The Tools You Need to Successfully Launch a New Service Line & Diversify Your Revenue Streams

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Agenda

I. The Path to New Service Line Ideas
II. How To “Vet” Your New Service Line Ideas
   A. Evaluating New Business Opportunities
III. Moving From Idea To Feasibility Analysis
   A. Market Analysis
   B. Target Costing for Launching New Services
IV. New Service Line Development Process
   A. Service Blueprinting
   B. Key Metrics
V. Managing Your Service Portfolio
I. The Path To New Service Line Ideas
What Is a Service? Fundamental Service Management Concept

- Customer purchases an “experience” with a number of defined features and benefits
  ✓ Examples include:
    - Intake appointment
    - Medication evaluation appointment
    - Psychiatrist evaluation
    - Regularly-scheduled administration of an injectable medication
How “Services” & “Service Lines” Fit With the Strategic Plan

- Comprehensive sets of services to meet the needs of a particular defined segment of clients
  - Partial care program for dual diagnosis consumers
  - Jail diversion program
  - Intensive case management program for SPMI population

- How service lines are structured affects organizational structure, conceptualization of customers, and management expectations

- “Services” and “service lines” are ‘building blocks’ of the strategic plan and the marketing plan – variables in planning process
Why is Understanding Service Line Characteristics Important?

- Essential to calculate market demand
- Essential to understand competition
- Detailed understanding of specific customer group service needed for developing services, pricing, promotion, and sales strategies
- Drives allocation of both development and financing resources
Where Do New Service Ideas Come From?

- Market intelligence – macro-market monitoring, competitors, etc.
- Monitoring and analyzing customer (consumer, payer, referrer, etc.) needs
- Staff experience and ideas
II. How To “Vet” Your New Service Line Ideas
More Ideas Than Time or Money

- Problem is often there are more ideas for new service lines than time or money to evaluate and implement

- Recommend metrics-based ranking model to evaluate new service line ideas – with the goal of reducing the number that move to service line feasibility analysis and development process
# OPEN MINDS Process for Metrics-Based Evaluation of New Business Opportunities

<table>
<thead>
<tr>
<th>Step</th>
<th>Task</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Develop an itemized list of business development opportunities for consideration</td>
</tr>
<tr>
<td>2</td>
<td>Develop a list of factors or metrics to be used in evaluating new business opportunities.</td>
</tr>
<tr>
<td>3</td>
<td>Develop a scoring scale for each metric</td>
</tr>
<tr>
<td>4</td>
<td>Assign weights to each metric – reflecting organizational priorities</td>
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<tr>
<td>5</td>
<td>Research and score each business opportunity, using the key metrics and weighting of metrics to rank the business opportunities</td>
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<tr>
<td>6</td>
<td>Qualitative research and discussion of each of the top-rated opportunities for final selection for formal feasibility analysis</td>
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#1. Develop List of Business Development Opportunities for Consideration

- Service line extensions
- New payer for current services
- New markets for current services
- New services for current customers
- New services for new markets
## Example: Business Development Opportunities List

