**Event ID:** Cost-Modeling CBO Services for Health Care Partnership Success
**Event Started:** 6/2/2017

---

---

Good morning everyone, thank you for joining us for today's webinar. Cost modeling for CBO services and healthcare partnership success. We would just be getting started in a minute here. Copy of the sides will be available on your left. It is called resources slides are here. Click on that to download the slides if you want to check them out. We want to thank you for joining today's webinar which is part of the aging and disability business Institute series which is a collaboration for ASA and we want to continue to partner with them on the series for wrecking my brain. It is maybe the 14th or 15th that we have done in the series. Has been a great partnership and we are really excited about it. We want to think our partners in 4A. The last 15 minutes of the hour will be questions and answers. You can send in your questions at any time but we will wait for the last 50 minutes of the hour to get to them all at once. You will be receiving a follow-up email later on today by the end of the business day that will direct you to the application. Watch out for that coming her way, by the end of the business day. The follow-up email will also contain the slides which you are seeing appear. Please note that if you are not logged in directly to this webcast and you're watching is part of a group, unfortunately, you would not be eligible for CU's because we cannot tract -- track your attendance. You need to use a link that you used to register. If you find stuff in that situation, log on using your first and last confirmation link and there's still plenty of time to do so. Just a quick note on that. Our presenter today is Sharon who is the counselor [ Indiscernible ] in Ohio. I would like to introduce Sharon who will guide us for the rest of the hour. Welcome, Sharon.

---

Thank you very much for that kind introduction. Are you ready for me to take it away?

---

Take it away.

---

Okay, thank you. We are here today to talk about cost modeling. The objectives that were given to me that were published and I hope we can accomplish today are to help you understand some of the basics of various cost and price modeling strategies for community-based organizations to understand how to translate your work into those models and explain some background as to why this is so important for community-based organizations in today's environment. Actually, we will probably be starting with the last objective first. We will be taking those in reverse order today. Why do we need to have check models? Why is this so important? First of all, we really want to prepare for the future. Our environment is changing rapidly as you all know and we want to make sure that we are able to higher -- excuses, able to offer the highest quality of services at a competitive price to maintain and or gain market share and ultimately, and up with a profit margin. We will talk more about that later. So stay with me on that particular point but it is really important at the end of the day that you have some margin left over. The bottom line with modeling is, can I afford to sell my products and services for the price the markets are willing to pay? That is the question that we are really asking. There is also some benefits, if you go through this process, there are some benefits to modeling. You can use models to answer questions such as, what if questions. What if I staff a program with an LS W instead of RNs? Or what if I increase the workload or the caseload sizes? What if the volume of clients we are serving or meals that we are providing or whatever it might be, what if that changes, how does that impact my bottom line? It is models that can help you do that. Once you get a model established, once you do it the first time, you can start using this for a number of strategic question which we do every day. I have an example this week come in as a matter of fact, were somebody said to me, hey, if we pay you a per member per month for a large population but a small fee, lick a couple of bucks a person for at that -- 100,000 people to provide the service, can you do it? Can you do and still be in business and provide the level of quality that we are looking for. Because we had models, we were able to answer that question. I wish we could say that we got the contract, I'm still waiting to hear so hopefully there is good news around the corner but is the model that allows us to answer those types of questions. So, before we get too far into the modeling, I do want to go through a few basic definitions just so that we are all on the same -- we are using same language. First and foremost, cost versus price. Cost is about what it takes you, us, CBO's, to spend and produce a product. Is the sum and value of all the inputs that go into producing some thing. Whereas the price is the amount of money