

# National Learning Community Network Development Track

## Financial Acumen Part 1

Wednesday May 24, 2023

# Today's Agenda

1. Welcome & roll call
2. ACL updates & announcements
3. Guest presentation, Financial Acumen: Dr. Victor Tabbush
4. Q&A and reflections
5. Wrap up

# FINANCIAL ACUMEN: PART ONE | COSTS

DR. VICTOR TABBUSH, PHD

NATIONAL LEARNING COMMUNITY NETWORK DEVELOPMENT TRACK

FINANCIAL ACUMEN PART 1

MAY 24, 2023



CREATIVE

IDEAS TO ACTION

RESULTS



**1**

Identify your correct payment context

**2**

Conduct breakeven analysis

**3**

Recognize when unprofitable terms may be acceptable

**4**

Calculate a blended cost when your provider costs differ

**5**

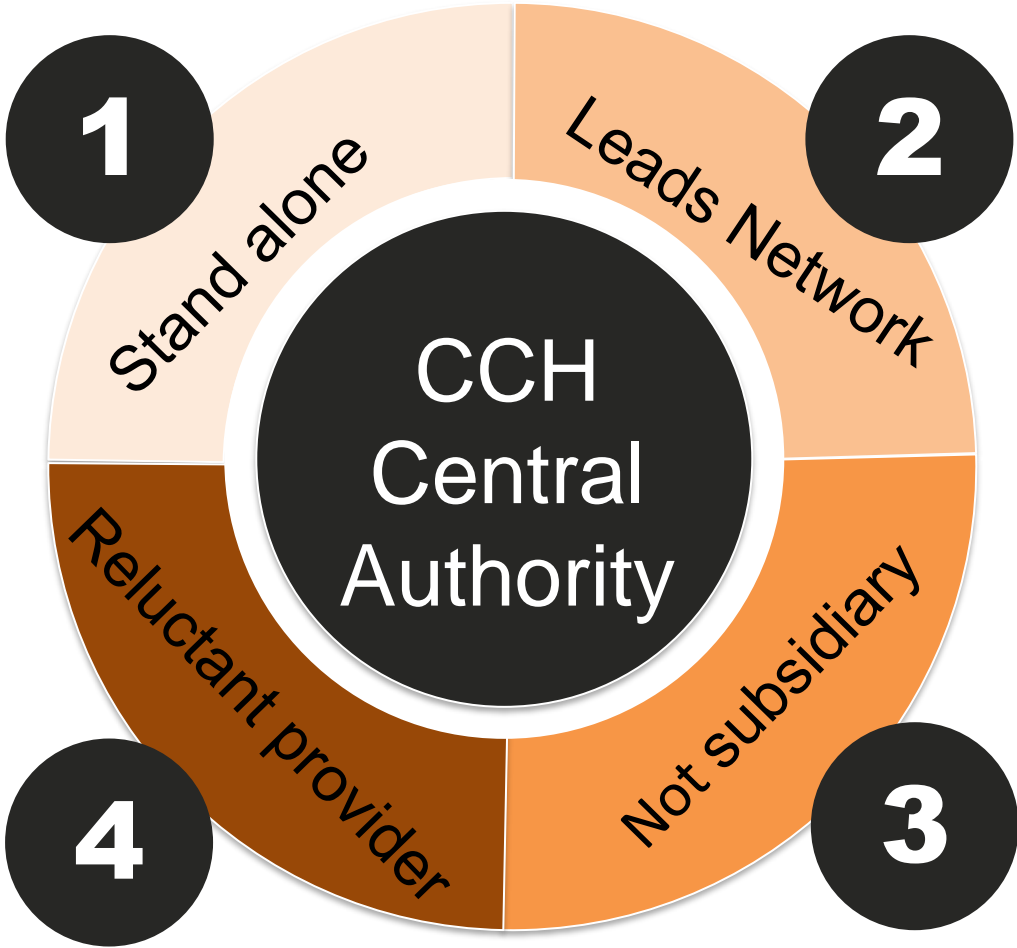
Understand the fundamentals of activity-based-costing

