Strategic Considerations for Achieving a Sustainable Cal eConnect (CeC) Organization

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Introduction

The business sustainability strategies adopted by the California eConnect (CeC) organization are likely to be the same ones employed by other technology start-up companies. Success for any start-up venture is largely determined by the organization's ability to rapidly deliver compelling solutions with clear customer value propositions. These solutions must not only meet the functional requirements of the targeted customer segment, but be efficiently delivered and effectively supported. Start-up companies that succeed in capturing a given market with compelling solutions are generally rewarded with increased profits and sustained customer loyalty. The path for the successful launch for CeC will be conditional on having the right organizational framework in place, sound business strategies, an understanding of current and future customer requirements, solid solution planning capabilities, financial management expertise, and superior execution. This paper will outline high-level strategies for CeC to consider with regard to achieving a sustainable and successful organization.

Aligning Organizational Priorities

The California eConnect (CeC) organization will launch its operations much like any other start-up company. During the initial start-up phase there will be great excitement about the prospects for broad Health Information Exchange (HIE) services that will address the market needs of various healthcare constituents across California.

The efficient launch of CeC will set the groundwork for the long term success of the organization. In this regard, CeC is advised to prepare a 90 day plan that addresses the critical near term projects, tasks, and deliverables that need to be accomplished immediately. The 90 plan must be adequately scoped, with realistic milestones, and the appropriate level of resource assigned. The 90 day plan should be narrowly focused on the critical foundational elements for launching the new business entity in a highly organized and successful manner. These foundational underpinnings are critical to ensuring that CeC can scale to meet the increasing demands for highly efficient operations in the future. An important element of the 90 day plan will focus on the efficient acquisition of talent, either internal hires or external contract resources. In the first few months of operation, CeC may face challenges in terms of expediting the recruitment of key internal employees. Unlike other start-up companies, CeC may not be able to offer comparable compensation packages to its employees. For example, many start-up companies offer stock options, or hold out the prospect for an IPO, buy-out as recruitment incentives. In order to compete for top talent effectively, CeC may consider alternative sourcing models with a reliance on contract resources. This will enable CeC to move quickly and begin solution development as soon as possible. While managed contract resources can help an organization quickly achieve scale, CeC should be mindful that all work products be well documented, so that in the future work can be transitioned to internal CeC employees.

Agility as a Core Competency

CeC can anticipate an array of issues and challenges that will emerge as progress is made toward bringing solutions to market. There will be major strategic decision points that may test initial business and technological assumptions. The ability to be highly agile and adaptive in the face of changing assumptions will prove to be an important core competency. As this effort unfolds, the management team can expect to be faced with a number of challenges including pressure to demonstrate quick wins and show early results, prioritization and re-prioritization of features and functions, management of a sustained HIE product release schedule, acquisition of human resources, and the effective management of finances against projected expenses and cash flow.

Understanding Market Requirements

Generally, the initial planning stage for the development of a new solution involves capturing the major pain points for each customer segment to be addressed. Other important considerations include analyzing emerging market trends and the overall competitive landscape. The market requirements planning process is ultimately designed to drive the functional requirements specification for a particular solution. These functional requirements are bundled, prioritized, and dispersed across a release cadence. Once the functional requirements are defined for each release, a detailed solution development plan should be prepared. The development plan will include the temporal, functional, financial, deliverable, and organizational scope for the effort. The development plan also includes a risk mitigation strategy. CeC can expect that during the course of the development cycle, market requirements may change, shifts may occur in industry priorities, new regulations may add clarity or create confusion, and payment incentives may evolve. The ability for CeC to adjust market requirements to address changes in the landscape in a highly agile and accommodative fashion is a critical success factor. For example, consider the potential impact of various particular policy prescriptions may have with regard to market requirements such as the broad adoption of bundled payments, wide spread adoption of the medical home model, or proliferation of Accountable Care Organizations?

The CeC board has established a core set of CeC HIE requirements, which are primarily aligned with facilitating the adoption of the meaningful use criteria for hospital and physician practices. The meaningful use criteria market requirements should be defined in more detail and then dispersed across proposed version releases of the HIE solution offering. Breaking these market requirements into distinct version releases will encourage shorter development cycles, and will provide the foundation for demonstrating some tangible results more quickly.

Results First

During the early days of the dot-com era, many start-up companies embarked on a ‘marketing first’ strategy. Recall all of the ‘.com’ start-up companies that never developed a viable solution or business model. These companies were founded on marketing hype with no compelling customer value propositions. Today the primary focus for start-up companies is to build a demonstrable solution that can be tested by pilot customers as soon as possible. CeC should consider a similar approach. The objective would be to build the initial version of the HIE solution, and have it deployed and tested by early adopter customer(s) in each market segment (i.e. Physicians, Hospitals, Health Insurance, Public Health), as soon as possible. Once a “pre-release” version of the HIE solution is in the hands of actual customers, CeC will receive valuable user feedback on ease of use, barriers to adoption, integration issues, and on-going support requirements. Many issues will arise that would have never surfaced, if not for live testing in a real world environment.

During the early days of the '.com' era, hype trumped results. This was also the case, during the early days of RHIO's. There was a tendency to commit resources almost exclusively to industry outreach and marketing. The leaders of these organizations would speak at conferences engaging in discussions about a wide range of possibilities, including the potential benefits of their proposed solutions. Unfortunately when no tangible results were demonstrated, credibility, and potential business opportunities were lost. Results matter.