<table>
<thead>
<tr>
<th>New Business Development Initiative</th>
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</thead>
<tbody>
<tr>
<td>Consider adding an adoption license for Michigan foster care operations</td>
</tr>
<tr>
<td>Expand Michigan foster care operations beyond current 15 counties</td>
</tr>
<tr>
<td>Develop a Michigan treatment foster care service – in anticipation of October 2011 consent decree requirements</td>
</tr>
<tr>
<td>Develop an unsolicited proposal for State of Michigan re: Medicaid carve-out for services for foster children (health plan, PIHP, and XXX) – capitated rate for physical health, mental health, and child welfare services</td>
</tr>
<tr>
<td>Expand Michigan in-home care services to include contracts with all third-party payers in the 15-county area</td>
</tr>
<tr>
<td>Expand Michigan in-home care services to include private pay collection capability</td>
</tr>
<tr>
<td>Expand Michigan intensive in-home care service line offering to include addiction treatment services</td>
</tr>
<tr>
<td>Expand Michigan intensive in-home care service line offering to integrate e-health services</td>
</tr>
<tr>
<td>Develop an in-home substance treatment program for the Michigan in-home services program</td>
</tr>
<tr>
<td>Explore interest of schools in 15-county area (Battle Creek in particular) to have XXXXXXXXXXXXXXXXX manage their social work services</td>
</tr>
<tr>
<td>Develop contracts with other counties for Michigan residential diversion program (note: rebranding needed)</td>
</tr>
<tr>
<td>Expand Michigan day treatment/residential diversion program to include youth with behavioral health diagnoses and/or low IQ</td>
</tr>
<tr>
<td>Offer the Michigan day treatment/residential diversion program as a respite program and a crisis respite program (Medicaid reimbursable)</td>
</tr>
<tr>
<td>Expand Michigan suspension center services to more school systems</td>
</tr>
<tr>
<td>Expand Michigan suspension center service for younger students</td>
</tr>
<tr>
<td>Expand Michigan suspension center service offering to include GED preparation, GED testing, and ACT preparation services</td>
</tr>
<tr>
<td>Increase out-of-state referrals to Ohio SRY program</td>
</tr>
<tr>
<td>Develop per diem/case rate program for Ohio SRY program that includes both residential and community-based treatment for sex offender population (to pilot in Franklin County, Ohio)</td>
</tr>
<tr>
<td>Expand Columbus CBTC model (residential/community-based service mix) to JJ systems in other jurisdictions</td>
</tr>
<tr>
<td>Increase referrals to emergency shelter care services in Columbus</td>
</tr>
<tr>
<td>Prepare for possibility of new service demand if Franklin County is getting out the family foster care business (also get estimate of current number of children in foster care system)</td>
</tr>
<tr>
<td>Explore demand in Ohio for emergency foster care families</td>
</tr>
<tr>
<td>Expand Ohio foster care services beyond Franklin County</td>
</tr>
<tr>
<td>Expand range of services that can be offered via in-home service delivery under Ohio Medicaid through Ohio aftercare/in-home services program</td>
</tr>
</tbody>
</table>
#2. Develop List of Metrics to Evaluate New Business Opportunities

- Current market potential
- Degree of competition
- Revenue growth opportunities
- Capital and cash flow requirements
- Operational at a profit margin in the short-term
- Operational at a profit margin in the long-term
- Significantly furthers mission
- Improves market positioning
- Other?
### Example of Service Line Evaluation Metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has considerable market potential and revenue growth opportunities for</td>
<td>XXXXXXXXXXXXXXXXXXXX</td>
</tr>
<tr>
<td>Has minimal capital requirements</td>
<td></td>
</tr>
<tr>
<td>Can be operated at a profit/margin in the short-term</td>
<td></td>
</tr>
<tr>
<td>Can be operated at a profit/margin in the long-term</td>
<td></td>
</tr>
<tr>
<td>Has few competitors or competitors that XXXXXXXXXXXXXXXX can reasonably compete with</td>
<td></td>
</tr>
<tr>
<td>Requires core competencies that XXXXXXXXXXXXXXXX has or can reasonably obtain</td>
<td></td>
</tr>
<tr>
<td>Has minimal risk of failure</td>
<td></td>
</tr>
<tr>
<td>Improves market positioning and revenue diversification strategies</td>
<td></td>
</tr>
<tr>
<td>Significantly furthers XXXXXXXXXXXXXXXX mission and target population</td>
<td></td>
</tr>
<tr>
<td>Significantly increases XXXXXX’s “impact” on the number of children, families, and professionals it serves</td>
<td></td>
</tr>
</tbody>
</table>
#3. Develop Scoring Scale for Each Metric

- Each metric needs a scoring measure
  - ✓ Maximum (positive) score
  - ✓ Minimum (negative) score
- For example, maximum score of 5 and minimum score of 1
#4. Assign Weights to Each Metric – Reflecting Organizational Priorities

- Each score weighted to reflect relative importance of that metric in decisionmaking about new service line investment
## Service Line Metrics With Scoring & Metrics Weighting

<table>
<thead>
<tr>
<th>Metric</th>
<th>Max Score</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has considerable market potential and revenue growth opportunities for XXXXXXXX</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Has minimal capital requirements</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Can be operated at a profit/margin in the short-term</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Can be operated at a profit/margin in the long-term</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Has few competitors or competitors that XXXXXXXX can reasonably compete with</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Requires core competencies that XXXXXXXX has or can reasonably obtain</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Has minimal risk of failure</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Improves market positioning and revenue diversification strategies</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Significantly furthers XXXXXXXX mission and target population</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Significantly increases XXXXXXXX's “impact” on the number of children, families, and professionals it serves</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>
#5. Score Each Business Opportunity

- Conduct necessary research to evaluate each business opportunity against each metric
  - ✔ Industry knowledge of team
  - ✔ Secondary market research sources
  - ✔ KOL interviews
Example Of “Short List” Based on Rating