that a customer is willing to pay for a service. It looks like my flight got cut off there a little bit but that is what they are willing to pay versus what it costs us to produce a product. Other assumptions, that is another big word. It is the one that you really have to pay attention to as you are building these models. It is really important that you are tracking the assumptions that you are making along the way. An assumption is basically just based on research. It is those things that we have to make assumptions about in order to produce a model. For example, a caseload, we might say that 65 clients to one care manager, or you might say that we will hire one case a to support 15 care managers. We might only higher RNs versus a mixture of RNs in LS W's. All of those things have costs associated with them and we have to track that as we go along. We call those guesses that we are making, assumptions. Fixed versus variable costs, fixed cost has to do with those things that do not change based on volume. For example, are building rent might remain stable, it does not matter if I have one client or 6500 clients, I will have my rent every month and it will not change. Variable costs might be something that rises with the volume. In our work, the number of case managers that we hire is dependent on the volume of clients that we have to serve. There's also direct versus indirect cost. There is a number of ways that is defined direct versus indirect. The simplest is a direct cost is one that the expense or is connected easily to providing the service. A care manager salary might be a variable, direct costs. A case management system might be a fixed direct cost. Similarly, indirect, these are not easily traced back to providing the service. So, in our case, it is something like the cost of providing IT. I have to have it but it varies over time. It is an indirect cost. I cannot tie it just to one funding or one of our programs. It is there regardless of the number of programs that I have. Rent and insurance can also be considered indirect cost as well. Those are examples and they are going to be unique to your organization. So they may differ somewhat from what I have in my organization because we are all different. Those things can vary among organizations as well. Contingency and margins, contingency is what we use to cover the uncertainty in our model. If I have a cost that I'm not really sure of what something will cost, I might bump it up a little bit or use the higher end of arrange because I have some uncertainty. Margin on the other hand is what I hope to have at the end of the day. After all of my revenues come in and I take all of my expenses, I want to have margin at the end of the day. It is our net profit. Let's move into really the meat of the matter. I will walk you through the basics of constructing a model. I am not sure of everybody's level so we will keep it basic today. I will tell you the more you work with these, the more sophisticated they become but they do not have to be sophisticated to work. The first model that I built was an Excel and it was a one sheet of paper in Excel, one worksheet, and it served its purpose just as it was, over time, that worksheet grew and changed and now it is significantly different than what we started and much more sophisticated but just know, if you are just starting out on this, Excel will work with you just find that tech fine and you do not have to make it, okay. We will show you the basic model and you can grow it from there. Step one, it all comes back to defining the service. You have to have your service very well articulated and agreed upon. One of the things that happens in our organization is that cost and price modeling is not strictly an accounting and finance function. It is actually a three-legged stool where we bring in our program people, our finance people, and are data analyst people and our HR team into a room to build these models because we need to have a very clearly defined service and to get at that, we need to know precisely what it is that the customer is buying. We have to go through the process of making sure that we outline what is the service and where it will be delivered, who is delivering, what are the components of that service, and once we have that defined, we need to know how much time it takes to perform each of those functions. What type of staff are we using to perform those functions? It is -- is it LSW, RN, is one that is unlike 's? And then we need to make sure that we understand from our program staff, what other resources do you need to do that? To provide that service, do you need IT, as their equipment, cell phones, are using hot packs? What are all of the resources? What are the other resources within the organization? Maybe other staff. Do you need data analytics? Do you need accounting support? You need IT support? What are all the resources that you need?

