The Black And White World Of Private EMS

PART TWO: SEEKING THE COMPETITIVE EDGE

Editor's Note: This is the second of a two-part series on the private ambulance industry. Last month, the author discussed the history of the industry and its reputation in EMS. Private ambulance companies were profiled, and some of the pros and cons that are at the heart of the private vs. public controversy were addressed.

BY NANCY PETERSON

Both the strengths and the deficiencies of the private ambulance services today are well-defined and loudly articulated.

It should be simple, then, for these companies to take the wheel, to build up their strengths and eliminate their flaws, and to stand up against all adversity in the EMS field. Not so.

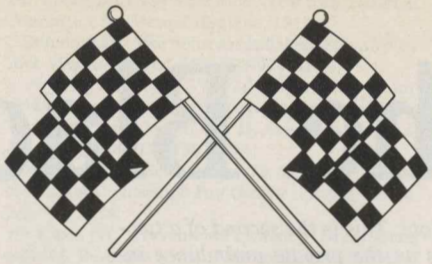
The success of private services today depends to a great extent on the public government of the city, county or township they serve. This is probably the least understood and least emphasized fact about the delivery of prehospital services.

Because states generally do not mandate levels of service above the bare minimum, local governments rule the industry. They must decide what level of care a community will receive, who will provide it, the method of funding and whether the taxpayers and ratepayers are getting their money's worth.

Depending upon the individual community, the government may take an active or passive role. Through regulatory and contracting action, it can exercise whatever degree of control it chooses.

For obvious reasons, the emergency victim makes a poor shopper. Particularly with the advent of 9-1-1 systems, the selection process is largely in the hands of local government. Maximum community involvement and an aggressive regulatory role will best assure a system's responsiveness, reliance and success.

"The community needs to make a strong, overt statement of what they want in prehospital care," says Jim Dernocoeur, quality assurance coordinator for Mercy Ambulance in Grand Rapids, Mich. "It is the responsibility of the local government that its citizens receive quality care. The community needs to make a moral and emotional commitment."



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Bob Forbuss
President, AAA

Local governments typically select a service after a structured bidding process has occurred. If a private company is chosen, it is legally bound by the terms established in the EMS contract, permit, franchise or ordinance. All citizens, whether low income, indigent or otherwise, can be protected by requiring that the private provider extend quality care to everyone.

Not only does the local government set the service quality level, it is also responsible for ensuring compliance. Enforcement standards and provisions for appropriate penalties can be written into any EMS agreement. Stephen Dean, director of Pinellas County (Fla.) Fire and Emergency Medical Services Administration, believes that contracting is the best way to ensure compliance with standards.

"But a lot of people just completely underestimate both the complexity of the task and also the opportunity for excellence," he says. "They fail to see what you can accomplish with a very sophisticated and properly executed contract."

The problem is that many individuals at the local government level do not have the level of expertise necessary to package an entire service. "As a government employee," Dean says, "I can say that it's important that local governments get qualified technical assistance in drafting their contracts for ambulance services. When people see what can be accomplished under such a system, they will realize the advantages of getting outside help."

Unfortunately, the majority of governments do not seek expert assistance.

"Governments still don't know what they are getting into, and they think that EMS is easy, that it's simple," says Bob Forbuss, president of the American Ambulance Association (AAA). "But EMS is very complicated. It requires all sorts of carefully studied facets to see what can be done for a community. When you hear of stories where you have a community that is poorly served by a private provider, in my opinion it's as much the fault of the community as it is the fault of the provider."

With thousands of local governments in the United States, the chance that everyone will become a sophisticated designer and buyer of EMS is slim. Thus, one area may have an excellent EMS service while a community next door suffers from terrible service.

"Typically, local governments control the wrong things," says Jay Fitch, president of Fitch & Associates, a health care consulting firm. "They tend to control the process rather than the outcome. They tell a private ambulance company where to put ambulances and when to staff them, rather than requiring a specific response time. Decisions that on the surface seem to make sense really run counter to the interests of either the private provider or the city."