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Total Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expand use of e-health services in Ohio Medicaid through Ohio aftercare/in-home services program</td>
<td>61</td>
</tr>
<tr>
<td>Expand range of services that can be offered via in-home service delivery under Ohio Medicaid through Ohio aftercare/in-home services program</td>
<td>59</td>
</tr>
<tr>
<td>Expand Michigan foster care operations beyond current 15 counties</td>
<td>58</td>
</tr>
<tr>
<td>Develop contracts with other counties for Michigan residential diversion program (note: rebranding needed)</td>
<td>58</td>
</tr>
<tr>
<td>Increase out-of-state referrals to Ohio SRY program</td>
<td>58</td>
</tr>
<tr>
<td>Increase referrals to emergency shelter care services in Columbus</td>
<td>56</td>
</tr>
<tr>
<td>Develop or acquire Medicaid provider license to operate Medicaid outpatient MH and SA services to youth and families in Wayne County</td>
<td>55</td>
</tr>
<tr>
<td>Develop third-party payer contracts for Ohio aftercare/in-home services program</td>
<td>54</td>
</tr>
<tr>
<td>Explore demand in Ohio for emergency foster care families</td>
<td>53</td>
</tr>
<tr>
<td>Develop a Michigan treatment foster care service – in anticipation of October 2011 consent decree requirements</td>
<td>52</td>
</tr>
<tr>
<td>Expand Residential Transitional Reintegration Support (RTRS) beyond Wayne County in Michigan</td>
<td>52</td>
</tr>
<tr>
<td>Expand Michigan suspension center service for younger students</td>
<td>51</td>
</tr>
<tr>
<td>Expand Ohio foster care services beyond Franklin County</td>
<td>51</td>
</tr>
<tr>
<td>Develop private pay capacity for Ohio aftercare/in-home services program</td>
<td>51</td>
</tr>
<tr>
<td>Expand Wayne County supervised independent living program (SIL)</td>
<td>51</td>
</tr>
<tr>
<td>Expand Wayne County intensive O/P substance abuse treatment program</td>
<td>51</td>
</tr>
<tr>
<td>Develop per diem/case rate program for Ohio SRY program that includes both residential and community-based treatment for sex offender population (to pilot in Franklin County, Ohio)</td>
<td>50</td>
</tr>
<tr>
<td>Develop or acquire secure residential treatment facility for boys in Wayne County to operate services for County</td>
<td>50</td>
</tr>
</tbody>
</table>
#6. Final Selection of “Short List” for Formal Feasibility Analysis

- Review the highly-rated ‘short list’
- Additional qualitative research
- Team discussion
- Final selection for formal feasibility analysis
III. Moving From Idea to Feasibility Analysis
Moving From Idea to Revenue Has Two Phases

- **Phase I: Feasibility analysis phase**
  - Define the new service line
  - Analyze market and competition for the new service line
  - Financial feasibility analysis

- **Phase II: Design & development phase**
  - Service line design
  - Service line launch preparation
  - Service line launch management
  - Service line launch and pilot test
Step 1 in Service Line Feasibility Analysis: Service Line Definition

- Develop an operational description of the new service line
- Identify the target markets – payers, consumers, and referral sources – for the new service line
- Create a proposed pricing or payment structure for the new service line
- Identify the sales/distribution channels for the new service line, with a description of how sales would be made
- Review step 1 information – make a go/no go decision
Service Line Descriptions

- For each service line, describe:
- Operational description
- Target markets and customers
- Revenue/sales history and historical pricing, by customer type
- Pricing or payment structure
- Cost data and operational parameters
- Historical/current marketing strategy and tactics
Step 2 in Service Line Feasibility Analysis: Analyze Market & Competition

- Define the specific characteristics of the market (payers, consumers, and referral sources) with metrics
- Develop a formal analysis of opportunities and threats in creating the new service line
- Profile each competitor currently offering the service line (or a replacement service line) and their service line offering (customers, cost, features, benefits, USP, etc.)
- Review step 2 information – make a go/no go decision
Step 3 in Service Line Feasibility Analysis: Financial Feasibility Analysis

- Outline the proposed design of the new service line
  - Identify specific programmatic core offerings – processes, protocols, etc.
  - Determine the basic organizational structure of the new service line (staffing, reporting relationships, etc.)

