

Turn Your Bright Idea Into a Service Proposal


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The speaker has no conflict to disclose.

**UIC COLLEGE OF
PHARMACY**




Learning Objectives

1. Describe how the service proposal is part of the overall planning effort of a health care system.
2. Explain how a service proposal can be used to justify a pharmacy service.
3. Perform a back-of-the-envelope analysis for a service.
4. List the elements that are included in a service proposal.
5. Review examples of service proposals.



Demographics

1. 'New Practitioner' – inpatient
2. 'New Practitioner' – outpatient
3. Other



The service proposal is part of the overall planning effort of a health care system.

- Types of Planning

- Strategic
- Operational
- Organizational
- Resource
- Contingency
- Business



What type of planning does a service proposal represent?

- A. Strategic
- B. Operational
- C. Organizational
- D. Resource
- E. Contingency
- F. Business



The service proposal should allow administrators to make the following decisions:



- *Is there a need for the service?*
- *Will the service result in improved outcomes?*
- *Should we (the organization) invest in this service?*









Possible Clinical Pharmacy Services for a Medical Home

- Comprehensive medication review.
- Systematic assessment of each medication to achieve optimum therapeutic goals.
- Development of a personal medication care plan.
- Documentation and communication to the patient and all health care providers.

Source: American Pharmacists Association Core Elements of Medication Therapy Management



Payment

- Direct
 - Fee-for-service
 - Capitation
- Indirect
- Cost savings



Payment Models

Direct – pharmacist submits bill and gets paid Patient or organization pays pharmacist directly Pharmacist is the provider Medicare Part B CLIA – waived laboratory tests Durable medical equipment Mass immunization Outpatient diabetes self management training MTMS (Medicare Part D)	•Community •Medical Clinic •Hospital Outpatient Clinic •Long term care facility
Indirect – bill is submitted via another provider (physician)	•Medical Clinic •Hospital Outpatient Clinic
Cost savings – no bill submitted	•Hospital Inpatient •Managed Care Organization



Background and Description

- Needs Assessment
 - What is the patient need or problem to be addressed?
 - How large is this problem and what are the trends?
 - How well is the patient need currently being addressed?
- Literature Search
 - List the search terms that you used in conducting your literature search.
 - List the published articles and other resources (i.e., websites) that you found that best support your service proposal.
 - For those articles that describe similar programs, what is the cost to provide the service?
 - For those articles that describe similar programs, what are the documented outcomes or benefits of the service (e.g., financial, clinical, or humanistic outcomes)?
 - What are the reasons to believe that the costs and outcomes of the published articles can (or cannot) be generalized to the service you propose?



Background and Description

- Describe the Service: What is the proposed service and what are the expected outcomes?
- Who will deliver the service?
- Setting: Where will the service be delivered?
- Customers: Who are the customers and stakeholders?



Competitor Analysis

- Competitor Analysis: Who else delivers or can deliver the service?
- SWOT Analysis
 - Strengths (internal)
 - Weaknesses (internal)
 - Opportunities (external)
 - Threats (external)



Market Analysis

- Target Market: How large is the target market and what percent of the market can you expect to reach in Year 1?
 - Outpatient visits/year = 500,000
 - Number of patients = 200,000
 - Target Market: One clinic or segment = 20,000 patients
 - Expect a 2.5% market share in year 1 = 500 patients



Revenue = (payment per unit of service) x (number of units)



What-If Revenue Scenarios

Patients per Year	Capitated Payment	Price Per Minute	Length of Visit	Number of Visits per Year	Revenue
⇒ 500	\$120	\$2	30	2	\$60,000
500	\$180	\$3	30	2	\$90,000
500	\$60	\$2	15	2	\$30,000
500	\$240	\$2	30	4	\$120,000
250	\$120	\$2	30	2	\$30,000
750	\$120	\$2	30	2	\$90,000



Expenses

- Cost: What are the expected costs to deliver the service?
 - Fixed (include setup investment)
 - Variable

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Salary and Benefits per hour	\$60	\$62	\$64
One-Time Setup Expenses	\$5,000	\$0	\$0
Fixed Expenses	\$5,000	\$5,150	\$5,305



Back-of-the-Envelope Analysis

<u>500 Patients</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Projected Revenue	\$60,000	\$60,000	\$60,000
Expenses : Salary + Benefits to see 500 patients	\$30,000	\$30,900	\$31,827
Expenses : Fixed	<u>\$10,000</u>	<u>\$5,150</u>	<u>\$5,305</u>
Net Revenue (Profit)	\$20,000	\$23,950	\$22,869



Factors that can impact the analysis

- Expenses greater than expected
- Payer does not pay or pays less than expected
- Patient visits take longer than expected
- Other non-direct patient care costs (time to document, no show appointments, planning and communicating, etc)



'What-If' Scenarios

- What if enough patients were interested to run the service 2 or more days per week?
- What if 25% of patients miss their appointment?
- What if the capitation amount changes?
- What if the pharmacist spends twice as much time on the service?
- What if the same \$ investment was put into government bonds instead?



