

## Powering Back

January 2003 - It may be the New Year, but 2003 is shaping up to be the same old story for the **power wheelchair** market, with some new twists.

The market for **power wheelchairs** continues to face funding obstacles and encroaching foreign competition, not to mention an increasingly educated consumer base, a high claim-denial rate and a ludicrous days sales outstanding average, according to industry officials.

"The foreseeable future holds the same obstacles that are currently faced in the **power wheelchair** market," says Barry Steelman, marketing manager for Permobil. "If manufacturers are forced to produce less-expensive, possibly cheaper product, then the next obstacle will be a service issue. With cheaper products comes less money for the dealer to service the products properly, and drop-shipping products to end-users will only compound this problem. The need to have qualified dealers and rehab professionals involved in the entire process of prescribing a medical device is, and always will be, key to the future of a healthy **power wheelchair** market."

### K0011: A Bright Spot

While most of the power wheelchair market struggles with a myriad of obstacles to overcome in 2003, one bright spot in the market is the K0011 power wheelchair. "I'm not sure about how much of the market is high-end rehab and how much of it is K0011s, but I'd have to believe the K0011s are a big portion of the pie," says Jack Sheehan, director of sales and marketing for Bruno Independent Living Aids.

Unlike some other segments of the power wheelchair market, the K0011 market doesn't struggle with reimbursement rates, according to Sheehan, who believes there couldn't be a better time to be selling K0011s.

However, overuse in the market could make things difficult on the reimbursement end, warns DuWayne Kramer, president of Leisure-Lift. "The market is in flux right now, with some overuse, [and] with one supplier providing over 50 percent of the K0011 claims in the United States," Kramer says. "This 'Medicare Mining' approach is unfair to the rank-and-file DME dealers and their local customers. As a result, reimbursement will continue to be a problem, and K0011 funding will become increasingly difficult in the second half of 2003, in some regions of the country."

### The High-End Market

While the K0011 market might be considered the hot spot in the power wheelchair market, the high-end rehab side of the market, though growing, is facing numerous challenges.

"The rehab market is growing, particularly for chairs that meet the progressive needs of a patient in a cost-effective way," says Scott Higley, vice president of sales for Quantum Rehab. "We design our chairs actually as power bases, where end-users are able to upgrade the seating systems throughout the course of a disease such as multiple sclerosis. This makes the chair much more cost-effective than an alternative product and addresses the end-user's current mobility needs, instead of [forcing the patient] to look so far into the future. End users can get a product that isn't so medically restrictive at first, but can be later, which helps the mental well-being of a client.

"A few years ago, if you were diagnosed with ALS or MS and went to a rehab clinic, as soon as you started losing any mobility you were put into a high-end chair, with high-end electronics, a tilt system, an extended base; it is almost a picture of where the patient is going, and I think it speeds up a disease's progression sometimes."

Whether to put the client's needs first, or those of the almighty dollar, is a choice power wheelchair manufacturers and providers must make.

"Currently, the wheelchair market is at a crossroads," Steelman says. "There are two paths that the industry can take: the way of the quick dollar or the way of doing what's best for the end user. Manufacturers are being forced to produce less-expensive products in order to get funding, and this is killing manufacturers' ability and desire to create new and innovative technology. Why pay for advances that you know will not be funded? Funding sources are dictating to the market what features are fundable and what features are 'luxury items,' which begs the question: Is the livelihood of the end-user even being considered?"

The challenge, according to Higley, is, "building a customized product that is cost effective and meets the needs of the particular customer."

### Foreign Competition

Regardless of the power wheelchair market sector, none is impervious to foreign competition. But some manufacturers believe the move will be away from low-end products, as providers and end-users opt for quality over price.

"Foreign competition has been stronger for a number of years, in the low-end side of the products," Kramer says. "In the future, we see dealers moving away from the cheapest products - in favor of more-reliable products - as the K0011 population moves away from 'consumer' power chairs and toward the true 'rehab' product."

Although competition can be good, foreign manufacturers must understand the reimbursement and funding constraints U.S. providers face.

"Competition is good because it makes you take your game to the next level, and maybe makes you look a little differently at how things are done," Higley says. "If the goal of foreign competition is innovation, then it's a good thing. If the whole goal is to drive down the market and kill reimbursements, then I think that is a very negative thing. It depends on the companies that are coming over with product, and how well they understand and are sympathetic to some of the reimbursement and service obstacles that providers face in the U.S."

Similarly, manufacturers face an unlevel playing field, according to Sheehan. "Taiwan is a different kettle of fish, and I think it does hurt U.S. manufacturers a bit, mainly because of the steel tariff," Sheehan says. "Not that [steel] is a lot of the cost, but there is a fair amount of steel that goes into a power wheelchair, and our steel costs 40 to 50 percent more than it did a year ago. That isn't true in Taiwan."

But, Sheehan admits, this is the foundation on which our country was built. "Let's face it. We're an open economy. That's what makes this country great and, as long as we have a level playing field - where [foreign competition] is not subsidized and we're not operating with one hand behind our back, bound by all the tariffs instituted by our own government - then we've got to learn to be efficient and we've got to learn how to sell quality."

### Killer DSOs

While the industry average for days sales outstanding hovers in the low 70s, the average DSO for power wheelchairs is a teeth-grinding 150 days. This, according to Sheehan, is inexcusable and a problem for both providers and manufacturers.

"The time it takes the government to pay for power chairs is ridiculous," Sheehan says. "If you were running the government and you were making it a priority to process [claims] and get the reimbursement out on a timely basis, you would find a quicker way to do it than 150 days. I believe the government is abusing the providers, both in terms of the time it takes and the denial rates, and it can take its toll."

To deal with the issue, Sheehan suggests that providers adjust their funding and go to the bank, particularly with today's low interest rates.

"Dealers need to adjust their funding, because in the end, if you know [the DSO rate] going in, it's not going to be a disaster, except for the denial rate. But ... if your business model is built on a customer that pays you at 60 days, and

[reimbursements] take 150 days, you basically have to come up with 90 days worth of operating cash. Instead of having as much trouble as some providers do, someone ought to go to the bank. With today's interest rates, it's not going to be unmanageable."

Experts Interviewed:

Scott Higley, vice president of sales, Quantum Rehab, Exeter, Pa.; DuWayne Kramer, president, Leisure-Lift, Kansas City, Kan.; Jack Sheehan, director of sales and marketing, Bruno Independent Living Aids, Oconomowoc, Wis.; Barry Steelman, marketing manager, Permobil, Lebanon, Tenn.