successful growth strategies are founded on a thorough understanding of market, technical, economic, financial, customer, best practices, and demographic analyses. In that vein, the letters T, E, A, and M reflect our core technical, economic, applied (financial and best practices) and market analyses. The integration of these research disciplines into the TEAM Research methodology provides an evaluation platform for benchmarking industry players and for creating high-potential growth strategies for our clients.

**Chart 3: Benchmarking Performance with TEAM Research**

### About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best-in-class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best-practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from more than 40 offices on six continents. To join our Growth Partnership, please visit <http://www.frost.com>.