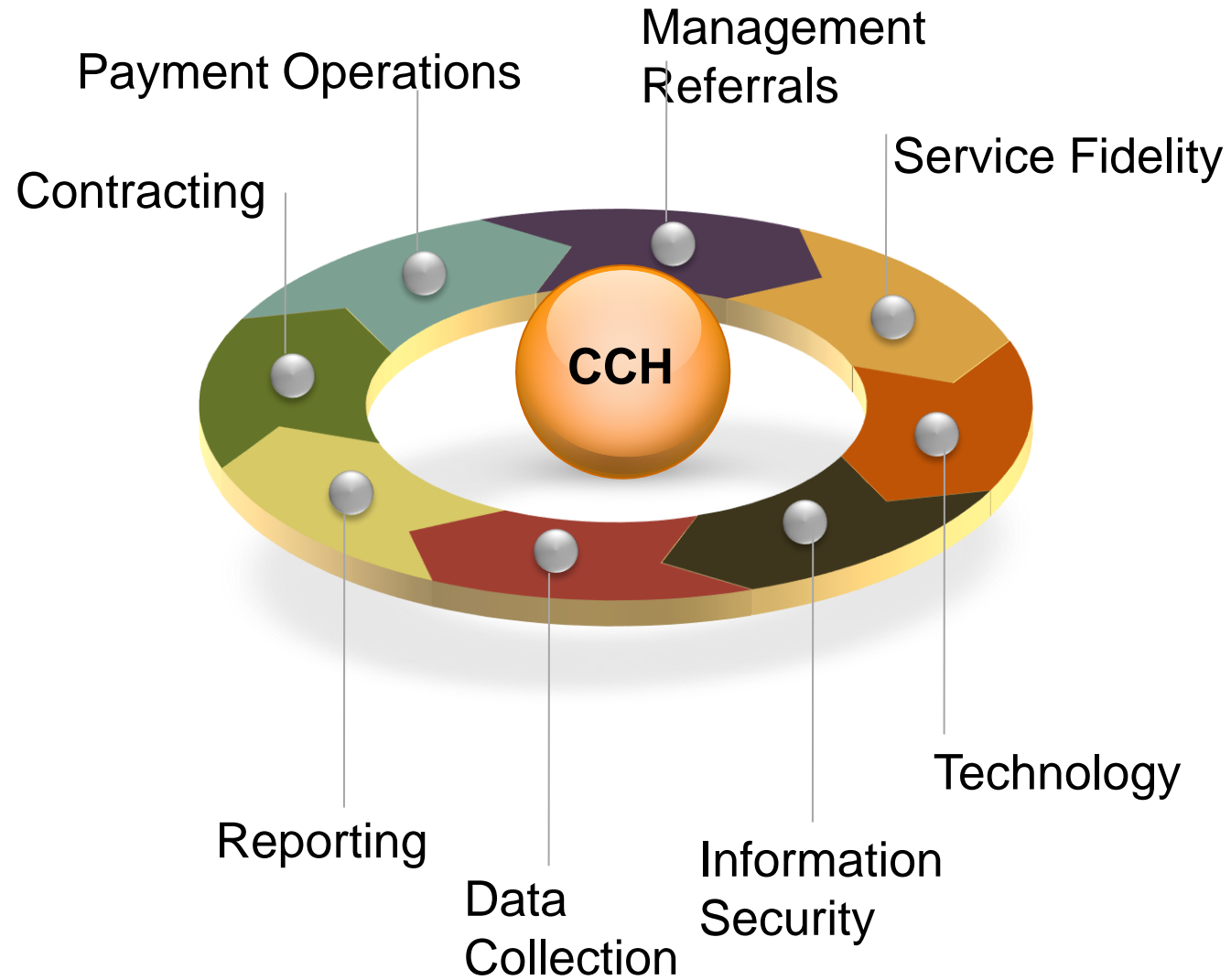
**6**

Recognize the potential of price-based costing

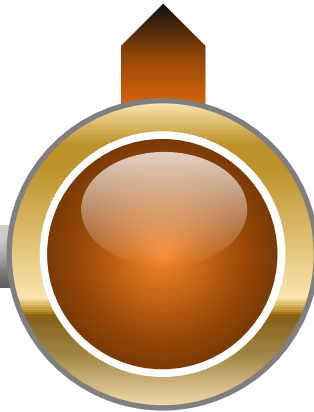
**7**

Identify three approaches to reduce costs





Unilateral:  
Buyer



Buyer sets  
price

Bilateral:  
Cost Only



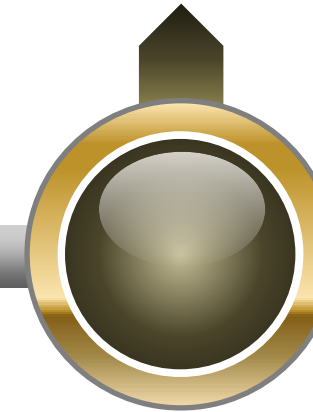
Seller justifies  
price based on  
costs

Bilateral:  
Negotiation



Buyer & seller  
agree on price  
based on costs  
and other  
factors

Unilateral:  
Seller



Seller sets  
price

# POLLING QUESTION 1: WHICH IS YOUR MAIN CONTEXT?

- 1. Unilateral: Buyer sets the price
- 2. Bilateral Cost Only: Buyer pays just your costs
- 3 Bilateral Negotiation: Buyer & you agree on price based on costs and other factors
- 4. Unilateral: You set the price



## Cost-based pricing

Price based solely on costs (markup)