New Mexico State EMS Chief Barak Wolff sees governments becoming more aware. "Enough governments have gone through crises that they are getting more sophisticated under adversity. Overall, EMS continues to be more understood

and realized as a significant piece of business and government responsibility."

The Hazards of Competition

As awareness of EMS and the complexities of setting up a quality, efficient system grow, competition for services becomes more structured and sophisticated. In most communities, bid processes are required at regular intervals to comply with antitrust laws or as a straight-faced test of a service's right to serve a community.

A well-designed competitive process to select a primary provider has been found to be very effective. However, retail or "street-level" competition can be dangerous. This takes place when there are multiple companies competing for EMS service in the same market.

Jack Stout, head of The Fourth Party, a health-care consulting firm, asserts that retail competition does not work in the EMS industry when left to its own devices. "Retail competition in this industry has never evolved higher quality service at a lower cost," he says. "Over time, the lower quality firms, the profiteers, tend to displace the higher quality and more reputable people."

The results of retail competition are unhealthy, both for the EMS system and for the patients. What occurs is that multiple companies race to calls and listen to each other's radio frequencies, which in turn lead to higher costs and lower patient care.

Companies may accept calls they are actually too busy to handle rather than give them to the competing company, and the financial incentives are to hold costs to a minimum, maximize volumes of paying transports and concentrate on collections.

Retail competition can also encourage what have been termed "cream-skimming operations." These are lucrative companies based outside of the market that render services on an elective basis while incurring only marginal production costs. They have no responsibility for maintaining peak-load coverage and can focus on accepting calls from the high-paying part of town, marketing and collections. In this way, they skim off most of the primary provider's profits, leaving it vulnerable to financial disaster.

"Multiple ambulance companies should not be competing like tow trucks," says Peter Pons, MD, medical director for the Denver Department of Health and Hospital Paramedic Division. "In any community, if you're going to have an EMS system, there ought to be an organized system."

It is possible to outlaw cream-skimming services at the local level, thus geographically defining a customer base that private companies, due to antitrust laws, cannot do.

The downside of competition, no matter how fair and well-structured, is that a bid process is a traumatic event, especially for field personnel and middle managers.

Stout claims that bidding is a very powerful management tool. "Being a powerful tool, it is not without danger," he says. "If you look around at cities like yours and can find no cities that have substantially better service at the same cost, there's no reason to believe that you can do better than you're already doing. It's risky and it's costly. You could end up with a service worse than what you have."

However, many communities believe a good, solid bid is a way to prove whether or not the existing service is the best.

And it is possible to protect the employees from some of the trauma that accompanies a bidding process. The contract can require the winning bidder to hire a high percentage of the current work force, and those not hired must be

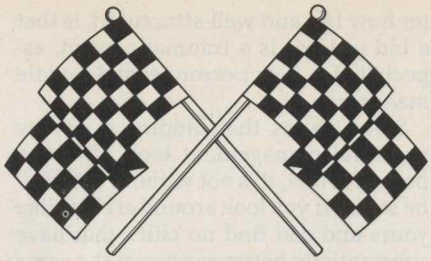
declined on grounds of objective test score results.

A carefully written contract can in fact protect employees, the private provider, the municipality and the people of the community. They are usually performance-based and vary with regard to the services a contractor must perform. The contract can include performance criteria such as response-time and clinical requirements, in addition to requiring specific equipment on ambulances and in the dispatch center. They may also include minimum compensation standards and rest provisions for crews working extended shifts.

The performance contract should constantly be under review by the local government's medical director and other elected officials. If the company is not fulfilling the terms of the contract, it can be fined or terminated.

"In Fort Worth (Texas), each time we are one minute late to a call, the city fines us $10, and we have to pay penalties at the end of the month for every minute over eight minutes on every life-threatening call," Forbuss claims. "In a public system, the city would have to pay it out of its own pocket, and they're not going to fine themselves."