That comes to how you define that service. Step two then becomes defining the assumptions that go along with this. Once we have laid out that this is what the service is, here are all the functions, here is who will do it, in order for us to build the model, we will have to make some assumptions because we do not know exactly what the future looks like but based on our history or based on how we define the service or based on what the customer wants, we probably can outline enough assumptions to get us to a model. I have given you some examples of what those are. What I recommend when you do this is that you actually write down on a separate piece of paper your every assumption that you are making about your model. I will tell you initially, our list of assumptions was pretty long over time and as we had gotten better about this, we have been able to simplify that process a little bit. Initially, it does not hurt to write down everything that goes into providing something. So, caseload 75 to 1, what is my fringe benefit rate? 28%. How much contingency do I need to add? What is my goal in terms of margin? Am I going to need to do any improvements because I expanded my space and I will have to hire a bunch more people. Do I need to purchase software and what would that cost me? Think about everything that needs to happen and write it down and put a cost associated with it and some numbers around it so that you can use this to build your model. Then that takes us to step three where we began to put this model into some sort of Excel workbook or whatever your preferred method is. You can see here, what we have done is to begin to construct a lot of our inputs for our model. That is what this first tab is. The first tab says, I know I will have a manager and I know I will have a program assistant. I will have a clinical supervisor and some case managers. I write down the salary, what is my salary assumption for each of those positions? How many will I have? I will have one manager but maybe I will have my ratio of care managers to clients is going to be 75 to 1. Likewise, I might have an attempt of the case manager who only has 25 to 1. So we write down all of those assumptions and put them into this input form. We also make some other assumptions around turnover and French. Here, again, we are taking all those assumptions and putting them into an input sheet so that we can use those and making some calculations. Continuing on with step three -- I'm sorry, I clicked the wrong button here., Step three, we begin to build our model. This particular model starts with a beginning census that says, we have 4000 -- 4027 clients and we know that over time, our enrollment will grow by 2% and we will lose 2.6% through natural attrition in the program. When we look at this particular program, I think this was done for a number of years, we did calculations to figure out race on a number of client and our enrollment and disenrollment, how many clients did we have to contend with and then figured out what our average census would be over the period, the entire period of this particular grant. That helped us understand then what our ratios would be and how many FTEs we would have to have. Based on our assumptions on the previous page, where we said, it is 75 to 1, we need to have 55 staff people to come up and handle that to the caseload. Hopefully that makes sense. So, again, these are play data for us so is just a model that we were putting together for demonstration purposes. We did that for three different programs in this particular model. It shows, at the end of the day, we were able to get to and easy calculation of our caseload. Once we had our caseload, we were able to make some changes and see what happened. If I increase my enrollment from 4% to 6%, what does that mean for my FTEs? You can see that I need 68. I moved from 56 to 68. If I change my caseload size from 75 to 85, I get a reduction in the number of FTEs that I need. This is helpful for not only coming up with the price but having discussions around and a managers around to know what you need to make this work. Let's model this out and see what happens when I change my roast load assumptions and caseload assumptions. After we did that, we will incorporate all of those other assumptions that we made. All of the cost included staff which we just went through how we came up with those staffing assumptions, but all the others, mileage, surprise, friends, indirect, all of that gets moved into the model now once we have the staff because it tends to be the staff that is the biggest driver of the cost. So, we lay out our assumptions one more time and in the top there, you can see the first grade out section, you can see all of our staffing assumptions and where we landed on the. That tallies up to a total labor cost. We use a fringe rate of 28% and we added that fringe to it based on the number of FTEs in our salary base. Then we get a total labor cost added to that. In this particular model, instead of taking all of our supplies and computers and all of that out and adding an up her employee, we just put in a rate of 24%. That is one way that you can do it. We got to those rates by looking at our past history so we went over a number of years and kind of looked at our data to say, what do we normally spend on all of those supplies? Printing, rent, computers, all of that stuff. We came up with a rate based on that. That is one way you could do it or you can do it like I did the first model which, I line item to all of those out and did the number of staff that I had to get a direct cost which includes all those things. So, that left us to a total cost figure there. On top of that, we also knew that we had some indirect costs for staff such as myself. For our ministry of services, our IT, our accounting, we had to put something into this model for them. Again, you can do this by adding a rate to it if you have data to help you get to that rate, which is what we did here in this model or you can outline it. I think it will take so many hours of the vice presidents time and so many hours of accounting time and so many hours of our IT time to support this program and then you can get to the cat that's my cost that way. Either way works. I try to stay as true as possible to the data so that we can go back and pull that data forward and it is to your advantage to make your decisions based on that. That is a second evolution of our model. We started by listing all of those things out. You will see here that we put in a contingency rate. Which we used to cover those unexpected costs. I recommend here, I put it out here because our team initially was not used to thinking about contingency. I added it in. Likewise, our team was not used to thinking about margin. I added a line for margin just so that we would remember, at the end of the day, it is not enough just to cover our costs. We need to have margin in our programs. This particular contract was looking for a month plea -- monthly per member per month. The unit was per member per month, so once I got all of my cost together, which was $5.4 million and I divided it by my volume, that got me to an annual cost of -- and annual you know -- annual rate it usually cost me $170 per client that I divided that by 12 to get my unit rate. All right, so, that is down and dirty. I want to go back to this. That is the down and dirty of the process. Again, you start at the top with, what does it take, defining my service, what does it take to provide that level of service? What are the assumptions? Putting cost to those assumptions, what are the other inputs