

## Case 3

# Gateway Medical Waste Transport of Colorado

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Kathy West, vice president of marketing at Gateway Medical Waste Transport of Colorado, sat at her desk reading the home office's request for a strategic marketing plan for the next three years including pro forma income statements. She had thought about this project off and on for the past couple of months and now faced the daunting task of actually creating the overall strategy and the mix of personal selling and advertising. The home office expected substantial growth from the Colorado operation and Ms. West searched for growth options to meet the desired sales/profit levels.

### ***Background***

Medical waste first came to the attention of the general public in the 1980s when it washed up on New Jersey beaches. Because of the media exposure of this event and others pertaining to undesirable disposal practices as well as fear of AIDS, public hysteria resulted and pressure was put upon regulatory officials to develop comprehensive regulations to prohibit such occurrences. The Medical Waste Tracking Act (MWTA) of 1988 was passed requiring the federal Environmental Protection Agency (EPA) to begin an investigation to determine whether federal legislation was necessary. The EPA provided their findings in 1991 which led to federal regulations on medical waste disposal.

Also, the Occupational Safety and Health Administration (OSHA) has begun to fine waste generators for improper disposal practices within their facilities and most states have adopted some type of regulation pertaining to infectious waste disposal requirements. The concern was not just for human medical waste but also animal medical waste since farmers and ranchers inoculate animals including beef, pork, and poultry.

The MWTAs initially applied to facilities in Connecticut, New Jersey, and New York. Illinois, Indiana, Michigan, Minnesota, Ohio, Pennsylvania, and Wisconsin also were included within the original scope of the MWTAs but were permitted to, and each elected to, opt out of coverage. The federal government permitted other states to opt into coverage under the MWTAs, but only Rhode Island and Puerto Rico elected to be included. The MWTAs only covered medical waste generated in any of the covered states. Conversely, the MWTAs did not cover medical waste transported from a noncovered state to a covered state for treatment and/or disposal.

The EPA issued regulations (MWTAs regulations) listing applicable generators, identifying the wastes that had to be tracked, and outlining standards for separating, packaging, and labeling medical waste. Facilities producing less than fifty pounds of waste per month are exempt from the tracking requirements. The MWTAs regulations impose record-keeping requirements on all generators, transporters, and destination facilities and each facility must maintain all tracking records for three years. The program requires the use of a specified uniform tracking form. Additional requirements and operating procedures are applicable to transporters, and treatment, storage and disposal facilities. Generators exporting medical waste to a foreign country for treatment, destruction, or disposal must receive written confirmation of receipt within forty-five days; otherwise, an exception report must be filed by the forty-sixth day.

### *Company History*

Gateway Medical Waste Transport, Inc. (GMWT) emerged in late 1988 in response to concerns expressed by federal, state, and local regulators regarding biomedical waste disposal practices and their impact upon human health and the environment. At that time, in most market areas, only BFI Medical Waste Systems and/or Waste Manage-

ment, Inc. offered biomedical waste management services; and, as a result, those companies enjoyed a near monopoly in the marketplace, which reflected itself in the prices charged by those companies.

Since signing its very first account in March 1989, GMWT has grown to be the largest provider of biomedical waste management services in the state of Oklahoma where it currently manages 450,000 pounds of biomedical waste per month.

GMWT opened a subsidiary office in Denton, Texas, in early 1990 and enjoyed significant success throughout the Dallas-Fort Worth market area. This branch presently contracts with 23 hospitals that generate a total of 150,000 pounds of biomedical waste each month. The Dallas-Fort Worth Hospital Council recently endorsed GMWT as the preferred provider of biomedical waste management services to its member hospitals. This endorsement should lead to greater presence in the market.

In addition to serving Oklahoma and Northern Texas, GMWT also presently services numerous medical facilities in Kansas, Missouri, Arkansas, Colorado, and Wyoming. GMWT received endorsement from Voluntary Hospitals of America (VHA) for its biomedical waste disposal service to VHA member facilities.

A major factor in the success of GMWT, in addition to its quality of service and competitive pricing, is the exclusive use of a newly constructed, fully permitted incinerator with a capacity of 100 tons per day. This incinerator was designed specifically for biomedical waste (including antineoplastic/chemotherapy wastes) and is located in Oklahoma. GMWT routinely arranges for potential clients to tour this impressive facility which instills confidence regarding the disposition of biomedical wastes.