## Cost-informed pricing

Cost is just one factor



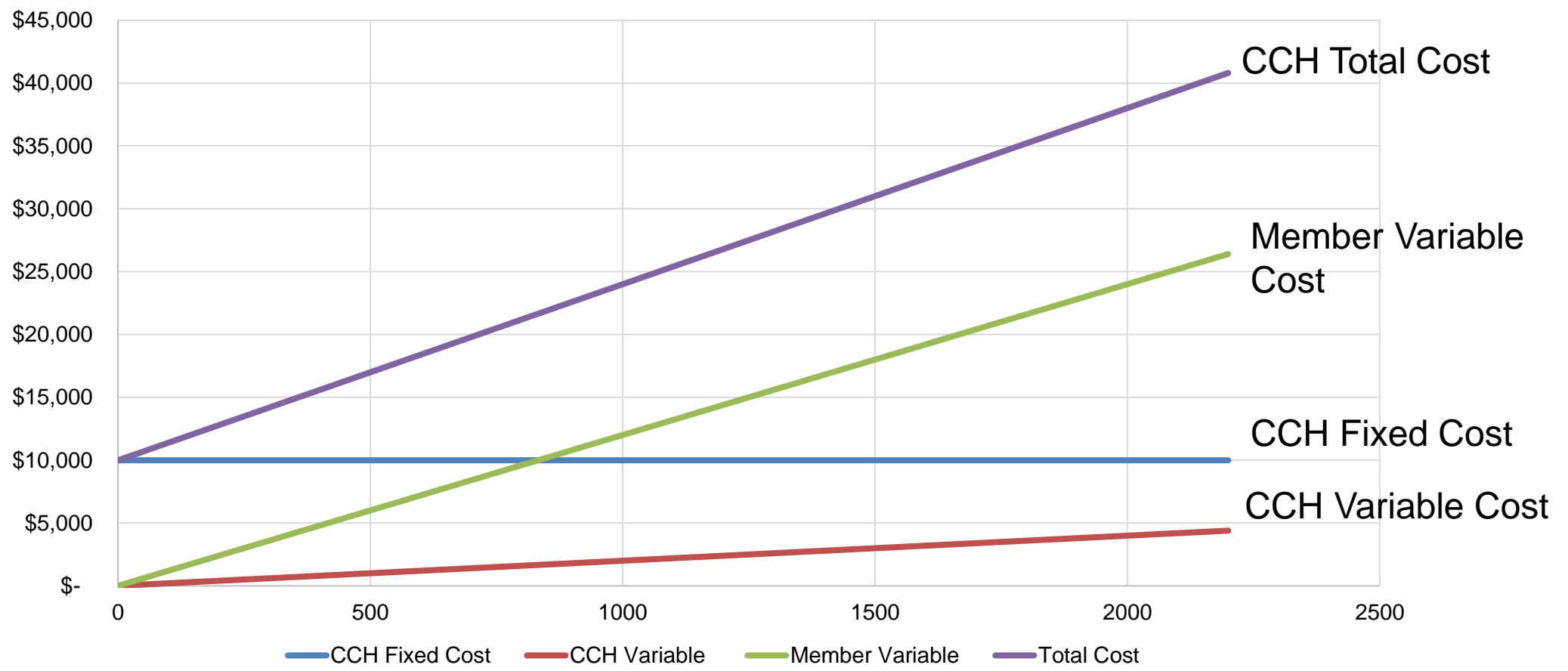


There is clarity around the conditions prompting a Yes

Otherwise, it is a Maybe

Do not reject the offer out of hand

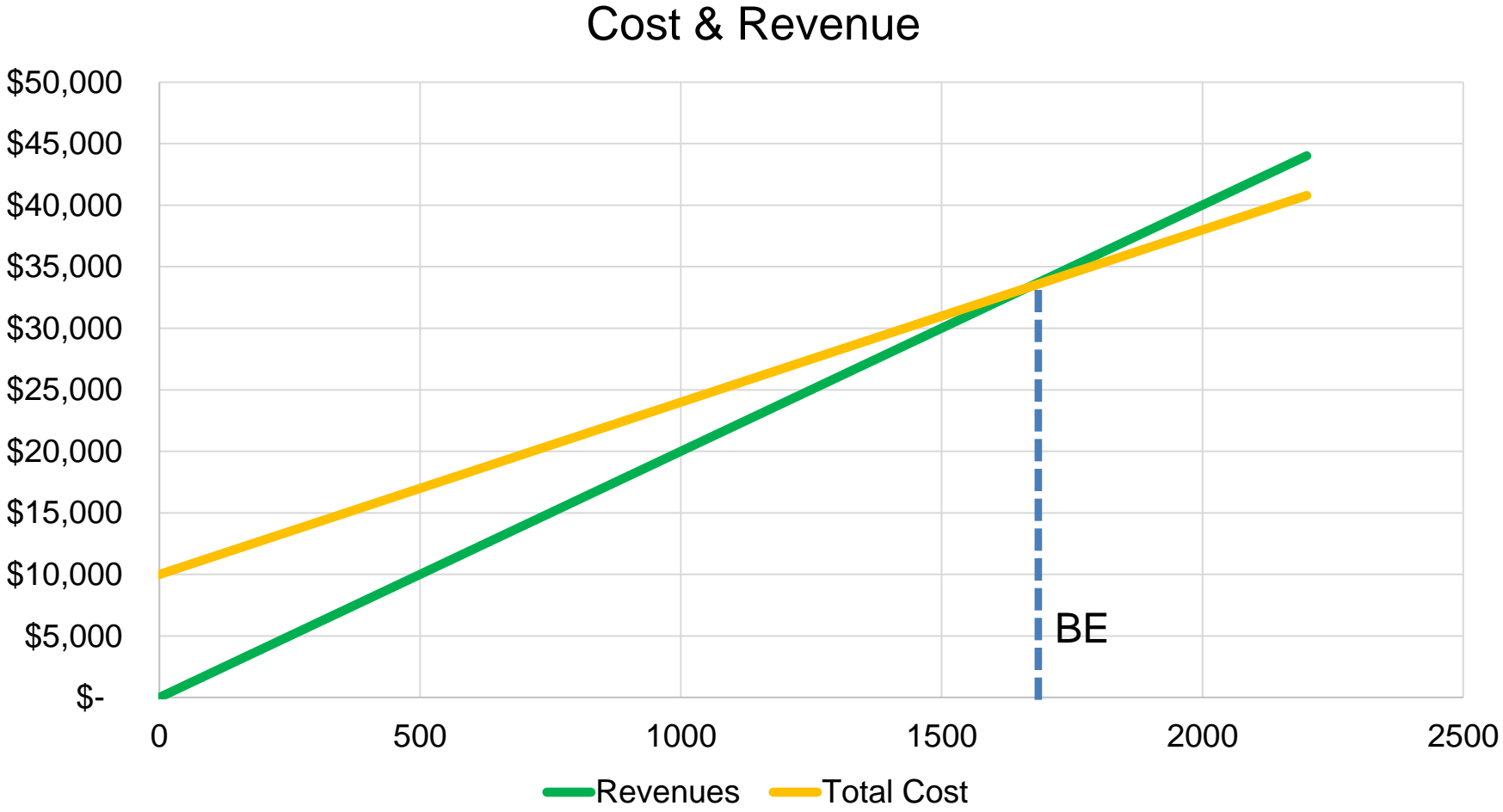
## The Cost Components



	Unit Cost	Percentage
<b>Low Cost</b>	\$9	25%
<b>Medium Cost</b>	\$11	50%
<b>High Cost</b>	\$14	20%
<b>Ultra High</b>	\$25	5%
<b><i>Blended Cost</i></b>	<b><i>\$12</i></b>	

*The CCH is at cost risk if it gets the mix wrong. For example, too many beneficiaries in the high-cost regions.*

# BREAKEVEN VOLUME: TOTAL COST = TOTAL REVENUE



## POLLING QUESTION 2: WHAT IS THE BREAKEVEN VOLUME?

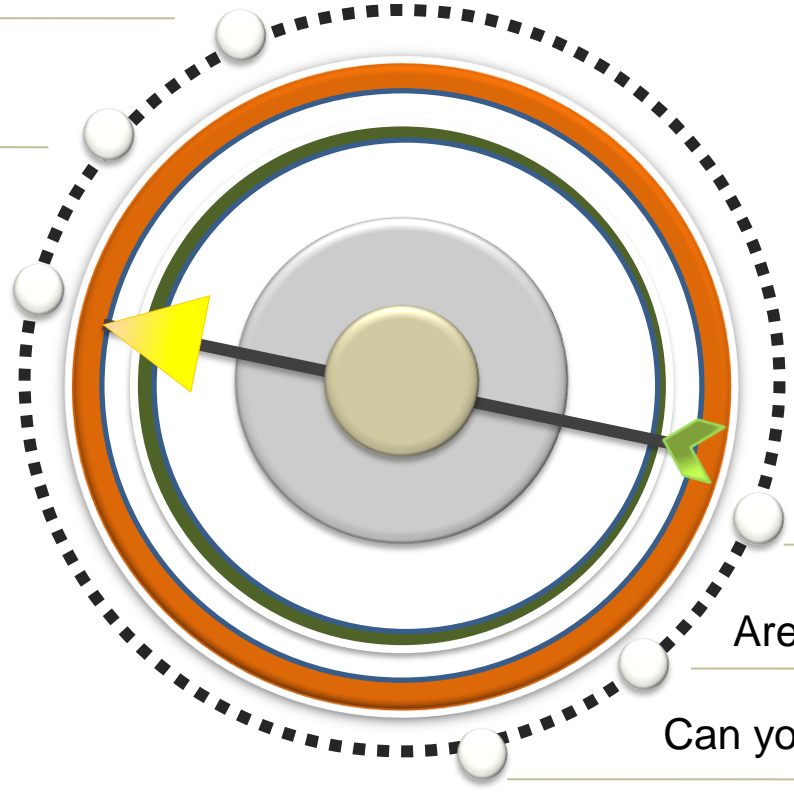
Assume that the Price is \$16; Variable cost is \$12; Fixed cost is \$12,000

- 4000
- \$3,000
- 3,000
- \$48,000
- Not sure

Are you prepared to subsidize?