- Conduct financial analysis
  - Conduct target costing and determine market-based price points for the new service
  - Establish tentative price range based on desired positioning and competitive landscape
  - Preliminary breakeven analysis for new service

- Review step 3 information – make a go/no go decision
The Strategic Basis of Target Costing

Customer Needs
- Service
- Features
- Pricing

Competitor Analysis
- Service
- Features
- Positioning

Target Market Position & Market Price

Target Cost
Evaluate Customer Needs First

- Customer needs must be the primary driver of what service is offered
- Customer needs and perceived benefits dictate service features
- Service features dictate pricing
Evaluate Competitive Landscape Next

- Understand the competitive environment
  - ✓ What does the competition charge – and what is their rate structure?
  - ✓ What the competition offer/not offer?
  - ✓ How does the competition position itself in the market space?
  - ✓ How can/should your positioning differ?
Target Market Position & Market Price

- Based on evaluation of customer needs and your differentiation, confirm your positioning – different enough to warrant increased price?
- Set your proposed market price based on target market analysis
- Reengineer your budget based on target price
  - Price point drives budget and allowable costs – not the other way around
Decision to Proceed (or Not) With Development Made Following Feasibility Analysis

- Key elements in decision making following feasibility analysis:
  - Sufficient market
  - Positioning relative to competition
  - Ability to deliver service at market rates
IV. Recommended Process for Development of New Service Line
Step 1 in Design & Development Phase: Service Line Design

- Write a comprehensive service description for market
  - Develop proposed Unique Selling Proposition (USP) and market positioning statement

- Define and map operational flow
  - Identify roles and responsibilities for service delivery – by departments and all staff positions
  - Define how new service line delivery and operational departments will interface with one another and in existing organization

- Finalize pricing and pricing structure
  - Review and validate proposed costs in feasibility analysis
  - Conduct modeling to determine ROI and confirm breakeven point, investment capital requirements, and cash flow requirements

- Review step 1 information – make a go/no go decision
Step 2 in Design & Development Phase: Service Line Launch Preparation

- Develop operations roadmap
  - Develop implementation plan
  - Develop productivity standards
  - Create service line flowcharts
  - Write detailed operations manuals

- Conduct final regulatory check

- Establish “success” standards
  - Define activity-based and performance-based metrics
  - Create performance dashboard for new service line launch and new service line operations

- Review Step 2 information – make a go/no go decision
What are Service Blueprints?

- Visual displays of service process that depicts:
  - The process of service delivery
  - The role of customers and employees
  - The visible elements of the service

- Breakdown of service into:
  - Its logical components
  - The steps or tasks in the process
  - The means by which tasks are executed
  - The customer’s evidence of experience
Purpose of Service Blueprinting

- Check logical flow of process
- Assist in writing operations manuals
- Use to improve efficiency and identify operational improvement needs
- Identify bottlenecks and fail points (waiting time, claims lag, etc.)
- Improve portion of service visible to consumers
- Target time to complete each task that is part, based on acceptable consumer expectation
- Identify fail points, where:
  - Potential for operations
  - Malfunction is high
  - Malfunction would be regarded as significant
Steps in Building a Service Blueprint

- Map the service process from the customer’s point of view
- Draw the lines of customer interaction, visibility, and internal interaction
- Map the process from the customer contact person’s point of view, distinguishing onstage from backstage actions
- Link the customer and contact person activities to needed support functions
- Add evidence of service at each customer action step
Service Blueprint Outline

Customer Actions

Line of Interaction

“Onstage” Contact Employee Actions

Line of Visibility

“Backstage” Contact Employee Actions

Line of Internal Interaction

Support Processes
Service Blueprint: A Hospital Stay

Physical Evidence

Hotel Exterior
Parking
Bag for
Personal Effects
Desk Registration for Admission
Elevators
Hallways
Room
Stethoscope
and blood pressure
cuff
Room
Dietary
Delivery
Food
Food
Bill Desk
Exterior Parking

Customer

Arrive at Hospital
Give Bag to a Nurse
Check In
Sign necessary admission paperwork
Diagnostic exam
Call button for nurse; toiletries; sleep
Fill out dietary form
Receive Food
Eat
Check Out and Leave

(Onstage)

Orderly takes patient to a room
Process Registration
Doctor diagnoses & treats patient
Deliver Food
Process Check out

Contact Person

(Backstage)

Place personal effects in patient's room
Nurse delivers food order to cafeteria
Prepare Food
Admission System

Invisible Process

Admission System
Service Line Metrics to Monitor

1. Income/revenue, by source and service line
   - Direct expenses, by service line
   - Allocated expenses, by service line
   - Allocated charitable income/revenue, by service line

2. Total profit/loss

3. Profit/loss without charitable allocation (if not-for-profit)

4. Total # of consumers served, by relevant demographic/payer type

5. Total # of service units delivered, by service unit type and by relevant demographic/payer type

6. Staff/facility productivity or yield, by service unit & appropriate operating units
Service Line Metrics to Monitor (cont.)