The Colorado Department of Health recognized GMWT's stature as a major provider of biomedical waste management services when a Denver biomedical waste management company requested GMWT to assist in the immediate removal and incineration of nearly one million pounds of biomedical waste that the company had stored in trailers in the Denver area. GMWT successfully completed this project within the twenty-one-day compliance time frame imposed by Colorado authorities.

All GMWT employees directly involved in the hands-on management of biomedical wastes receive training in the proper use of personal protective equipment and appropriate corrective actions relat-

ing to spills, including decontamination techniques and procedures. All GMWT employees, including drivers, submit to GMWT's proactive substance abuse program, which includes drug testing upon employment and random testing thereafter. All GMWT drivers must also meet U. S. Department of Transportation driver qualification standards, including physical exams and an annual review of their driving records. In addition, GMWT employs a team of emergency responders who must complete a forty-hour emergency response course conducted by Oklahoma State University.

GMWT's corporate management includes an environmental attorney licensed by the state of California whose other credentials include a master's-level certification in hazardous materials management from the Institute of Hazardous Materials Management. He also serves as an adjunct extension program faculty member in environmental management at Oklahoma State University.

GMWT is permitted to manage biomedical materials including infectious wastes (wastes capable of producing an infectious disease), chemical wastes (such as pharmaceutical wastes), laboratory wastes, antineoplastic drugs, other chemicals, and those items that are not regulated as hazardous wastes. The infectious wastes that GMWT manages include the following:

1. Cultures and stocks of infectious agents and associated biologicals
2. Human blood and blood products
3. Pathological wastes
4. Contaminated sharps
5. Contaminated animal carcasses, body parts, and bedding
6. Wastes from surgery, autopsies, and other medical procedures
7. Laboratory wastes
8. Dialysis unit wastes
9. Isolation wastes unless determined to be noninfectious by the infection control committee at the health care facility
10. Any other material and contaminated equipment that, in the determination of the facility's infection control staff, presents a significant danger of infection because it is contaminated with, or may reasonably be expected to be contaminated with, etiologic agents. An *etiologic agent* is a type of microorganism, helminth, or virus that causes, or significantly contributes to the cause of, increased morbidity or mortality of humans.

The chemical wastes handled by GMWT include the following:

1. Pharmaceutical wastes
2. Laboratory reagents contaminated with infectious body fluids
3. All the disposable materials in contact with cytotoxic/antineoplastic agents during the preparation, handling, and administration of such agents. (Such waste includes, but is not limited to, masks, gloves, gowns, empty IV tubing bags and vials, and other contaminated materials.)
4. Other chemicals that may be contaminated by infectious agents as designated by experts at the point of generation of the waste

### *The Colorado Operation*

GMWT opened a subsidiary office in Denver to provide quality, competitively priced biomedical waste management services to the medical community in Colorado. Mr. Rick Stewart and Ms. Kathy West manage this office. Ms. West was formerly employed by BFI in Oklahoma, where she helped set up its medical waste program and ranked first in sales and service throughout that company in its biomedical waste operations. Her background and training enabled her to assist medical facilities in their efforts to properly manage biomedical wastes in a safe and economical manner consistent with all regulations and joint commission guidelines. This office, in one three-month period, signed obligations generating enough revenue to cover 60 percent of the subsidiary's operating costs.

GMWT currently serves thirty-five clients in the eastern part of the state and will soon provide service to all of Colorado. The GMWT office located in Denver, Colorado, currently has a staff of four with vast experience in the areas of medical waste and transportation. GMWT of Colorado offers its clients a comprehensive medical waste management program and assists them in a consultative role. This includes assessment of their current system and recommendations for improvement. If a program does not exist, GMWT helps to develop one. This process can take several days for a large hospital or a few minutes for a small office. Once service begins, GMWT adds the clients onto a pick-up route that allows GMWT to conform to a schedule and gives the client assurance of timely service. GMWT provides all clients with containers for waste disposal and also documentation

confirming receipt of waste and an actual date of incineration. GMWT currently uses a twenty-foot bobtruck, which collects the waste at the generator's site. At the end of a route, a trained technician transports the waste to GMWT's transfer facility and off-loads it into a fifty-three-foot trailer. When full, GMWT transports the trailer to the incinerator in Oklahoma. No operational incinerator currently exists in Colorado. Incineration is the only method of disposal that GMWT of Colorado uses.

For GMWT to be competitive, long-haul-transportation costs must stay at a minimum. GMWT currently uses Ranger Transportation, Inc., a nationwide transportation company that provides all trailers and transport to Stroud, Oklahoma, within a forty-eight-hour period from pickup. Ranger's drivers must complete a special spill-response training course.