Can you negotiate a higher price?

Can you negotiate a minimum volume guarantee?

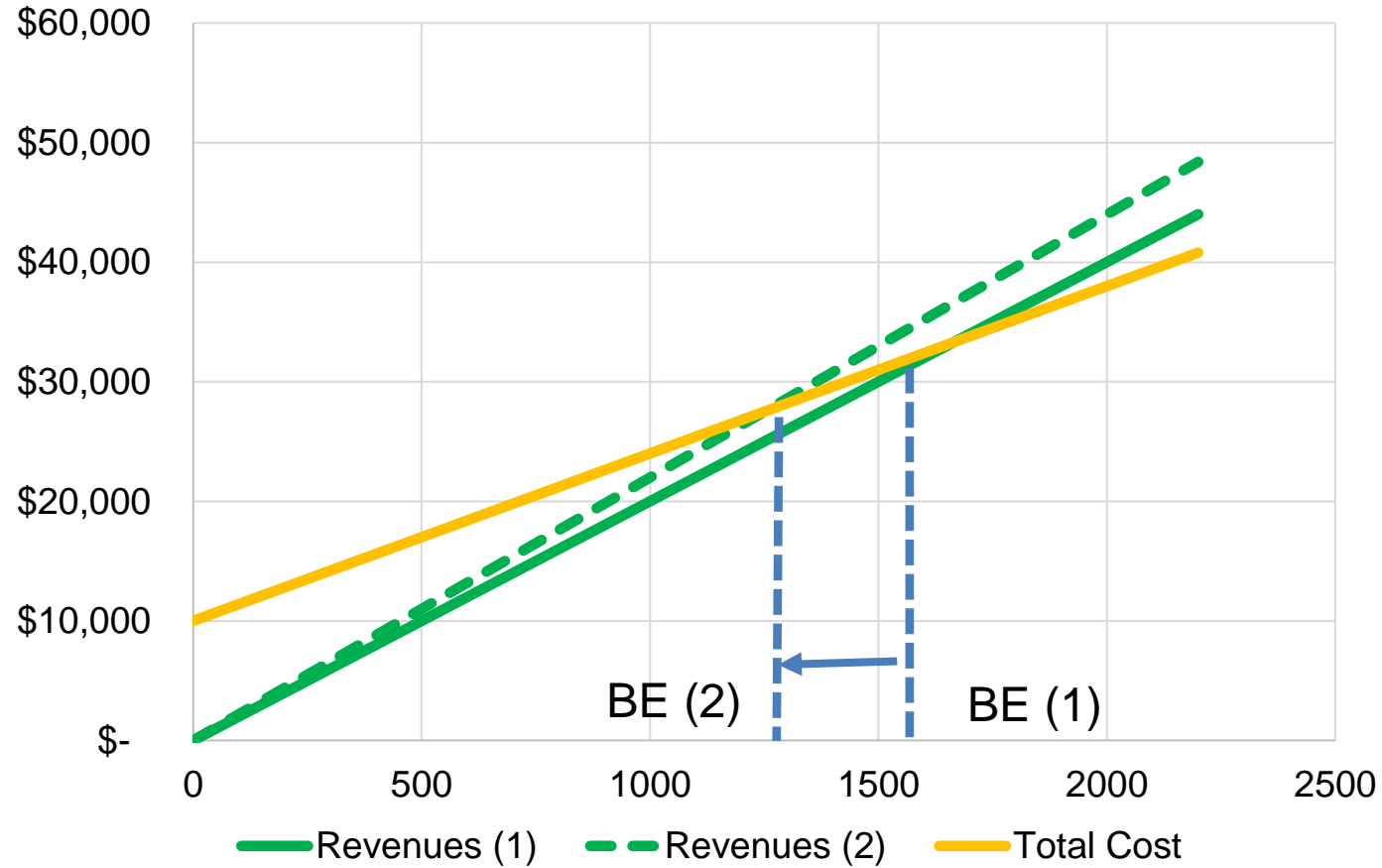


Are there strategic reasons to suffer a short-term loss?

Are your costs accurately estimated?

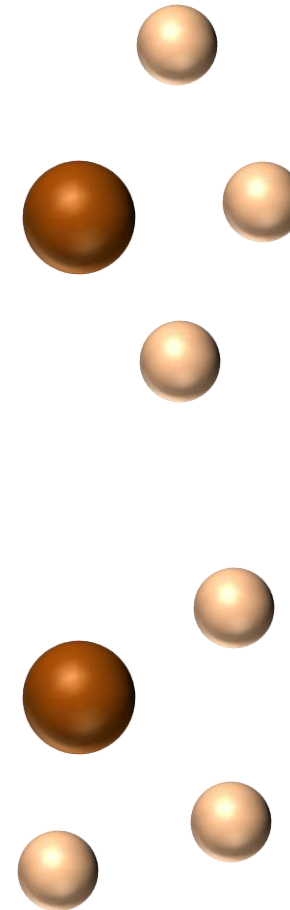
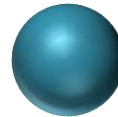
Can you reduce your costs?