7. Direct cost per service unit, by service unit type
   ✓ Total indirect cost per service unit
   ✓ Total cost per service unit

8. Total income/revenue per service unit
   ✓ Non-charitable income/revenue per service unit
   ✓ Charitable income/revenue per service unit

9. Profit/loss per service unit
10. Charity/subsidy as % of total unit cost (if NFP)
11. Quality measures, specific to service
12. Consumer satisfaction and performance, specific to service
Step 3 in Design & Development Phase: Service Line Launch Management

- Construct test or ‘pilot’ program model for new service line
- Anticipate fail points and develop corrective action plans
- Develop marketing and promotional plan
  - Develop marketing materials
  - Develop service contracts
- Hire and train key staff
- Develop launch project and tracking plan
- Review Step 3 information – make a go/no go decision
Step 4 in Design & Development Phase: Service Line Launch & Pilot Test

- Implement new service line launch plan
- Monitor the implementation via performance metrics and performance dashboard
- Create ‘modifications’ to new service based on performance of pilot during launch phase
- Reassess service line viability and determine next steps – second pilot, full launch, or cancel
V. Managing Your Service Portfolio
Product Life Cycle Tracks Profitability of Service Throughout its Life Cycle
What is Portfolio Management?

- Function within an organization dealing with the planning or forecasting or marketing of a product or products at all stages of the product lifecycle
Goals of Portfolio Management

- Value Maximization – optimize ROI on investments
- Balance – high vs. low risk; multiple markets
- Business Strategy Alignment – assures alignment of service line investment with long-term organizational strategy
- Pipeline Balance -- balance between resources needed and resources available
- Sufficiency Of Current & Future Revenue
Market Growth vs. Market Share Matrix

- **Question Marks** (Low growth, Low market share)
- **Dogs** (Low growth, High market share)
- **Stars** (High growth, High market share)
- **Cash Cows** (High growth, Low market share)
Market Risk vs. Market Reward Matrix

- **High Market Risk**
  - White Elephants
  - Oysters

- **Low Market Risk**
  - Bread & Butter
  - Pearls

- **Low Market Reward**
- **High Market Reward**
Mission vs. Profitability Matrix

- Actively Advances Mission:
  - Seek more donations and/or raise prices and/or improve cost effectiveness and/or selectively reduce scope of operation.
  - Maintain status quo (without allowing it to dominate) or spin off as for-profit corporation.

- Neutral:
  - Seek closer ties to Mission and/or improve profitability.

- Negatively Impacts Mission:
  - Phase out promptly.
  - Selectively phase out or sell operation to external buyers.

Product's Ability to Cover Costs:
- No Attributable Revenues or Grants
- Breakeven
- Highly Profitable
Key Portfolio Management Questions

- What new services to invest in?
- When to terminate a service offering?
When Not to Terminate a Service

- Margin issues can be addressed by reengineering and/or productivity improvement
- No other service capacity in community (philanthropy for support?)
- Essential to referral or operations of “cash cow”
- In “growing” market with plan to profitability
- Critical to portfolio distribution
When to Terminate a Service

- Margin problem
- Mission misalignment
- Service line portfolio balance
- Doesn’t fit with current/future market positioning
- Market trends predict reduced demand and/or rate
- Inability to compete with other organizations in space
- Future portfolio balance
Portfolio Management is Not a Static Activity

Disruptive innovations are decreasing the useful life of new services

Making standard services obsolete

Success is defined by ability to respond rapidly to market change
Questions & Discussion
Resources

- Tools You Need for Launching a New Service Line
  http://www.openminds.com/circlehome/circle/peeetalbot.htm

- Deciding On Your Next New Service Line Investment
  http://www.openminds.com/circlehome/circle/content_omnlmeoprogfeasmod.htm

- What You Need to Know and Where to Get It: Market Research on a Budget
Upcoming Educational Events

  [www.openminds.com/njacp](http://www.openminds.com/njacp)

  [www.openminds.com/njacp](http://www.openminds.com/njacp)

  [www.openminds.com/eli](http://www.openminds.com/eli)

  [www.openminds.com/ibhi](http://www.openminds.com/ibhi)

- The 2012 *OPEN MINDS* Best Management Practices Institute: Finance and Technology to Maximize Performance, *February 16-17, 2012, Clearwater Beach, Florida*
  [www.openminds.com/bmpi](http://www.openminds.com/bmpi)