Colorado presently requires generators to have a comprehensive infectious waste management plan in place, documentation of proper disposal, written standard operating procedures, and regular monitoring of the disposal practice. Noncompliance with these requirements subjects the generator to civil penalties.

Currently, ninety-one hospitals in Colorado generate a total of approximately 35,146 pounds of infectious waste per day. In addition, there are also several thousand physicians and dentists as well as hundreds of clinics, laboratories, and other infectious waste generators. About 73 percent of hospitals and 20 percent of clinics and others use commercial disposal companies (the clinics and others are just now beginning to use this type of service). This yields an average annual revenue potential of about \$500,000.

Competition in the marketplace favors GMWT because of its strength in disposal capacity and capabilities, technology, service, track record, as well as expertise. BFI Medical Waste Systems (BFI), Waste Management, Inc. (WMI), and others operating in the area all acknowledge major weaknesses. BFI had been a tough competitor until recently when it made the decision to autoclave waste for Colorado rather than incinerate. *Autoclaving* involves steam sterilization of waste and disposal in a landfill. WMI also autoclaves as do the other competitors. GMWT, on the other hand, uses state-of-the-art incineration in Oklahoma and has a staff of specialized industry experts.

### ***Marketing Activities***

Marketing activities in Colorado have mirrored the activities used in other locations. GMWT has focused on personal selling since an on-site inspection of a generator's facility is required to determine whether it meets current codes for handling waste and the volume of waste on a monthly basis.

Colorado's sales force consists of three people who received specialized training in medical waste disposal issues. The salespeople provide comprehensive waste stream assessments, comparative cost analyses, intensive staff training in servicing, as well as ongoing consultation in regulatory compliance issues. GMWT had not yet contacted all the hospitals statewide. Ms. West thought that cold calling, as well as telemarketing support and a mail-out campaign might be the best way to reach the potential customers.

### ***Financial Performance***

GMWT of Colorado, Inc. is beginning to become more financially independent. Current accounts are generating enough revenues to cover approximately 60 percent of operating costs. With the addition of new accounts weekly, it projects a break-even point to occur within a six-month period based on calculations comprised of income statements and budget projections. Due to the nature of the business and the size of the market, GMWT of Colorado had forecasted a profit after the first year of business. Kathy West also feels that a 25 percent growth over the next three years is a very realistic projection for the company (see Table C3.1).

After the initial three years of growth, West expects increased competition and slower growth. She is concerned about the company's ability to continue this growth pattern and wonders how this might affect GMWT's ability to attract additional investors to support expansion. She also wonders about ensuring other strategic options that might be available rather than expanding the business to other geographical areas.

TABLE C3.1. Gateway Medical Waste Transport of Colorado, Inc.

<b>Financial projections</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Estimated sales revenue	\$511,000.00	\$880,000.00	\$1,303,500.00
Estimated costs of goods sold	204,000.00	348,000.00	515,000.00
Estimated gross margin	307,000.00	532,000.00	788,500.00
<i>Variable expenses</i>	13,200.00	13,200.00	14,000.00
Utilities/communications	3,600.00	4,000.00	5,000.00
Office expense	2,500.00	3,000.00	4,000.00
Auto expense	1,200.00	1,500.00	2,000.00
Fuel	8,700.00	10,000.00	15,000.00
Repairs and maintenance	2,000.00	2,000.00	5,000.00
Marketing/advertising	6,000.00	6,000.00	6,000.00
Accounting/legal	1,200.00	1,500.00	1,500.00
Miscellaneous	1,200.00	1,500.00	2,000.00
Total variable expenses	39,600.00	42,700.00	54,500.00
Margin for fixed expenses and net income	267,400.00	489,300.00	734,000.00
<i>Fixed expenses</i>			
Salaries	130,000.00	150,000.00	200,000.00
Rent	14,700.00	14,700.00	20,000.00
Taxes	12,200.00	13,000.00	15,000.00
Loan payments	20,400.00	22,000.00	30,000.00
General liability insurance	11,616.00	13,000.00	20,000.00
Worker's compensation	10,800.00	12,000.00	20,000.00
Medical/life insurance	4,800.00	6,000.00	10,000.00
Unemployment, federal/state	3,000.00	4,000.00	10,000.00
Total fixed expenses	207,516.00	234,700.00	325,000.00
Estimated net income before taxes	59,884.00	254,600.00	409,000.00
Estimated income taxes	11,977.00	76,380.00	159,510.00
Estimated net income after taxes	47,907.00	178,220.00	249,490.00
Estimated income earnings per share (100,000 shares)	0.48	1.78	2.50