Municipalities can also protect themselves from the fear of a private provider abandoning the community, taking with it the ambulances and equipment. Performance contracts can include provisions for a three-way lease in which the ambulance company that gets the contract buys the equipment and leases the equipment to the city, and then the city leases it back to the provider. The master leaseholder is the city, and there is a clause in the master lease that says the equipment cannot leave town. So, an intelligent buyer of services can protect his interests.



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"Contracts have to be written so that the incentives for the company are aligned with the provision of high quality patient care," says Dean of Pinellas County. "When you don't have that alignment, you can have serious problems, as evidenced by contracting failures in the past. Where the incentives are for quality patient care and there are high performance standards and enforceable provisions, companies have the incentive to attract quality people. And in order to attract those people, they have to pay them well and give them benefits."

The Recruitment Challenge

Attracting and holding quality people has been identified as one of the greatest challenges for the private ambulance industry. For several reasons, there is a diminishing pool of potential employees for EMS operations. There is a disproportionate percentage of our population that is middle-aged and older. And most will agree that this is a young people industry.

However, many of the young people with the basic educational skills and background to operate successfully at the paramedic level are going to college and becoming technicians of various types. The EMS industry is competing with all the other skilled crafts, trades

and professions—all of which see a shortage of young, educated people as inevitable.

"Those industries, unlike our own, that are doing something now to correct the problem are going to take our workers," Stout says.

He suggests that a consortium of primary emergency providers and/or the AAA solicit federal monies and form a nonprofit training institute that would recruit minority groups and low income and unemployed people, guaranteeing placement of those who successfully complete the program.

"Right now what we're doing is recognizing that there is a paramedic shortage and that it's going to get worse," Stout reports. "And we're just sitting on our hands hoping somebody fixes it. We could solve the problem essentially for free and do a lot of good for America in general."

The industry must also make a greater effort to keep those paramedics whom it does train and employ.

"We need to develop more schools so that we're not just hiring paramedics, but developing them early on," says Oskar Thurnher, chief executive officer of SCV Paramedical Services in San Jose, Calif. "Then we need to recognize the need for establishing a professional work climate in the organization, providing adequate compensation and benefits. You can't set higher professional standards and accountability and do it with a transient work force."

Part of the challenge is that people have long viewed EMS as a transitory position and not necessarily a career.

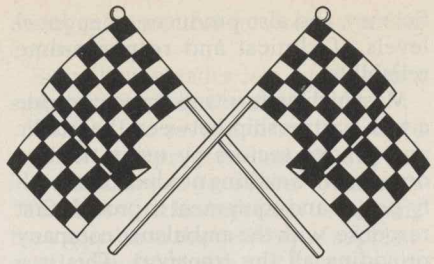
"You see the very best in people and the very worst in people," Fitch says. "People burn out with that. They are not prepared to deal with the indignities that are heaped upon other people, both physically and emotionally. People come into it and get disillusioned."

Obviously this is a significant problem for the industry as a whole. But as working conditions improve, career opportunities open and the demand for a more mature and career-oriented field staff is met by higher compensation, industry leaders believe this shortage will become less acute. "The whole industry needs to cherish its paramedics more," says Dernocoeur of Mercy Ambulance. "Paramedics are a valuable resource."

Correcting the Image of Privates

Quality emergency providers need to divorce their image from that of the poor quality providers of the past and present. Business practices, labor management practices, quality of care and response-time performance of bad companies certainly reflect poorly on the private industry as a whole.

"There are private companies and private company owners out there today who are extremely successful every day in helping to re-establish the rotten image of the private ambulance sector," Stout says. "The market will eventually have to weed them out. As cities get smarter about allocating market rights on a wholesale competitive basis rather than a retail basis, the better managed companies will rise to the top, and the rest of them will gradually die. But we're nowhere near there."