## Breaking even is easier with a higher price

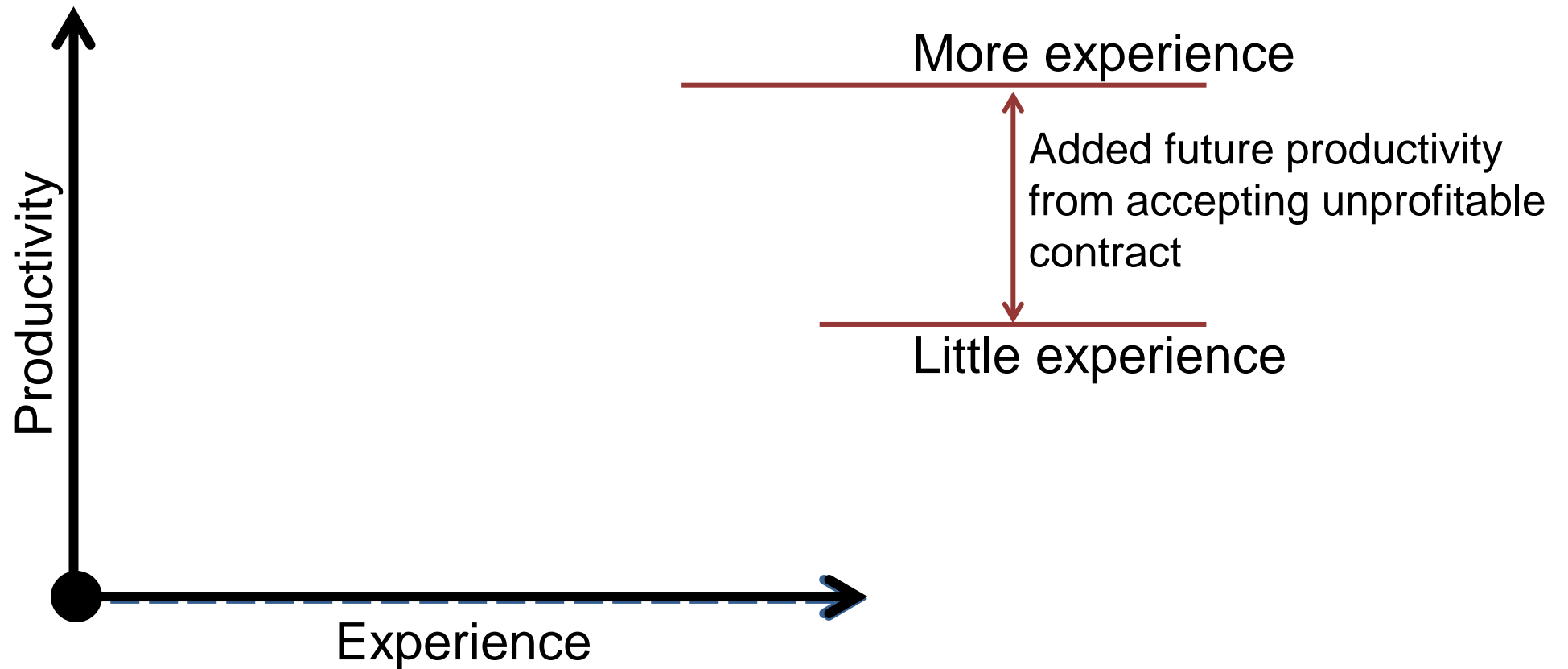


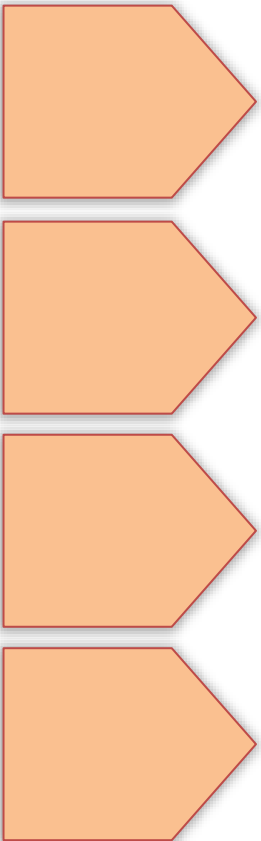


Today's  
Concessionary  
Price



Tomorrow's  
Business





- 1** Not accounting for the future
- 2** Not accounting for risk
- 3** Accounting for irrelevant costs
- 4** Accounting for expense categories rather than activities

Are you imputing sunk costs into your cost estimate?

If you do, you may be inflating your costs and  
may turn away profitable business!

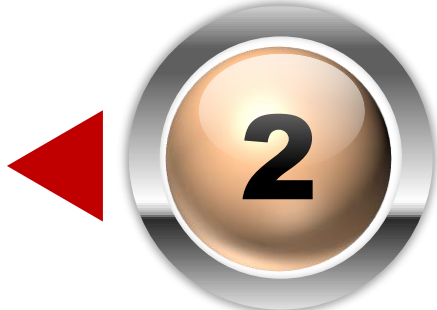


**Sunk (Retrospective)**



Incurred already and cannot be avoided no matter whether you accept the MCP offer or not. Overhead.

**Fixed (Prospective)**



A cost fixed with respect to the volume of services delivered by partners, but a necessary additional expense for managing the contract. Contracting, reporting.

**Variable**



A cost that rises with the contract volume. Payment operations, referrals management.

Category	Amount
Salaries	\$621,000
Equipment	\$150,000
Travel	\$60,000
Supplies	\$40,000
Rent & Utilities	\$30,000
<b>Total</b>	<b>\$901,000</b>

Same total:  
More Insight  
→

Activity	Amount
Contracting	
Payment & operations	
Managing referrals	
Service fidelity	
Technology	
Security	
Data collection	
Reporting	
<b>Total</b>	<b>\$901,000</b>

