

The Manager

CASE SCENARIO FOR TRAINING AND GROUP DISCUSSION

ASF Begins a Cost and Revenue Analysis

Sr. Jaime Ponce, Managing Director of the non-governmental organization Asociación para la Salud Familiar (ASF) surveyed the group of managers he had invited to this meeting: his chief accountant, the director of clinical staff, the marketing director, a representative from the governing board, and the managers of the organizations' 10 clinics.

"Welcome," began Sr. Ponce. "I know you are probably wondering why I have called together such important representatives of our organization. As many of you know, the top organizational priority we developed during our recent strategic planning exercise is to increase our financial independence. Our first step is to take stock of where we are and determine what actions to take to improve our financial situation.

"We provide maternal and child health care services to a sizable segment of the population, and more than 40 percent of the women who use family planning in this country come to us for services. Last year when one of our donors analyzed our financial situation, they told us that our cost recovery rate is about 55 percent. Our objective now is to conduct a cost and revenue analysis ourselves and use the results to make decisions that will improve our cost recovery rate and reduce our reliance on outside funding."

"What do we hope to learn by doing this analysis?" asked Sra. Cruz, manager of a clinic in a northern province.

"The analysis will tell us how much it costs us to deliver each of our services, our rate of cost recovery for each service, and our rate of cost recovery clinic by clinic and for the organization overall," said Sr. Ponce. "The analysis will help us determine which services, categories of services, and clinics are subsidizing others. It will also help us identify cost-efficient standard practices for providing quality services.

"And finally, the analysis results will give us a clearer understanding of how we might adjust our staff utilization patterns to use our human resources more efficiently, where we may be able to increase our fees, and what services we might promote more intensively in order to bring in more revenue."

"I would like to know what kind of effort this analysis requires from me and my staff," commented Sr. Fuente, manager of ASF's largest clinic.

"I can understand your concern," said Sr. Ponce. "I would like you to be part of our overall management team for the analysis, which will require your participation in these team meetings. At your clinic, you will first need to inform your staff that we are doing this analysis. You will also explain the steps involved and how it will benefit them, the organization, and our clients.

"Then, you will need to assign one of your clinical staff and one of your financial staff to work with the data collection team for one week each to gather the necessary service delivery and financial data. Once the data have been gathered and entered into the

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spreadsheets here at our headquarters, you will need to review the results, and meet with the rest of the management team to review them and adjust the data, where needed.”

“How long will the analysis take?” asked Sra. Cruz.

“All in all,” Sr. Ponce continued, “we expect that gathering the data for all our clinics and inputting them into a cost and revenue analysis spreadsheet will take about four months. Once we have completed the spreadsheets, we will analyze the results, and ask “What if” questions about our service mix, staff utilization, procurement, and fees.

“I expect that within six months we will feel secure in making decisions about how to increase

our efficiency, reduce our costs, and increase our revenues. A year from now, we will update our analysis and look at the impact of the decisions we have made.”

Sr. Ponce paused and smiled at his colleagues. “We have set a challenging objective for ourselves. Some people might say that we should simply close some of our clinics and keep open the ones that bring in more revenue. But I know that most of you believe as I do that we provide important services for our clients. Doing this cost and revenue analysis will allow us to continue our mandate.

“I look forward to working with you in using our new knowledge to make the decisions that will strengthen our organization overall.”

Case Discussion Questions: ASF Begins a Cost and Revenue Analysis

- 1. What does ASF hope to learn by conducting a cost and revenue analysis? Looking at the issue, what are some of the other things a manager could learn through this analysis?**
- 2. What are the steps involved in conducting a cost and revenue analysis using a spreadsheet-based tool? What step is most useful in helping managers make decisions?**
- 3. What are some of the “What if” scenarios that ASF might explore? Referring to the issue, what are some of the decisions they might consider making?**

Case Analysis: ASF Begins a Cost and Revenue Analysis

1. What does ASF hope to learn by conducting a cost and revenue analysis? Looking at the issue, what are some of the other things a manager could learn through this analysis?

The things that ASF hopes to learn by conducting a cost and revenue analysis include:

- the cost of delivering each service
- the rate of cost recovery for each service
- the rate of cost recovery clinic by clinic and for the organization overall
- which services, categories of services, or clinics are subsidizing others
- cost-efficient standard practices for providing quality services
- how they might adjust their staff utilization patterns to use staff more efficiently and effectively
- where they may be able to increase their fees
- what services they might promote more intensively in order to bring in more revenue.

Other things that managers could learn through such an analysis include:

- how to reduce costs in order to ensure the long-term viability of their organization
- how to produce the greatest total increase in their revenues relative to their costs
- the most cost-efficient process for delivering their services
- how much it will cost to provide new services
- the volume of service required to make new services financially viable.

2. What are the steps involved in conducting a cost and revenue analysis using a spreadsheet-based tool? What step is most useful in helping managers make decisions?

The following steps are involved in conducting a cost and revenue analysis:

- inform clinic staff that the organization is going to conduct a cost and revenue analysis, and explain the steps involved and the benefits for them, for the organization, and for their clients
- select staff to participate in gathering the necessary service delivery and financial data
- collect the data, over the period of about one week
- enter the data into the spreadsheets
- review the results and adjust the data where needed
- analyze the results
- develop “What if” questions and input new data in the spreadsheets to explore the potential impact on costs and revenues of possible changes
- make decisions
- update the analysis and review the impact of the management decisions implemented

The step that is most useful in making decisions is developing future scenarios (using “What if” questions).

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3. What are some of the “What if” scenarios that ASF might explore? Referring back to the issue, what are some of the decisions they might consider making?

Some of the “what if” scenarios that they might explore are:

- changes in their service mix
- changes in staff utilization patterns
- changes in procurement
- changes in fees.

Some of the decisions they might consider making, as suggested in the issue, include:

- changing the type of staff used to delivery a service
- changing the type and source of medicine and supplies used in delivering a service
- adding new services or new service delivery sites
- charging more than full cost for high-demand services
- increasing the volume of high-revenue services to subsidize others
- using some facilities to subsidize others
- eliminating expensive, low-volume services.

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