that I need to have and putting a cost of those. Then coming in and putting it all on one spreadsheet to get to the unit price that you need to charge in order to make that happen and add a contingency and margin on costs -- on top of those cost that costs to get to that base. Okay, I said earlier that using the price model to manage your business is one of the big advantages of doing that. Of course, all of this helps us get to a price. If we understand our cost and we can add margin to that, we can get to a price. So, the other thing that I wanted to spend just a minute on is other ways that you can use this. Again, it is really important sometimes just to see what happened. To try some what if scenarios in this particular model. If I wanted to buy new software at a cost of hundred $50,000, what would that look like in my model? So, we added this return on investment line. This was an investment cost and we put in an investment in additional of $150,000. You can see that over the course of time, it raised my unit rate only about four dollars per member, per month, to do that. This is the advantage of being able to model something and see if you can really afford that piece of equipment. How much does it impact what my customer has to pay in order for me to cover my costs. Sometimes you want to see what happens if you change your staffing ratios and the types of staff you have. In this case, we did some increase to our care management staff salaries to $38,000 from what they were before and that had a dramatic increase in our monthly unit rate. It went from 118 to 135. That helped us answer the question, can we afford to hire all of our ends to do this work? It at least gave us the data to be able to make that decision. Sometimes we just want to know, is it going to work? Making these changes to our model, will that make things happen the way that we want them to? Some concluding remarks on using these models, they are a tool for making your business case of the net benefit to the MCO or the hospital or client that results from us. So if we can give them the price of our services, plus the cost of what it currently costs, this give us a net benefit to the MCO. For example, if free admissions cost managed-care companies so much per client and we know what those numbers are, maybe we know that they average 2500 readmissions a month and we can reduce that to even 2000 a month or maybe we can reduce that to 225 -- 2250, and they are paying us maybe three or $400 for a care transition intervention, we are saving them money. It gives us the ability to do that math and to say, if you pay us this much, we can save you this much. It is a good investment. So, the other thing that we can learn is what a hospital or managed-care company might pay at AAA or a community-based organization and give them -- help them make some policy and budget decisions around those things. At the end of the day, our services have to result in I financial benefit. It has to be a profit-making business, not just to us but also to those that we serve. I would say that one of the things that we have learned is that it really is required for us to be flexible in this part that we need to be able to move from cost reimbursement, right now I have probably six or seven different types of contracts and I have cost reimbursement. I have a fee-for-service that is on a intervention basis and I have contracts that are on a per client per month basis. I have contracts that are -- again, I think I mentioned one in the beginning that for a -- an entire population they pay me a fee and I'm only serving 5 to 7% of them with an intervention but they are paying me for the whole population for a population management type of thing. Sometimes I do have contracts that have risks, so if we do not hit certain targets, we do not get paid. Or if we hit certain targets, we get to enjoy some of the savings that our customers get. I cannot take on those kinds of contracts if I do not know what it costs me. If I don't know whether or not I can make it happen. I will say, doing this type of work may mean that you need to engage in some conversations with your customers to ask them for certain pieces of data in order for you to give them a price for your services. We have worked with a lot of our funders through the contracting phase to say, in order for us to say whether this is beneficial to you, we need these data elements. For example, we need to know how many client are you going to give us and what are your current readmission rate? Or what is your current cost? By large, we have been successful to get them to turn over the information so that we are not doing this in the dark. We have been able to work without them not having to share any thing part-time Jerry -- retired Terry and be successful at that. -- Proprietary MB success with that. I told you I would come back to this idea of profit and can we actually say, we have a profit margin? I have had a number of my own stuff come to me and say, we are nonprofit. Isn't this illegal? The answer to that question is no. Nonprofits that earn revenue put the revenue back into programs and services to provide better service to more clients. As long as we are creating that, we are doing something that is absolutely ethical and in my opinion, critical. We cannot continue to provide these critical services if we don't, based on grant funding, we have to start thinking about different ways of funding our organization. That means moving into the profit sector and using for-profit models for financing our services. Now, I always say this to make my CFOs happy and that is, there is probably a bit more to it, there are some rules, there is taxation rules around it and if you are involved in things that are in unrelated business, you could be subject to paying taxes on that but, it is okay at the end of the day for a nonprofit to bring in more revenue than it costs you to provide services. It is not only okay, it is imperative. Because if you do not have that margin, you do not have a mission or at least you do not have it for long. Wait, there is more. Why should you be concerned about being competitive and having a market share and, the services that we provide in the community, whether they are for aging or disabled, it is a heart -- hot market. It is a market where they have a high and growing demand for services. There is a low supply of people willing to provide them and when you combine those two things together, that is every entrepreneurs dream because that means there is profit potential out there. The other thing that we have learned is that others, meaning not community-based organizations for-profit managed-care believe that they can do it and they believe that they can do it better than we can. We don't happen to agree with that and what we have seen his evidence to the contrary but the fact that they believe it means that it is their reality. They also believe that they can do it at eight lower cost than we can. Others can do it and make money at it. We need to be aware of that environment in which we live and these cost modeling skills help you make sure that when you go in front of a customer, you have the ability to negotiate the ability to get that business and continue to provide the good services that you provide. Ultimately, we are playing to win and if we play to win, we can continue to serve our clients. I ended a little bit early, almost intentionally because I know this can create a lot of questions and normally, in a live presentation, I would think to ask questions but I did not do that. So, I do open the floor for some questions.