1

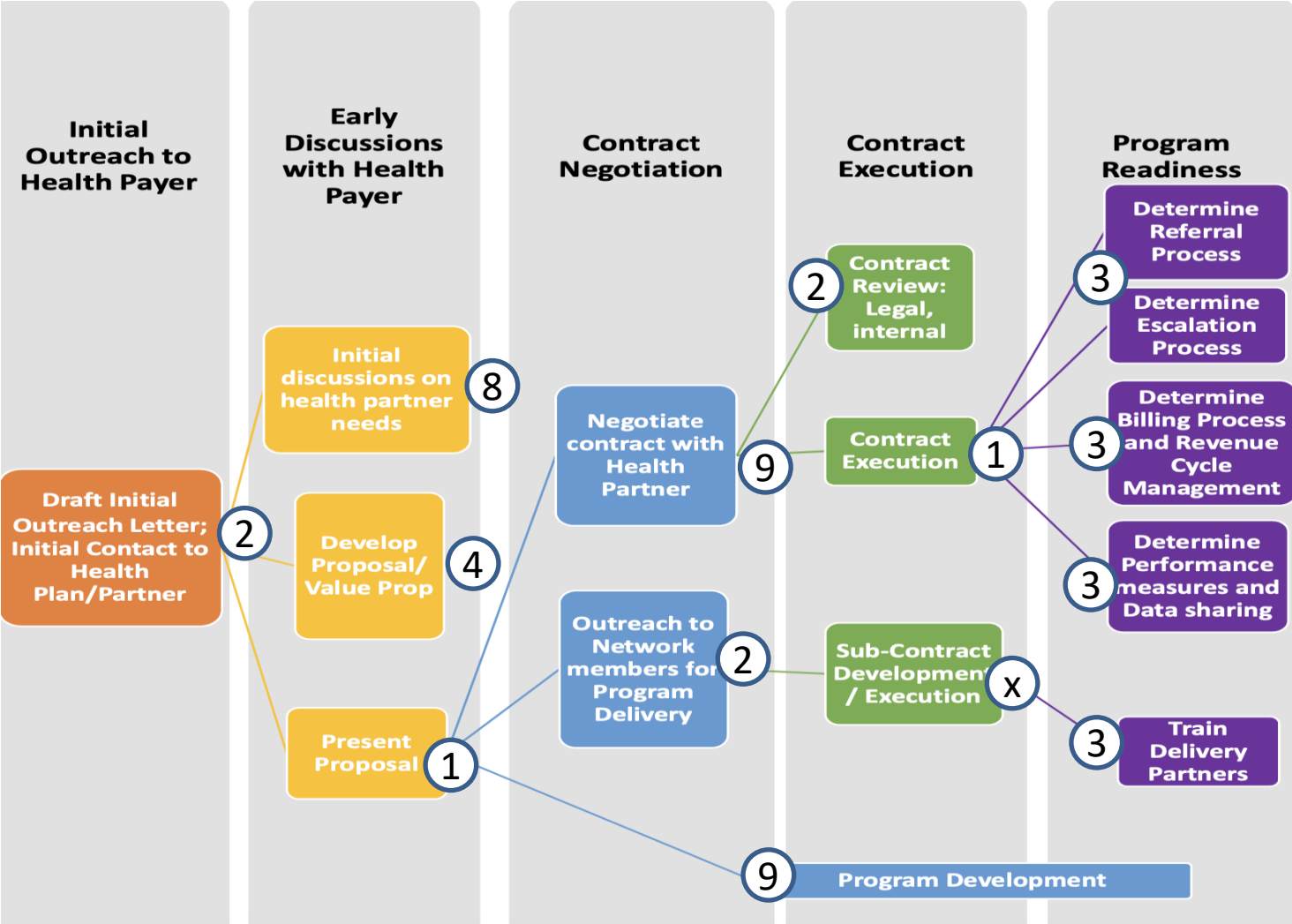
Mapping  
the Care  
Process

- For each CCH process, what activities will be performed?
- Who performs each activity?
- How long does each activity take?

2

Calculate  
Cost Rates

- What is the cost per unit of time for each personnel?
- What is the unit cost of each activity?
- What is the total cost of all activities required to complete a process?



Estimated hours based on WNICN data but modified for teaching purposes.



# POLLING QUESTION 3: HAVE YOU MAPPED YOUR CCH PROCESS?



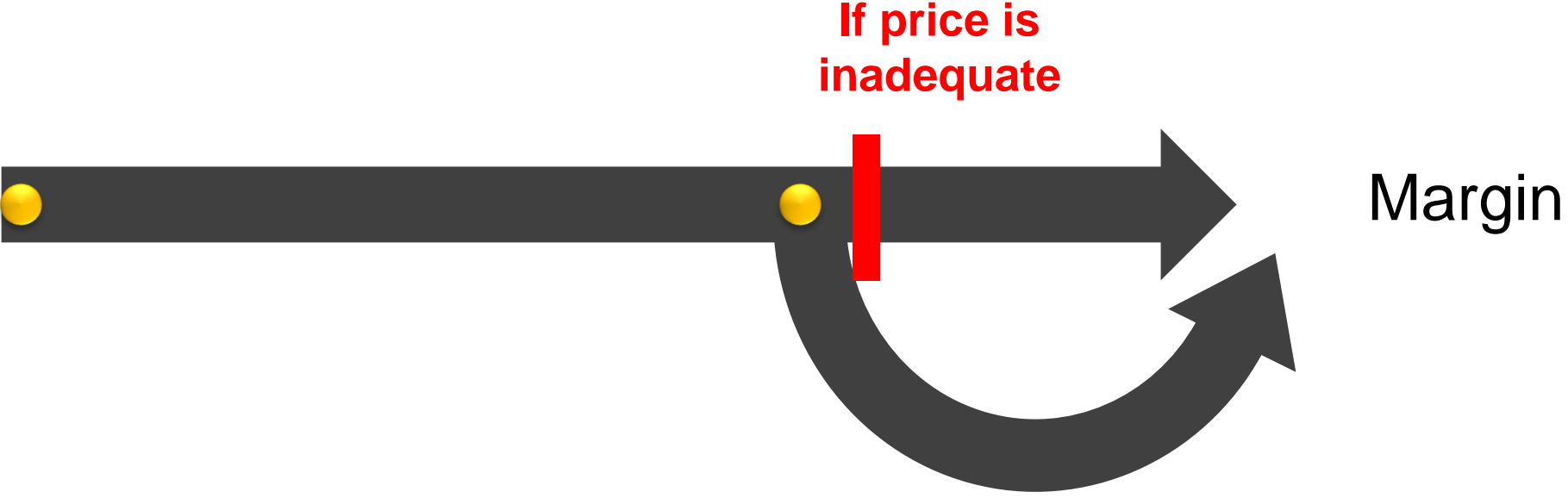
- Yes
- No
- In process – presently working on it
- Do not see the merit or value in process mapping

**1**

Color code the boxes according to the staff category responsible.

