



HOW TO MAKE A BUSINESS CASE

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BUSINESS CASE: DEFINITION

Justifying an organization's expenditure based on the positive economic consequences to that organization



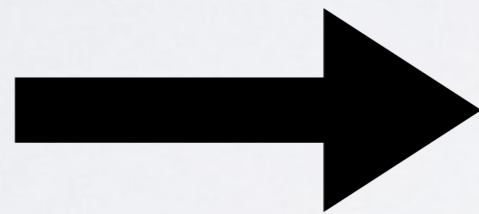
OTHER CASES CAN BE MADE

- The **health** case: your initiative will achieve its stated health and well-being-related outcomes.
- The **social** case: an initiative's outcomes will generate economic benefits, irrespective of to whom they accrue, that exceed the overall costs.

THE DISTINCTION BETWEEN A SOCIAL AND A BUSINESS CASE

Revolves around economic consequences that are external to the organization making the investment.

THE OVERALL BENEFITS

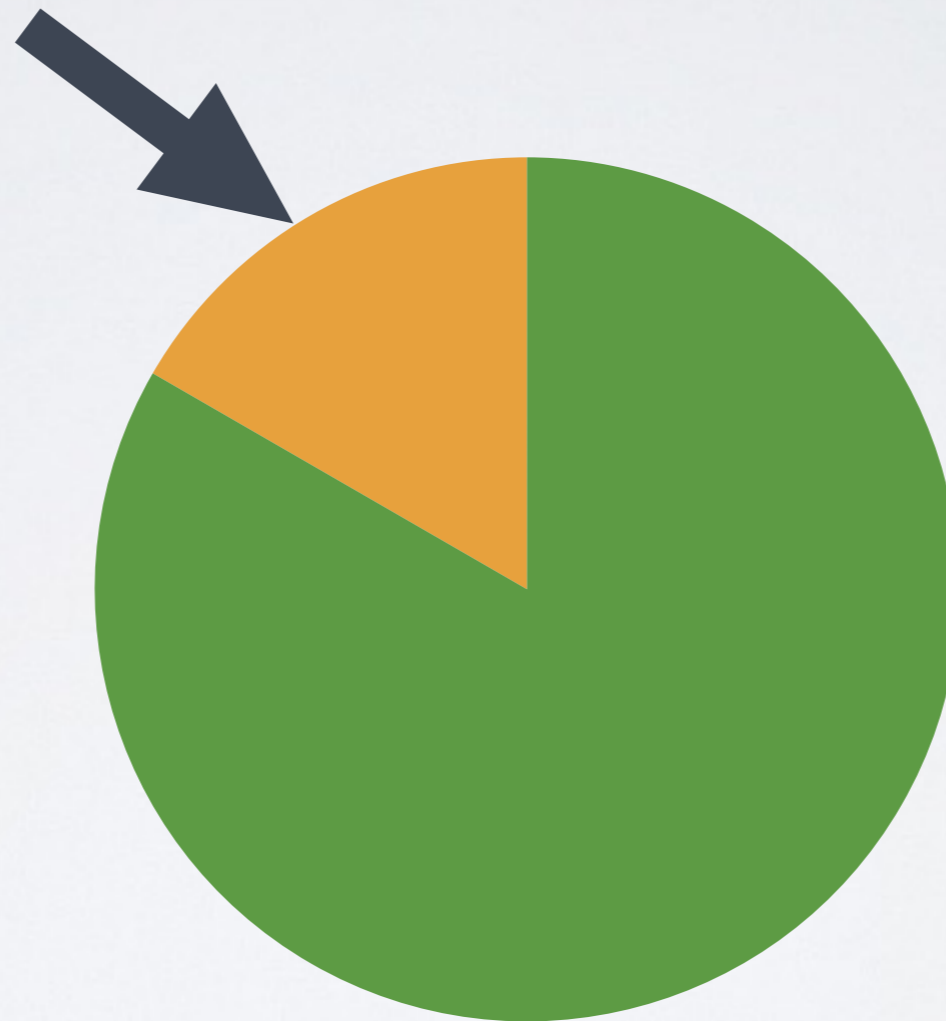


Relevant for Social Case



BENEFITS TO THE INVESTING ORGANIZATION

External Benefits



Internal Benefits

- Internal benefits are relevant for the business case.
- External benefits are irrelevant for the business case but relevant for the social case.