Back-of-the –Envelope Analysis Advantages/Disadvantages

- | | |
|--|--|
| <ul style="list-style-type: none">• ADVANTAGES<ul style="list-style-type: none">– Inexpensive– Quick– Yields organization-specific results– Sensitivity-analysis can be used to confirm results– Data collection is unobtrusive– Can be conducted pre-implementation | <ul style="list-style-type: none">• DISADVANTAGES<ul style="list-style-type: none">– Results dependent on assumptions– Potential for researcher bias– Controversial– Reluctance of decision makers to accept projections |
|--|--|



When are Service Proposals Successful?

- When the service proposed:
 - is financially viable.
 - fills an obvious clinical or operational need.
 - supports the overall strategic plan and mission of the organization.
 - has medical staff (or other stakeholder) support.
 - makes the administrator look good.



What Can Doom a Good Idea?

- Homework not done, no evidence
- Does not address a critical need
- Financial viability questionable
- No champion
- If the business plan is:
 - Too long
 - Poorly formatted, or errors in grammar or spelling
 - Not organized, or poorly written
- A poor verbal presentation
- No stakeholder support



Other Considerations

- Understand that you are in competition with other proposals for the limited financial resources available.
- Revenue producing versus cost-saving services, the later requires more efforts in measurement of performance.



I now feel prepared to turn my
bright idea into a service proposal.

1. Strongly Agree
2. Somewhat Agree
3. Somewhat Disagree
4. Strongly Disagree



Summary

- The service proposal is part of the overall planning effort of a health care system.
- A service proposal can be used to justify a pharmacy service.
- A back-of-the-envelope analysis should be done early on as part of the service proposal.
- A service proposal includes a background and description, market analysis, clinical and quality requirements, operational structure and processes, and a financial plan.



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Case Study: You work for a progressive hospital system with 400 beds and an outpatient multispecialty clinic. Pharmacy services include inpatient, outpatient, discharge, emergency department, and a wide range of inpatient and outpatient clinical services. Your progressive pharmacy director wants you to develop a proposal to incorporate clinical pharmacy services into a patient-centered medical home.

5. Target Market: How large is the target market and what percent of the market can you expect to reach in Year 1?

9. Recommendation:

Literature Search and Pre-Planning for a Service Proposal

Section A. Literature Search

1. List the search terms that you used in conducting your literature search.

2. List the published articles and other resources (i.e., websites) that you found that best support your business plan topic (number these consecutively 1-20, use the format suggested by the National Library of Medicine).

3. For those articles that describe similar programs, what is the cost to provide the service?

4. For those articles that describe similar programs, what are the documented outcomes or benefits of the service (e.g., financial, clinical, or humanistic outcomes)?

5. What are the reasons to believe that the costs and outcomes of the published articles can (or cannot) be generalized to the service/program you propose?

Section B. Back of the Envelope Calculation.

1. Check the box corresponding to the reimbursement model that fits your proposed service

- | | |
|---|---------------|
| <input type="checkbox"/> Direct billing and reimbursement | Explain _____ |
| <input type="checkbox"/> Indirect billing and reimbursement | Explain _____ |
| <input type="checkbox"/> Cost-savings | Explain _____ |

2. Estimate the revenue (savings) from the proposed service.

Item	Estimate
Number of units (per month or per year)	
Charge (savings) per unit	
Estimate of total revenue (per month or per year)	

3. Estimate the costs associated with the proposed service.

Item	Estimate
Number of pharmacists (per month or per year)	
Wage per pharmacist	
Estimated total wages (per month or per year)	
Other major costs	
Estimate of total costs	

4. Do total revenues (savings) exceed total costs?

- ☐ Yes
☐ No

5. Is there sufficient evidence of financial viability to compel you to develop a complete business plan on this topic?

Key Questions That Are Addressed by a Service Proposal or Business Plan

- What is the need that the business (service) will fill?
- How is that need currently being met or not met?
- How will the business (service) meet that need?
- How large is the market for this service?
- Who are the competitors of this service?
- How will the business (service) operate?
- How much will it cost to operate the business (service)?
- What are the financial benefits for the business (service)? (revenue, savings)
- At what volume do benefits exceed costs?
- How will the business be promoted? (marketing plan)
- What are the strengths and weaknesses of the business and how do those compare to competitors?
- What are the future opportunities for the business?
- What are the future threats for the business?
- What are the proposed actions and timeline for the business?
- What are the key milestones that the business must achieve over time?
- What should be done if the business does not meet those milestones?
- When should a decision be made to exit the business and how, if necessary?