---

All right, thank you very much, Sharon. Everyone, it is time for the Q&A portion of today's session. So, please send in those questions here. Sharon, the first question for you is what techniques have you used to know that your prices are competitive?

---

A couple, one, if we don't get something, we ask for feedback, we have done informal inquiry of what would you be willing to pay. We also worked with a firm to get some idea of that. That is a hard question sometimes to get at and to get answered you can usually tell when you put something in front of people, whether or not they are in favor of the pricing that you are giving them and a lot of what we are doing is brand-new in the marketplace. So, it does make that more of a challenge. However, we we have not approached the selling the thing from the standpoint but instead the pain perspective, identifying what your customers pain point really is -- paying points and how much that really cost them. Then you get to see what they are willing to pay to get rid of those paying points.

---

Next question, how do you assess whether your models are working well? How do you decide what needs to be tweaked to better reflect actual costs and volumes and etc.?

---

That is a great question. We now use our models throughout the entire financial cycle. They certainly see our pricing efforts and they also feed our burgeoning process. Often, those things they -- stay linked so get a contract and get the program, we are using that cost model that we built to get the price as part of our budgeting process. Then, the other thing that we do is, we are of course tracking how we are doing on revenues and expenses throughout the year. If we are seeing big discrepancies there, we are going back to our models to say, where was the gap? What did we miss? What expense are we actually incurring versus what we projected that we would be sending. We had to make adjustment to that over time. All right, next question, when you are starting an entirely new program, how are you coming up with realistic ejections on client volume?

---

Again, some of that information is available to our customers. So, we're meeting with a prospect, we are finding out how much and what their volume is and how many clients they have. The conversations do not start with the pricing again, they start with the paying points and we design the program to assist that, then we get to, how many clients are you going to give us? For example, we just got a contract with an insurance company to provide an intervention to a specific population, they initially wanted to give us about three times what we wanted to take initially, because we wanted to pilot it first and make sure we had it right before we expanded too much and make sure we can deliver. They were open to that. You can also negotiate those things. It comes in those types of conversations where you start, I think going into this, you sort of have an idea of where you have those opportunities to get you going and to get the -- to get to those specific things and it comes from negotiating and conversation.

---

Next question, how did you determine that it is 10% margin and that was appropriate?

---

First of all, I would say that those are playing numbers. They -- playing numbers. They're not are real numbers. We have specific discussions about what is the appropriate amount of margarine to go after and likewise, how much contingency is realistic to build in. With margin, some of the is looking at what is happening in the industry and seeing, we want -- we don't want enough, obviously people want as much as they can get but you do not want to be greedy with that. It is strategic. It is looking at, this is what my costs are coming in at and this is what I need to make a profit, how much profit is realistic and where am I going to start looking greedy? Where will I start looking overpriced in the market? How does this impact the potential and is there enough of an ROI there? Every one of these that we do, we have the strategy discussion around what seems appropriate. I talked about contingency as well because that also tends to fall into the discussion. The more certain I am of my costs, the lower my contingency can be and should be. What I want to be able to get to my finance committee of my Board of Trustees is a model that says, look, I will not get you into trouble and I am certain of this or I'm not certain about this but I built in some for double -- flexibility in case I am off. Either way, I am protected with the board and they have a sense of assurance of what we are going into do they have the handle on the cost or they are admitting that they don't because there are too many under knowns and unknowns that we understand that we are protecting the agency against.

---

All right, let's say with margins for a little bit. Can you explain how you calculate those margin?