ECONOMIC CONSEQUENCES

- The business and social cases involve cost-benefit analysis.
- Cost benefit analysis requires that benefits must be denominated in dollars so that they can be compared with the costs.



WHY MAKE A BUSINESS CASE?

- Competition often requires it
 - Helpful in securing internal resources and support
 - Can enable your organization to be chosen over competitors
- Satisfies need for accountability



EXAMPLES: OTHER CONTEXTS

- Bariatric surgery
- Disease (HIV) prevention programs
- Person-centered care

BRIGHTENING PROSPECTS FOR COMPELLING CBO BUSINESS CASES

- Capitation
- Hospital Readmissions Reduction Act (HRRRA)
- Value Based Purchasing (VBP)
- Accountable Care Organizations (ACO)
- Bundled Payments for Care Improvement Initiative (BPCI)

QUESTION THE BUSINESS CASE MUST ADDRESS:

IS THERE AN ADEQUATE RETURN ON INVESTMENT?



A BUSINESS CASES TYPICALLY BEGIN WITH THE EXISTENCE OF A FINANCIAL BURDEN IF NO INVESTMENT IS MADE



EXAMPLES OF ECONOMIC BURDENS RELATED TO HEALTH CONDITIONS

- The cost to Medicare of a hospital readmission within 30's days of discharge is about \$18,000.
- More than 25% of Medicare expenditures are provided in the last year of life.
- Cost per hospital stay for those adults that die in the hospital is over \$112,000.
- The annual Medicare spending for an individual with three or more co-morbidities and with dementia is about \$50,000.

THE BIGGER THE BURDEN, THE BIGGER
THE OPPORTUNITY

SOMETIMES A BUSINESS CASE IS BUILT
AROUND THE PROSPECTS OF
GENERATING HIGHER REVENUES BY
CAPITALIZING ON A NEW OPPORTUNITY

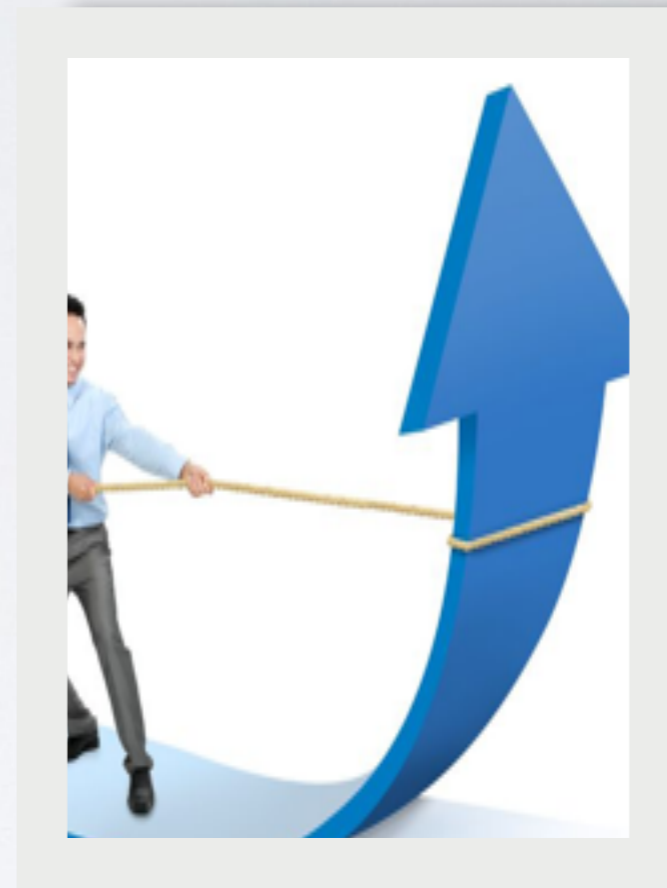
BENEFITS CAN FALL INTO TWO CATEGORIES

S Lower Costs



Due to reduced medical utilization. Cost avoidance.