Barriers to Planning

- Failure to commit sufficient time to planning effort.
- Interpersonal issues within organization (power and politics).
- Lack of planning skills.
- Failure to plan far enough into future.
- Constantly changing environment.
- Failure to implement plan.
- Failure to monitor progress.
- Lack of support from top executives.

Example

This service proposal was developed for the business plan elective at UIC by PharmD students Chris Campbell, Zoe Clancy, Sneh Mody, Tammy Nguyen, and Hari Patel. They submitted the proposal to the 2010 Business Plan Competition for the Office of the Treasurer of the City of Chicago and was selected from among hundreds of applicants as one of the top ten finalists.

MobileCare Rx, A Mobile Medical Trailer

THE COMPANY

MobileCare Rx is an extension program of Norwood Pharmacy- a Chicago based independent pharmacy- which strives to provide outstanding, pharmacist-run preventative and disease management clinical services to employers of Cook County, Illinois. The concept behind MobileCare Rx is a mobile, medical trailer staffed by pharmacists who work to create accessible, friendly, and effective on-site healthcare to employer groups. The mission of MobileCare Rx is to extend the option of pharmacist-facilitated healthcare to patients in a personal and convenient setting and build positive relationships between employer groups and Norwood Pharmacy.

THE UNMET NEED

The United States' healthcare system costs are growing at a rapid pace. In 2007, total health spending reached over \$2.3 trillion or 16.2% of the nation's gross domestic product¹. By 2018, national healthcare costs are expected to reach \$4.4 trillion, a 200% increase². This is a concern for today's current business sector because companies pay for employee health in two ways- the first is by providing employees with costly comprehensive health coverage and the second is by bearing the brunt of lost productivity and increased absenteeism due to employee illness. In 2003, the estimated total cost of lost productivity due to sick days was approximately \$63 billion³. Employers may reduce such costs by providing clinical health services to their employees at the work site.

THE SOLUTION

MobileCare Rx directly delivers clinical healthcare services at worksites where need is the greatest. Four MobileCare Rx healthcare providers, along with a medical trailer equipped with medical supplies, deliver such services to employee work sites. In addition to provided disease prevention and management services, MobileCare Rx makes it easier for employees to adhere to their medication therapy by offering the option of collecting prescriptions from employees and enrolling them into a mail order/ home delivery service that is provided by Norwood Pharmacy. MobileCare Rx also saves employers money by eliminating the cost of third party administrators and payers; it is a direct contract between MobileCare Rx and employers paid on a per-patient seen basis.

COMPETITOR ANALYSIS

¹ U.S.A. U.S. Department of Health and Human Services, Centers of Medicare & Medicaid Services. *National Health Expenditure Data*. Centers of Medicare & Medicaid Services. Web. 4 Oct. 2009. <http://www.cms.hhs.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp#TopOfPage>.

² "Health Insurance Costs." *National Coalition on Health Care*. National Coalition on Health Care. Web. 4 Oct. 2009. <http://www.nchc.org/facts/cost.shtml>.

³ "High cost of missed work days: billions of dollars lost to illness and injury." *Industrial Engineer*. Entrepreneur, Sept. 2007. Web. 4 Oct. 2009. <<http://www.entrepreneur.com/tradejournals/article/169311045.html>>.

Currently, no other business in the Chicago area offers mobile pharmacy services; as a result, MobileCare Rx's competitors would primarily be companies providing permanent on-site clinics. In comparison to other clinical service providers, MobileCare Rx provides the same quality of service to smaller businesses that may not have the financial or physical means to maintain a permanent clinic site, but still wish to provide clinical services to their employees.

TARGET MARKET

Potential customers of the company will include any Cook County employers with more than 100 employees and current accounts with Norwood Pharmacy which mainly consists of group homes. As a new service to the community, MobileCare Rx anticipates a 2.5% share of these new markets in addition to the markets already available via Norwood Pharmacy.

FINANCIAL HIGHLIGHTS

MobileCare Rx is aggressively pursuing seed-stage funding to begin an effective and efficient operation of the company. The initial expenses required include health screening materials, basic technology and office equipment, along with a customized mobile trailer. Since MobileCare Rx utilizes a direct billing model, its revenue is dependent on the number of patients seen in a given year. It was estimated that in Year 1 a staff of two pharmacists and two nurses would see 1,200 patients per month. For the subsequent years, MobileCare Rx plans on adding another pharmacist to the team to increase the number of patients seen per year. At a \$35 flat charge per patient, total projected operating revenue Year 1 was \$504,000; Year 2 was \$743,000; and Year 3 was \$763,800. MobileCare Rx expects seed-stage investors to receive a 67% return on investment at the end of Year 3 and expects to break even within its first year of operation. The cumulative profit for MobileCare Rx after a 3 year operation is \$808,300. In a worst case scenario, MobileCare Rx reaches its breakeven point after 2 years. MobileCare Rx is seeking \$500,000 to acquire further market research data, health screening materials and equipment with the vast majority of the expense going towards the customized mobile trailer.

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