---

The easiest way to do it is to get your total cost without any revenue or anything and then just add on a percentage. So, that is the math that we did and we kept it pretty simple. Again, we also looked at what is happening in the industry and you can get indexes and things like that that are available. Okay, next question here.

---

I'm not sure if I answer that question so if there is an add-on or something to that, let me know.

---

Sure, will do. Next question here, what level of detail have you generally show to external audiences such as those that you are seeking to partner with versus internal audiences for management staff etc.?

---

Great, I love that question. It is one of my favorites. First and foremost, it somewhat depends. If I am working with a customer that, let's say is not a government customer, I'm usually just giving them my price and then I am negotiating and I'm starting with the price that I would really like to have and I'm getting myself room to negotiate down. I do not show them what is behind the scene. Because that is my proprietary information. I hold that confidential internal. The next step would be, what if it is the government customer because some of the government customers want the complete budget, right? One of the contract that we just finished muddling out was a government contract and they want the entire budget. We had to give it to them in their form and we had to make sure that we were able to get all of our costs into their categories, which is a trick. They will want to see all of it and that is just the way those contracts are. Internally, we share with the managers and they are so involved with the development and they are sitting down with a financial analyst with a spreadsheet open. They are answering all kinds of questions for our analysts and our analysts are showing them, this is what that means. This is what this looks like and this is how much revenue you have to generate and what you have to do to break even. We want those conversations to happen so would make that transparent. We make it very transparent even to our staff because some cases, if they are not doing enough intervention or handling enough phone calls or billing enough time then we are at risk for losing money and we have made it very real to them. We did what we called the Carl's grocery list and I did not put in your because I do not think we would have time but the Carl's grocery list approach with our staff says, if you want to buy a new computer because it will make you a better care manager, it will cost you 300 [ Indiscernible ] and that is on a contract that is paid for units of time. That is how many hours of time, maybe 40 hours of time. It cost how many units? You have to do so many units to pay your own salary. Once we start talking that way, they started getting it and let me tell you, they hustled to get their interventions up. They hustled to get their units built because they understand now how it impacts them directly. We make them a part of the conversations so they can also help us understand how we spend that money and make sure that it is being spent on the things that will really help them. For example, one of the conversations was, do we buy new computers for our staff or do we get and an assistant? When they started looking at what it takes to do both of those things, they said you know what? I would rather have the new computer. I can do a little bit more and pick up those services that the admin person would do. I put the decision in their lap because those are the ones that have to make it happen. It has totally changed that conversation. With our board, early on, we really walked them through our model in a heavy way because it was all new to us. It was all new to the service and it was something that they had not experience. They were used to funding sources and it was very simplistic. Initially, we walked them through the process on a pretty detailed level and now we give them summary information and they know that we are in the details with it. Long answer, sorry.

---

No problem. Next question, Sharon. How do we find out the cost in their status quo in order to find out if we are saving them money?

---

I am thinking about that for a minute. Sometimes you can find proxy data to help you with that. Sometimes they will make it available to you. It is not always easy to get there but for example, you can get your hands on data that says, even if it is old data that says, atypical readmission costs X amount of money. That information is out there and sometimes you have to say, I'm taking my best guess based on the information that is closest to what their status quo might be. So it takes a little bit of digging sometimes to get to that but it is out there or you can find things that are proximate. For example, we got the community care transition grant with those for Medicaid and Medicare. When they published that RSP, they put in, this is generally what a readmission costs. We have used that figure a few times. It is probably pretty close and it is probably lower and conservative than what it may actually be. We felt like, this would be a number that we could use. It is things like that, finding numbers that will give you some approximations. The other thing, if we have a minute is that it is not always about making the case that we can save money, because I will tell you that that message sometimes works but sometimes it does not. Sometimes they are interested in the bottom line but when we are talking about saving cost, it is harder for some entities to say, I am giving you hard dollars and you are saving me green dollars. They have a hard time sometimes with that. It makes sense to us, to you and I, we are there and we get it but it is sometimes harder to make that case with the individuals that we are talking about because they might be thinking, for example, what we ran into with places like hospitals. When they are thinking about the cost, they are thinking about what it would cost to hire a person. They are not thinking about all the things that go into it. They are just thinking if I expand my staff that would be cheaper than what this community-based organization is offering. What they are not including that we are is this overhead piece. They have the overhead and it cost them that additional but they are not thinking about that. Sometimes it is hard to make that savings case and in addition to doing your costing and pricing, you have to think about your pricing strategy. What is my strategy going to be in the marketplace and that might be different by customer. Am I going to be the cost leader? Am I going to be the lowest cost or will I be the one that cost a little bit more but I get result and I make it happen. That pricing strategy becomes very important in some of these conversations that you are having an understanding what that looks like. Chances are, we will not always be the cost leader in the market. We are smaller which means we do not have as big of an economy to scale so it costs us a little bit more to provide it. Are you getting a better quality outcome? In other words, what I'm saying is that they may be able to get a you go. If they upgrade to us, they will get maybe a Chevy or a Lexus instead and better outcomes and better care for their clients.