R Higher Revenues



Due to lesser penalties and higher medical payments

SUBTRACT COSTS



For a business case you must show that benefits to your organization from the investment exceed the costs:

$$S + R - C > 0$$

THE STEPS TO CREATING THE BUSINESS CASE

- Measure and add up the expected benefits in terms of cost savings plus any revenue enhancements to get gross benefits
- Estimate the total costs of the program
- Subtract these costs from the gross benefits to get net benefits
- Often, the net benefits are expressed as a percentage of the program costs - and called “return on investment” or ROI, for short
- The ROI is compared to a “hurdle” rate - a minimum percentage that any investment must generate to be considered
- If the ROI is above the hurdle rate, then the program investment would seem worthwhile

A SAMPLE ROI CALCULATION

Program Gross Benefit	\$250,000
Program Cost	\$200,000
Program Net Benefit	\$50,000
ROI	25%

ROI ESTIMATES FOR TWO CARE COORDINATION PROGRAMS

Program	Annual Cost Per Member	Annual Savings	ROI
Transitional Care Model	\$1,492	\$5,334	257%
GRACE	\$2,201	\$4,291	95%

Avalere Health LLC: Effective Management of High-Risk Medicare Populations, September 2014.

GROUP EXERCISE

LAB BOOK PAGE 8

Exercise: Your task here is to do a ROI calculation. The table below contains blanks for certain variables. However, you have the data required to fill those in once you know the formulae.

Column	Variable	Value
1	Number of clients	1000
2	Cost per client	\$2,000
3	Total care coordination program costs	
4	Readmissions averted	140
5	Variable cost per readmission	\$15,000
6	ED Visits averted	500
7	Variable cost per ED visit	\$800
8	Total Benefits (Cost savings from averted readmissions and ED visits)	
9	Net benefits	
10	ROI	(Insert % here)

DEMONSTRATION

BUSINESS CASE FOR PERSON-CENTERED CARE

COMMON FAILINGS IN CONDUCTING BUSINESS CASES

- Including irrelevant costs in the benefit measure
- Failure to consider multiple periods
- Using ROI inappropriately to select between projects
- Using average rather than incremental ROI's

I. INCLUDING IRRELEVANT COSTS IN THE BENEFIT MEASURE

- If your program reduces medical utilization, the resulting saving (and therefore benefit) is best measured by the variable and not the average cost of the avoided services.
- Average cost includes fixed as well as variable costs.
- You are unlikely to be able to reduce fixed costs as utilization falls.

2. FAILURE TO CONSIDER MULTIPLE PERIODS

- Many programs involve delayed & continuing outcomes
- Program benefits therefore are often deferred and can extend into the future for several years
- Need to consider and add up the benefits (and costs) over multiple periods and not just those accruing during the period of investment
- Issue: future values need to be discounted to a present value equivalent

3. USING ROI INAPPROPRIATELY TO SELECT BETWEEN PROJECTS

- Consider mutually exclusive investments: A versus B
- You need to decide which one is preferred

USING ROI & NET BENEFIT CRITERIA YIELD DIFFERENT CONCLUSIONS

	Program A	Program B
Gross Benefit	\$250,000	\$350,000
Cost	\$125,000	\$200,000
ROI	100%	75%
Net Benefit	\$125,000	\$150,000

INDIVIDUAL EXERCISE

• LAB BOOK PAGE 10

Exercise: *Deciding between two projects: ROI versus net benefits. Below you will see the investment data for two alternative projects that are mutually exclusive. You must decide which one to pursue. While you can certainly calculate the ROI for each, the proper criterion for selection is which one has the larger net benefit.*

	Project A	Project B
Gross Benefit	\$300,000	\$400,000
Cost	\$150,000	\$225,000
ROI		
Net Benefit		

Fill in the blanks in the table above

Which is the preferred investment? _____

4. USING AVERAGE RATHER THAN INCREMENTAL ROI'S

- Often, the question is how large the program's scale ought to be?
- When confronted with an extent or scale decision, you must use incremental analysis
- Otherwise you may over-invest in the program
- Example: Risk stratification of a population to determine who should receive a service

NUMERICAL EXAMPLE

	Cost	Benefits	Net Benefits	ROI
Highest Risk (Top 10%)	\$100,000	\$140,000	\$40,000	40%
Top 20%	\$200,000	\$235,000	\$35,000	17.5%
Moderate Risk (Second 10% Only)	\$100,000	\$95,000	-\$5,000	-5%

The marginal rate
for an expanded
program is negative!