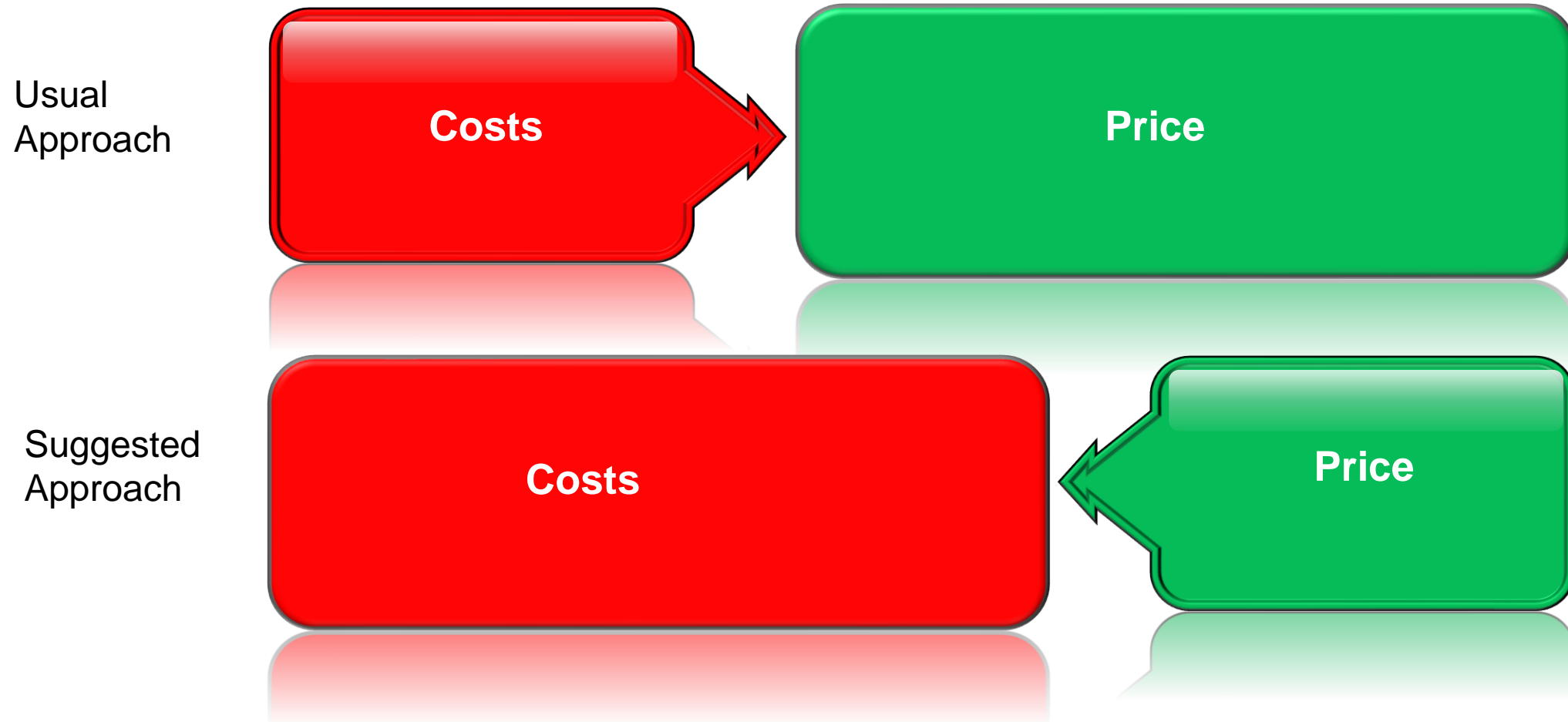
Create a buffer in the time requirements. 25%-50% more than your estimate.

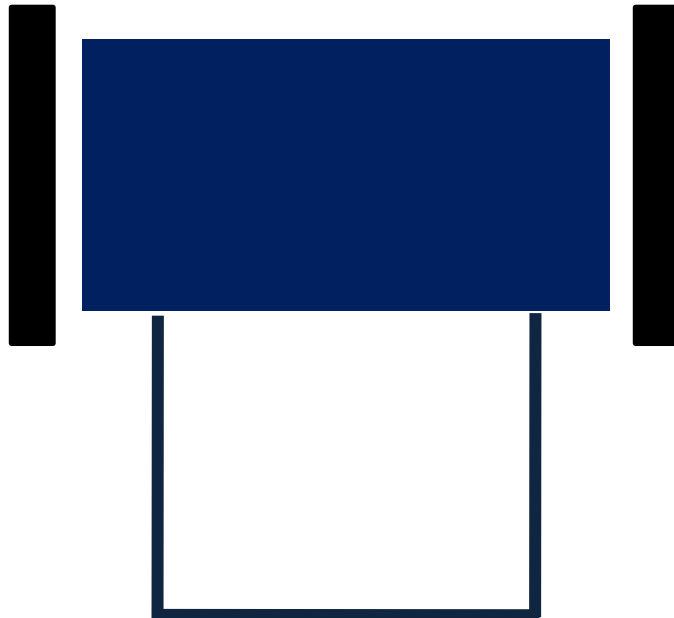
**2**



**If price is inadequate**

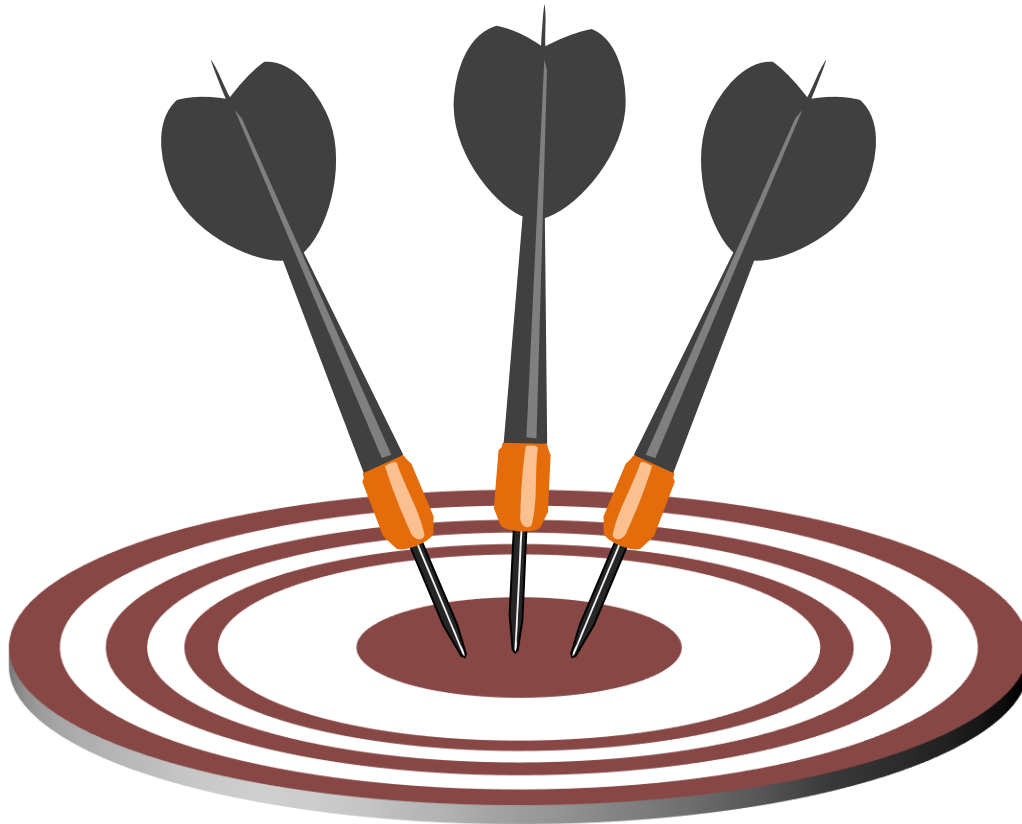
Then consider price-based (target) costing.