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The AAA is working hard to change the image of the industry and has retained a national public relations agency to represent it in Washington, D.C.

Thurnher reports it will take time for that image to develop. "We have to first earn the reputation that the fire department has by doing a good job. And I think we have. Then, management has to be proactive and establish community interface people, doing the things that the fire and police folks do to impart knowledge to the public of just who those paramedics are."

The private ambulance industry is also challenged by the task of teaching local governments how to safely and effectively deal with the private sector.

"As long as local governments don't know how to deal with the private sector, they're going to either contract wrong and give privatization a black mark, or they're not going to contract at all because they're afraid they don't know how," Stout says.

The industry is also challenged by increasing performance standards with which private contractors must comply. National procurements have set new, high baseline standards, and more communities are demanding the same. Smaller services are going to have to meet the challenge from large, efficient services and from national and multinational corporations that are becoming involved in EMS.

Forbuss states it will be important that the private sector move forward with accreditation (See October JEMS "Interview On Accreditation") issues that affect quality patient care. "The focus has to be on quality patient care. As long as they are on that track and they're in that direction, I think they'll be all right. If they get sidetracked into some other areas, they'll have problems."

Private companies are also confronted by their limitations in providing ALS to rural areas where there is not a large enough population base to succeed as a business venture, and call volume does not financially support the necessary equipment for that level of service.

Acadian Ambulance Service in Lafayette, La., is an exception, with tremendous success in providing high quality care to a large rural area approximately one-third the size of the entire state.

Each year, the service runs a membership drive, getting people to sign up through a massive radio and television telethon.

Membership guarantees there will be no out-of-pocket expenses when medical services are billed. This marketing has proven to be a very important part of Acadian's success.

"Because we have to go back to the membership every year for that annual vote of confidence, you have to manage a pretty good system during the year," Richard Zuschlag, co-owner of the service, said. "Any mistakes, if not taken care of properly, could cause us to lose our credibility. It's almost as if we were a politician running for election on an annual basis."

Successful Operations

"We believe that private or public services must be clinically sophisticated, operationally efficient and financially stable," Fitch says. "You have to have those three components to be successful. And to do that, you have to be good to your people and be in touch with what's going on. Those services that most often fail do so because they don't pay attention to their people and don't pay attention to service."

Employee participation in standards and policy development is also essential to success.

"Clearly, in a professional environment, you need your professionals to work with you in ad hoc committees and through various mechanisms to participate in the establishment of standards of patient care and standards of performance," Thurnher says. "You need a strong human relations outlook, externally and internally—internally in providing leadership to a new professional work force that has greater talent and expectations, and externally in looking at our clients in a different way, meeting the real and perceived needs of the public

and improving interpersonal relationship skills with patients."

Also vital is the ability of the system to incorporate a team effort approach to the delivery of EMS. This requires cooperation and communication with the fire department, the police department and the medical community. There should always be a free flow of information among prehospital care providers and these other agencies.

Stout claims that one of the marks of a quality private provider is that it has management that is politically astute. "A good private operator tends to share public relations accolades with his sister agencies, particularly the fire department, showing that the fire department has an important role in their system. The best private companies have people who are politically aware and medically knowledgeable to constantly monitor and manage those relationships between the private company and the medical community."

There are practical aspects to maintaining an intimate relationship with the city's auxiliary services. Many EMS calls involve crime, so the provider must work with the police for evidence collection and for their own protection. In addition, many calls involve the fire department through fire suppression, extrication, scene control and the need for manpower.

"The private company should be the one at risk for the money."

Dennis Bolt
AAA Privatization Task Force

High Performance EMS

Clearly, there is a multitude of demands and expectations heaped upon the providers of prehospital services today. So what is it going to be? Will only the high performance systems be able to stand up against the challenges facing the private industry?

For the purposes of this article, a high performance EMS system is one that simultaneously produces exceptional levels of productivity and economic efficiency, and also produces exceptional levels of clinical and response-time reliability.