GROUP EXERCISE

LAB BOOK PAGE 12

Exercise: Calculating the incremental return on investment. Suppose you must decide how many seniors with multiple chronic conditions should receive a health risk assessment. The assessment is costly to administer, but will result in lowered medical utilization in the future. You are considering whether to provide this to both groups or just the one at the highest risk for medical utilization. The group at more modest risk has three to four chronic conditions, and the highest risk group has four or more such conditions. Below are the hypothetical costs and benefits associated with each of the two options - the smaller and the larger scale interventions.

	Cost	Benefits
Highest risk only (4 or more)	\$125,000	\$200,000
Highest and next highest risk combined (3 and more)	\$250,000	\$335,000

Now you must fill in the blanks in the table below:

The ROI for just the highest risk group	
The ROI for both groups combined	
The incremental ROI for the more modest risk group	

HELPFUL HINTS IN CREATING A BUSINESS CASE

- Be mindful of perspective
- Check for cost effectiveness: are there better ways?
- Conduct sensitivity analysis

I. BE MINDFUL OF PERSPECTIVE

- There may be externalities
- Not all the benefits or costs may accrue to the investing entity
- Be sure to adopt the perspective of the investing party & consider only the benefits and costs which are meaningful from its perspective

Note: External benefits may create an opportunity for an organization to seek a subsidy or compensation from the external beneficiary of its investment.

2. CHECK FOR COST-EFFECTIVENESS

- Just because you can demonstrate a high ROI, does not mean the business case is compelling.
- Are there other ways and means to achieve the goal?
- If so, is your initiative or program the most cost effective way?
- Must compare the alternatives' costs per unit outcome.

3. CONDUCT SENSITIVITY ANALYSIS

- The values of the key variables in the business case assessment will be subject to uncertainty and debate
- To avoid accusations that your ROI is dependent on questionable assumptions, try a reasonable range of values
- Can you demonstrate that even were the ROI calculation to assume pessimistic values the ROI would be favorable?
- If so, your business case can be considered “robust”.

SENSITIVITY ANALYSIS EXAMPLE

	Pessimistic	Most Probable	Optimistic
Gross Benefit	\$325,000	\$350,000	\$375,000
Cost	\$225,000	\$200,000	\$175,000
ROI	44%	75%	114%

CONCLUSION

- Instead of having a single ROI, your result is a range: 44% - 144%
- The low end represents the least ROI you will enjoy
- If that low end ROI is still satisfactory, your business case is robust
- Sensitivity analysis can help you fend off critics

ANOTHER BENEFIT FROM SENSITIVITY ANALYSIS

- Allows the quantification of the degree of influence each variable has in shaping your result
- What percentage of the variance in the outcome stems from the variance in each of the variables?
- The variables with the greatest influence need to be accurately estimated
- The values of other, less-influential variables should not be the subject of much dispute

OVERCOMING SKEPTICISM

- Stress non-financial outcomes
 - Physician satisfaction
 - Staff satisfaction
- Use “threshold analysis”

THRESHOLD ANALYSIS

- You cannot always know the magnitude of a key input in order to calculate a ROI for an intervention.
- You can still be convincing with your business case.
- Start with a target ROI.
- Then ask and answer the following question: What must be the critical magnitude of each variable if that target is to be attained?
- Similar to breakeven analysis.
- Sometimes the result is such a plausible one that the audience for the business case will be convinced to support you.

PLAUSIBILITY WITHOUT OUTCOME DATA

How effective must a PCC program which costs an incremental \$500 per person per year be in order to demonstrate a favorable ROI?

- The program is designed to reduce 30-day hospital readmissions.
- Each readmission cost the MA plan \$10,000.
- The program has 1,000 enrolled.
- Baseline readmission rate is 500 per 1000 members.
- For breakeven, readmissions would only need to fall by 50 or 10%.
- Might seem plausible.



ON-LINE RESOURCE