

Identifying the ROI

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Robert Wood Johnson Foundation

**Aligning Forces
for Quality** | Improving Health & Health Care
in Communities Across America

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Overview

What is ROI, and how is it used?

Simple example

Enhancing ROI with additional components

How AF4Q alliances can use ROI

ROI development template

Questions & answers

ROI is a useful tool...

Helps an Alliance organize its thinking about its value proposition for specific stakeholders and activities

Is simple

Is popular with stakeholders

Demonstrates that funding an Alliance's activities can be justified as more than just an altruistic contribution

...but there are limitations

ROI excludes important components, including time, risk, level of investment, strategic importance, and other non-financial considerations

Lacks standards for how it is calculated and applied

Is often used as a “check box” by stakeholders rather than a tool for decision making

Therefore Alliances should:

Use ROI to organize and communicate thinking about value creation

Be aware of the limitations of ROI

Extend the framework to bolster Alliance arguments about return on investment beyond pure financial benefits

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ROI is very simple

“A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments... [It] is expressed as a percentage or a ratio”

$$\text{ROI} = \frac{(\text{Gain from investment} - \text{Cost of investment})}{\text{Cost of investment}}$$

Source: Investopedia

Typical uses of ROI

To justify proposed investments

To evaluate existing investments

To compare different investments

Why ROI is so popular

Easy to understand and calculate

Encourages disciplined, quantitative approach to decisions

Focuses on efficient use of resources

Provides a mechanism to compare dissimilar projects

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Simple example: Email marketing campaign

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Consumer goods company evaluating the ROI of an email marketing campaign to existing customers and new prospects

Gain from investment (benefits)

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Category	Benefit	Magnitude
New profits	Profits from new customers	\$40K
Profit enhancement	Profits from existing customers	\$20K
Cost savings	Lower call center costs as customers shift from phone purchases to online	\$15K
Total gain from investment		\$75K

Cost of investment

Category	Cost	Magnitude
External cost	Mailing list rental	\$10K
Overhead	IT infrastructure	\$25K
Labor	Managerial and operational staff time	\$15K
Total cost of investment		\$50K

The calculation is easy

$$\text{ROI} = \frac{(\text{Gain from investment} - \text{Cost of investment})}{\text{Cost of investment}}$$

$$= \frac{(\$75\text{K} - \$50\text{K})}{(\$50\text{K})} = 50\% \text{ ROI}$$

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Use of ROI in decision making

Project	ROI
A	50%
B	70%
C	20%
D	20%
E	-10%

Which project(s)
should the company
fund?

Additional factor: Time

Project	ROI	Time
A	50%	3 mos
B	70%	2 yrs
C	20%	6 mos
D	20%	1 yr
E	-10%	3 mos

Additional factor: Probability of success

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Project	ROI	Time	Probability of success
A	50%	3 mos	60%
B	70%	2 yrs	50%
C	20%	6 mos	85%
D	20%	1 yr	90%
E	-10%	3 mos	90%

Additional factor: Level of investment

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Project	ROI	Time	Probability of success	Investment
A	50%	3 mos	60%	\$100K
B	70%	2 yrs	50%	\$4 million
C	20%	6 mos	85%	\$10K
D	20%	1 yr	90%	\$5K
E	-10%	3 mos	90%	\$500K

Additional factor: Strategic imperative

Project	ROI	Time	Probability of success	Investment	Strategic imperative
A	50%	3 mos	60%	\$100K	Low
B	70%	2 yrs	50%	\$4 million	Medium
C	20%	6 mos	85%	\$10K	High
D	20%	1 yr	90%	\$5K	Medium
E	-10%	3 mos	90%	\$500K	Mandatory

Examples are typical of choices a company faces

Project	ROI	Time	Probability of success	Investment	Strategic imperative
Email marketing	50%	3 mos	60%	\$100K	Low
Factory robot	70%	2 yrs	50%	\$4 million	Medium
Wellness posters	20%	6 mos	85%	\$10K	High
Software upgrade	20%	1 yr	90%	\$5K	Medium
Smokestack scrubber	-10%	3 mos	90%	\$500K	Mandatory

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How Alliances can use ROI

As discussed, ROI is a simple calculation used to make or justify financial decisions

When stakeholders talk about ROI, they may be focused exclusively on financial gains

Alliances can use the ROI framework to broaden the definition of gains (benefits) while discouraging stakeholders from applying an expansive definition of costs

Types of benefits

Benefit	Explanation	Expressible in \$ terms?
Financial	<ul style="list-style-type: none">• Increase in revenue• Decrease in costs• Avoidance of costs	Yes
Strategic	<ul style="list-style-type: none">• Activities that tie directly to business strategy and that the funder believes drive financial results• Balanced Scorecard items	Sometimes
Intangible	<ul style="list-style-type: none">• Psychic rewards• Activities that are believed to be useful but are difficult to quantify	No

Financial benefits: Examples

Alliance activity	Example funder	Category of benefit	How achieved
PM of provider efficiency	Employer	Cost reduction	Shift to less expensive benefit design
QI coaching	Provider	Revenue enhancement	Increased P4P bonus
Statewide PES	Health plan	Cost avoidance	Spread fixed cost among multiple parties

Strategic benefits: Examples

Alliance activity	Example funder	Category of benefit	How achieved
QI coaching	Health plan	Increase clinical quality	Lower performing practices take on attributes of high performers
Coordinated data collection	Provider	Reduce data burden	Data collected once rather than multiple times
Multi-payer PCMH pilot	Employer	Hasten shift toward integrated care	Critical mass, uniform approach allow quick scale-up
PM/PR	Provider	Ease regulatory pressures	Private action reduces legislature's need to act

Intangible benefits: Examples

Alliance activity	Example funder	Category of benefit	How achieved
Board membership	Community group	Professional development	Networking at Alliance meetings or events
Consumer engagement campaign	Pharmaceutical company	Softening an organization's image	Working with diverse stakeholders in a neutral environment
Working group on payment reform	State government	Serendipitous	Obtaining new insights by convening stakeholders who'd never work together otherwise

Costs: Categories and arguments

Category	Rationale for inclusion	Rationale for exclusion
Direct financial contribution	Fungible dollars that could be used for other programs or profits	May come from restricted account, e.g., community benefit
Staff costs for meeting time	Staff expertise has value, some participants may experience a direct loss of income due to time away from their practice	Fixed cost; attending meetings provides learning opportunities and does not harm overall productivity
In-kind contribution, e.g., space	These contributions have a market value	Costs would be incurred anyway; if Alliance had to buy on open market might select something different or forego
Data preparation/ submission	Diverts staff time and other resources	Cost of doing business that would be incurred anyway

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Element	Contents
Description	Scope of the activity or program
Audience/point of view	Stakeholder(s)/funder(s) who will obtain ROI from participation
Financial benefits	Hard dollar categories, \$ for each
Strategic benefits	Description with \$ if possible
Intangible benefits	Description, qualitative value
Costs	Hard dollar costs; other costs a stakeholder might want to include
Additional components	e.g., time, probability of success
ROI	Calculation and/or qualitative evaluation

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For more information ...

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Thank You

Learn more at www.forces4quality.org



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