Most high performance systems create a true partnership between the public and private sectors by using the fire department's existing production capacity, people and equipment to provide first response, with the ambulance company providing all the transport. This is a useful, symbiotic relationship between the two agencies.

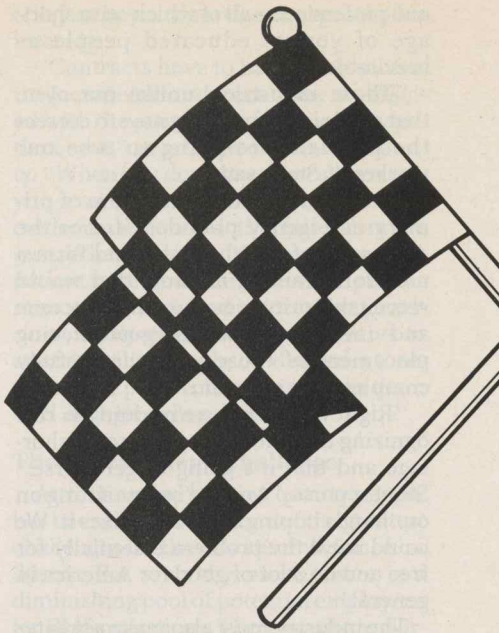
A primary, private, high performance system is well managed, uses aggressive peak-load staffing and system status management, relies upon an all ALS strategy and meets superb response-time standards while operating at a high level of productivity. "The act of achieving high levels of manpower productivity and therefore economic efficiency without sacrificing clinical or response-time performance is a tall order," Stout says. "Only a handful of organizations, private or public, can do it. The ones that do it, do it by a lot of work."

The high performance systems in this country may exist in a number of places, in the public and private sectors.

The Public Utility Model (PUM) is a system model used in some high performance operations, although in many variations. In the pure model, the government is technically the retailer of services through a specially organized nonprofit entity (e.g. a public trust or interlocal cooperative), whose directors are unpaid individuals selected for their collective expertise in areas such as business, finance, law, health care and politics.

This governmental entity or 'ambulance authority' has broad-based contact in the community, has a feel for the community and can tap into the community's resources.

The authority contracts with a private or public firm for field operations. That



firm is not a retail provider of ambulance services, but basically a labor subcontractor. This contractor runs the production end of the service, while administration and financial management are separate from the operational functions and handled by the authority.

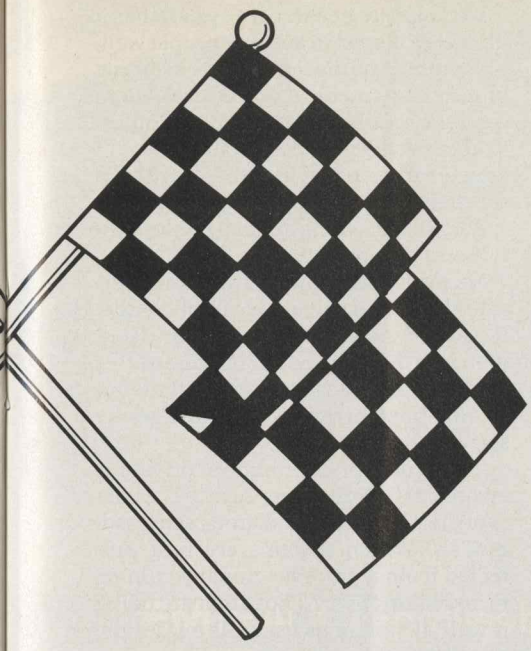
The contractor is a competitively selected provider with a performance contract. It is 100 percent paramedic, with fully centralized dispatch, no call screening or transport refusals, no on-scene collections, medical control by the medical community, financial stability with or without tax subsidy, and the presence of a well-integrated first-responder program. The public entity is the owner or primary lessee of all essential equipment, licenses, facilities and communications infrastructure. The PUM may offer a subscription program.