---

Right, Sharon, next question here. What if your clients you actually pay for services for human and social agencies?

---

These customers that I have been talking about, they are managed through companies or they are insurance comfortably Desmet companies and they are the state and the government. There hospitals -- they are hospitals. The client that we are serving are not paying for the services themselves. We have not done and have not seen a lot of demand on the private pay side of the house. We have modeled it a few times but have not figured out the best way to market and not really sure that there is a market for it. So, the customers in this case are really those people that are paying us the PMP M and all of that. It is not the client who is paying services. If I did not answer your question, let me know [ Laughter ].

---

Sure, will do. Ask question, have you built depreciation into the calculations or other costs related to fixed assets and understand that service delivery also requires a clean and maintaining physical space.

---

Absolutely. We build, especially if it is a multiyear contract, we are looking things like depreciation and we are looking at things like inflation as well. The first model I built had an inflation packet because it was a five-year contract. After one rate, it had to hold true for five years because the contract did not have an inflationary clause in it. I had to build in, I had to think about inflation over five years and pull it back to what I'm going to charge today. So yes, do build and, that is why say initially, the list of things that you're building into this model might be really large until you get to a point to figure out, can I go to a simple rate for those things? Now, a lot of that is wrapped into a rate for us but we do build it in.

---

Okay, Sharon, what was the biggest lesson learned?

---

Oh my, I actually think that I would go back to my discussion about Carl's grocery list. It is never just one lesson, one, you need to have this become a joint effort between finance, accounting, HR, your data intelligence or business intelligence, your program people will, they have a working community on this to make it happen and it is a joint effort because no single person in those disciplines can answer all of these questions. That is number one. Number two is that it can dramatically change and should and needs to dramatically change your culture. Your culture has to brought into this idea that we are here to serve clients and the best way we can do that is to get a margin. So I as the individual employee has to do everything I can to make sure that we hit either those cost targets or the revenue target or the intervention target so that we can stay in business to provide these critical services. Because it is a spinoff from this revenue and it helps us do that and stay in business and to do extra things for our clients that we have wanted to do for years. That is all about culture. Working with your staff, all of your staff, front-line staff, having the conversations about this is really critically important.

---

Next question, Sharon, very good talk, I like the idea of introducing competition in order to streamline. How would this be brought to the providers and door area agencies?

---

So, in our area agency and in our programs where we manage the network, we actually competitively bid our services and so -- and our title services, so, and that is what I would say a true competitive bid where first and foremost, we do not select everybody who is willing to provide services. We select the highest quality and lowest cost provider so that we can serve as many people as possible with the tax dollars and our provider network knows and we have a reputation for this. We know that in order to get low cost, we need to get them a large enough volume to create an economy of scale so that they can lower their cost. We have done things to make it easier for them to get efficiencies within the system such as moving into geographical zones and things of that nature. So, that has been Desmet changing that -- changing that has been a little difficult but they are on board and they get it. Again, we balance that cost with the quality also. We measure status action with our client and they have to demonstrate certain quality metrics throughout the tenure of their contract with us. It is not just when they bid but ongoing. If there quality [ Indiscernible ] which is probably a different topic. The idea of competition has helped us keep our costs down. As a network. So we are able to offer more services to our client. It has helped us to eliminate waiting list -- lists.

Sharon, we are just about out of time but I wanted to thank you for today's presentation. Thank you so much. Thank you for participating. You will be receiving a follow-up email by the end of the business day and they will contain a link so watch out for that coming your way very soon. Thank you for joining us today everyone and have a great weekend.

[ Event concluded ]