The Customer is King

A CeC HIE solution is likely to be comprised of a shared core technical infrastructure. Above that layer will be the application software and middleware components that provide functional capabilities. In keeping with national efforts, all components across these layers should be deployed on open systems platforms, and utilize widely accepted standard internet protocols. The CeC HIE solutions may be delivered to customers as a cloud service. The CeC HIE cloud services would be widely accessible over the public internet. Highly robust security and authentication services would be of paramount importance, including the potential for a central certificate authority. The cloud service would have published interfaces that customers interoperate with. In order to provide a quality user experience to its customers, CeC may need to provide implementation/integration support, customer training, a service desk problem tracking and resolution. Providing high levels of customer service will be critical to long term business sustainability and will drive customer loyalty. Strong customer loyalty will in turn open the door for the introduction of new higher margin solutions into the current installed base. Finally, in terms of customer service levels, CeC should consider a fully transparent model. Key critical customer service metrics should be published on the CeC web site including system availability, transaction response times, and open/resolved service desk tickets. To maintain high levels of customer loyalty and trust, ensuring that the healthcare solutions are highly secure will be a critical success factor. Security must be addressed across all phases of the solution development and deployment process. CeC is advised to engage a trusted independent 3rd party to conduct periodic security audits and breach testing of all of services.

Marketing Opportunities

Aside from traditional marketing and business development programs, CeC has the opportunity to leverage partner resource as force multipliers. For example, the early adopter customers can be asked to serve as product evangelists. Their experience with the product can provide valuable proof points supporting the solution's stated value propositions. Another marketing force multiplier, often overlooked is the potential for co-marketing opportunities. For example, CeC may involve high profile technology providers for networking, systems software, and other components in order to build out its solutions. During negotiations with the technology companies, there may be opportunities to establish co-marketing relationships that provide benefits to both organizations. The purpose of these arrangements is two-fold. First, CeC can tap into the marketing budget of its technology partners to help fund the marketing and industry awareness of the HIE solution. Second, by virtue of having a strategic relationship with CeC, the technology provider will have a greater interest in ensuring the success of the organization.

There are obvious benefits to these types of co-marketing arrangements, and if negotiated properly, can create a win-win for CeC and its technology partners.

Solution Pricing Alternatives

Estimating a specific pricing structure for CeC solutions will not be possible until a number of preconditions are met. Assuming that there will be no additional funding sources other than initial government funding, CeC will need to determine what portion of these funds can be allocated in the most efficient manner across a few key areas. There will be expense allocations for software development, data center hosting, networking, technical infrastructure components, on-going maintenance support, and SGA. Financial models can be developed that take into account the anticipated expense run rates across the aforementioned areas. This initial exercise leaves off the table any potential contributions to the bottom line from customer sales. The basic question that needs to be determined initially is at what point will CeC enter a negative cash flow situation? Once this 'worst case scenario' is determined, CeC can then estimate customer sales revenue contributions. The determination of specific product pricing is modeled in detail at this stage, where varying margins can be factored and their ultimate impact on business sustainability. Another important consideration will be to estimate future capital requirements. If it is assumed that funding of future capital requirements is to come from operations and not from external sources, then modeling these requirements against cash flow projections will be essential. Combined, these variables play an important role in terms of determining what the appropriate profit margin needs to ensure continued business sustainability.

It should be noted that CeC can anticipate a period of collaboration with potential customers and some initial experimentation may occur to determine pricing models. CeC may determine that there will be a need for different pricing models for each customer segment. For example, the pricing model for a physician group practice may be different than for a hospital customer. A pricing model for a hospital system customer could be based upon a common metric that is readily determined and easily understood. For example, a hospital customer pricing model may be based upon their total inpatient and outpatient admissions or gross revenue. The guiding principle for the final pricing model and metrics for each market segment should stress simplicity, be very easy to understand, applied equally to all customers, and transparent to all. Simple pricing can be readily translated into service contract language – the simpler the better. CeC is advised to avoid complex per-transaction pricing models, as they are costly to administer, and complex to negotiate. There will always be a delicate balance in terms of what the market may deem acceptable in terms of pricing, so the ability to escalate margins is always finite.

Finally, CeC should consider establishing a separate 501c3 that can provide a vehicle for corporations to contribute capital to fund CeC initiatives. Also, CeC should aggressively exploit government, foundation, or corporate grant opportunities, as a means for raising additional capital.

Think Google, Not Government

Start-up companies have a number of common characteristics that are useful for CeC to consider. Just like any start-up, CeC shall receive start-up capital. CeC's funding will come from the public sector via CA HHS and the ONC. These funding sources are in effect the "angel investors" for the new venture. The major advantage CeC has over a traditional start-up is that it will not be required to pay back the initial seed funding. Potential disadvantages of CeC is that it is unlikely to sell investment/ownership shares, may be limited in its ability to borrow working capital, and is unlikely to have access to the public markets. It is understood that this type of public financing arrangement was designed to spark the launch of an initial HIE capability, whose primary payback is for the public good. Notwithstanding CeC's initial funding source, it will have the same obligations to its constituents, as any other viable business entity. Specifically, to become a sustainable viable business entity, CeC will need to offer its customers compelling solutions, competitive pricing, a positive user experience, and excellent day to day support services. CeC may find that over time it can increase the range of services it offers through high value solutions that can garner ever increasing higher margins. These additional solutions may involve branching out from CeC's core initial HIE offering into key market adjacencies. These market adjacencies can contribute to increasing CeC's long term sustainability, particularly with regard to capturing additional 'share of wallet' from its current customer base.

Conclusion

There are inherent advantages that CeC has going into the California market. With the proper planning and execution processes in place, CeC has an opportunity to create a viable and self sustaining business that will provide high quality solutions and services to the California healthcare market.