A unique feature of the PUM is the method of payment to the contractor. The ambulance authority handles all billing, collections and accounts receivable management. The field operation gets a check in a predetermined amount each month.

This arrangement has been criticized for several reasons. Because the service may not touch the money it generates, it is seen as contrary to the heart of private business, where success or failure hinges on efficient billing, collections and cash flow management.

However, in the EMS industry it has been possible to efficiently generate revenue through a separate agency—public and private companies do it all the time.

"If you look at medicine across the board, billing is done by a variety of agencies," Dr. Pons says. "You can have an in-house billing service or contract out with a billing service. And you can have an EMS service that does no billing what-



soever. It doesn't matter who does it." Others feel that defeats the purpose of a private service. Dennis Bolt, chairman of the Privatization Task Force for AAA, says he is not in favor of taking billing out of the hands of the provider. "The key is taking themselves far enough away from the government that they can operate independently. The problem is that ultimately it puts the responsibility on the government for the money, rather than on the contractor. The private company should be the one at risk for the money. The price to the government should be fixed, and the variable should be the bottom line. In the Public Utility Model, they fix the bottom line and let the variable be the cost to the government, which is users and taxpayers."

High performance systems have also been criticized for running their people ragged in the name of efficiency. It is argued that they are so conscious of short-term efficiency that their people are running 18 to 20 calls a shift.

Others believe high performance systems are all in the eyes of the beholder.

"When Kansas City went to the Public Utility Model, it was the exact same warm bodies doing the work," says Dennis Murphy, division chief of Springfield (Ore.) Fire and Life Safety. "It wasn't any different. They just had nicer ambulances to respond in that were funded through user fees. When it came right down to where the warm flesh meets the metal, it was the same warm flesh."

Predictions for Privates

Still, many of these systems are viewed as being at the forefront of the ambulance industry, leading the way into a thriving future. Yes, the private ambulance industry does expect to be making an appearance in the future of emergency medical services—a strong appearance.

But will the smaller, less sophisticated systems be left in the dust?

"There are several firms that have made a lot of progress and are way out in front of most of the others," Dean says. "The firms that haven't been developing the expertise in the delivery of sophisticated prehospital care will have to work to improve the service they are providing so they can compete for these contracts as more cities and counties look toward the private sector."

Most industry leaders anticipate an oligopoly industry—a situation in which a few firms dominate the majority of the market. They see services becoming larger through acquistions or other means. It's happening now. Small companies are being bought by larger ones, and some are becoming larger themselves, operating in multiple cities in multiple states.

"In 15 to 20 years, almost 50 percent of the U.S. EMS market will be served by five to seven large private companies that do business in a chain fashion throughout the country," Stout predicts. "That will cause increasing standardization of clinical practice. We're a feudal industry. Each locality operates as a world of its own. But it won't remain that way. The economies of scale at the local level are too small for sustained efficiency and good quality."

This can be seen as a tremendous opportunity for company owners and employees. Clearly, a large operation with the resources for the acquisition of equipment and investment will be more stable than a one-shop operation dependent on insurance checks each month.

It is believed that governments will increasingly look to the private sector, with private companies competing head to head with public services.

"Today, a lot of communities are finding themselves short of dollars," Fitch says. "In one city, volunteers can no longer provide the service, they don't have enough dollars. Another city has problems with their insurance. In another, the government is running out of money to fund EMS. The private sector has an opportunity here. EMS can be funded through other sources than tax dollars, and ambulance services are one of the things that are being privatized more."

Stout agrees that the trend is turning in this direction. "The private ambulance companies that have the skills to handle these markets are going to have a tremendous opportunity to take over these large government-served markets in the next decade. It will be politically difficult, but local governments are getting to the point where they have to solve the problem and they can't throw any more money at it."

Bigger is Better

The propensity toward large ambulance services is a reality. Mergers, consolidation and acquisition are very active in our industry and other segments of health care.