1. Your cost is too high for profitability

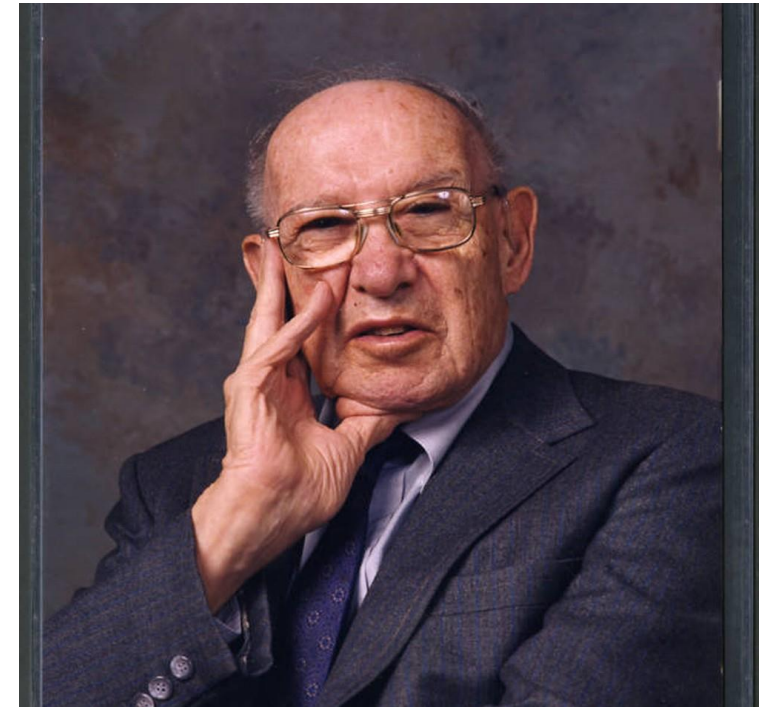
2. You must find ways to shrink costs to fit the price offered



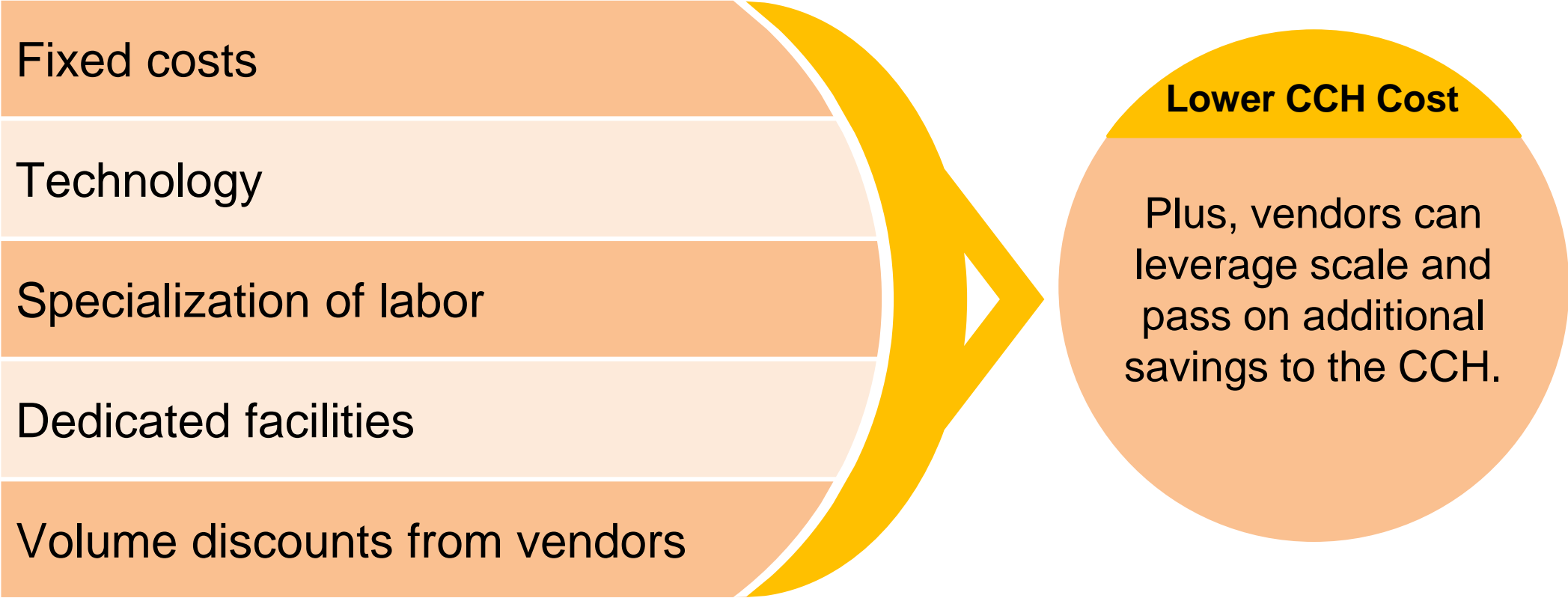
1. Design and/or share best vendor practices
2. Conduct process analysis
3. Leverage scale and scope

Curtail activities that are adding to costs disproportionately to their contributions to value.

Shift tasks to lower cost personnel, so long as productivity does not suffer.



Peter Drucker





**Discussion Question: What are some methods you can suggest that have the potential to lower your overall costs?**



# Q & A Session

**1** Do not be too quick to decline offers

**2** An accurate assessment of your costs is essential

**3** Costs are not the only consideration in pricing

**4** Costs are not immutable

**5** Account for risk and uncertainty

**6** Growth can offer the potential for sustainability

# Wrap Up

- Meeting recording and material will be provided by the National Learning Community email team
- **Upcoming meetings:**
  - Wednesday June 14 @2-3pm ET, Peer Group Dialogue
  - **Wednesday June 28 @ 2-3:30pm ET, Financial Acumen Part 2, Pricing**
- Email Maya with USAging ([mopdebeke@usaging.org](mailto:mopdebeke@usaging.org)) if you do not have the meeting series in your calendar.