"Mom and Pop shops are going to be gone. . .The AT&T of the ambulance industry is here."

Dennis Murphy
Springfield Fire and Life Safety

We have already seen evidence of this in the acquisition of HCA Medical Transportation Company, a subsidiary of Hospital Corporation of America, by Secomerica Inc. in April of this year. HCA had five subsidiaries in various states and, since the acquisition, the newly named American Medical Transport (AMT) has purchased another in California.

David Shrader is the chief operating officer of Medic One Ambulance Service Inc. in Largo, Fla., which is owned by Secomerica. "There are a lot of small to medium-sized operations that are generally under-capitalized and could probably do better if appropriately capitalized," he says. "There are a lot of

pressures on these operations right now to function efficiently, and there are some considerable economies of scale in a large company. It's been a very good experience for us. We get a lot of attention, direction and creativity. We're in a position that we are part of a large company and have the resources to do things that precious few companies could tackle."

Many see this trend as a way of "weeding out" the low-quality private providers that give the industry a bad reputation.

"Mom and Pop shops are going to be gone," Murphy says. "The AT&T of the ambulance industry is here. There are a few very large, sophisticated companies that are going to get bigger. Only the tough shall survive, and only the very best will be able to bid."

The proposed accreditation process through AAA may also aid the industry in ridding itself of unqualified providers and protecting the public from unscrupulous services. When choosing a provider, the local government could verify the level of service for which the provider was accredited in clinical and operational standards, equipment, management and communications.

But for the program to actually serve this purpose, firms must be accredited to handle a specific, defined range of service responsibilities.

On the other hand, there are industry leaders who do not envision large conglomerations of ambulance services.

"I don't think we'll see a few giants taking over. That's a miss," Thurnher reports. "There's already evidence it doesn't work. There has been rapid growth on the part of companies that have subsequently by attrition collapsed. The giants won't prevail, because EMS is not the same everywhere. Local needs and the need for local leadership are very great. Different areas have different needs—some may be high in trauma while others have an older population. I have trouble with the idea of conglomerates buying ambulance services unless the people charged with running them are people who know EMS and are going to stick with it. The heads of large companies tend to move around, and you need continuity in EMS."

A Preventive Approach

The health-care field as a whole is rapidly moving toward a more preventive approach to medicine, and it is speculated that this may affect emergency services as well. It is suggested that a single agency of expertise in each state, a consortium of private and public third-party payers (Medicare, HMOs and other private insurance companies) get an antitrust exemption and group purchase ambulance services for medical trade areas by competitive bid, including geographic coverage for the respective clients. This would leave local governments entirely out of the picture. Medical trade areas would be served rather than local geopolitical boundaries.

It would then be possible to offer a sufficiently large and geographically defined customer base to attract competition from qualified ambulance firms. State legislation could resolve the antitrust problems, and state supervision would ensure the quality of service available to uninsured residents, as well as regulate the fees and subscription rates.

Because the health care system has a financial interest in keeping people well, preventing complications and avoiding unnecessary medical procedures, there is reason to believe that clinically sophisticated prehospital care systems would create sufficient savings that might offset their own operating expenses.

But are we talking about a public entity here, or a private?

Neither. Prehospital care is a universal rather than private vs. public issue. It should be clear that the bruised, bleeding bodies in our communities belong to not one sector or another, but to the best provider of emergency services.

"The concept of public vs. private is erroneous," Dernocoeur says. "The concept of us vs. them is ludicrous and treadmillish. Which systems are best protected from a private company coming in and taking over? Those that are doing it well. It's more us vs. us. It misses the mission."

When the expectations of quality are not fulfilled by a private firm, there will be a movement toward a public provider. And when those expectations are not realized in the public sector, there will be a movement to privatize.

Those in the prehospital care industry should be less concerned with who is getting the patients and more focused on their most basic mission of excellent emergency care. Because in the end, it will be those who can provide excellence that will get the patients. □

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