NETWORKING FOR RURAL HEALTH

The Science and Art of Business Planning for Rural Health Networks

by

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FOREWORD

In any industry, business planning is an essential process whose goal is to model the necessary resources and impact of a proposed business venture. In most businesses, the impact can involve making a profit or increasing market share. The same is true within rural health networks, however, networks have a unique challenge. Unlike single-firm businesses, network members must balance their own interests with the objectives of the network as a whole. This is the inherent nature of networks and makes planning new ventures a difficult task. Still, careful planning, while it demands time and energy from those involved, can make the difference between the success and failure of a new product or service.

The *Networking for Rural Health Project* recognizes the complexities that come with undertaking business planning within the context of a rural health network. This document should help network leaders better understand and plan for the challenges that business planning presents. We hope that this document will provide a valuable perspective and practical advice for rural health network leaders in business planning.

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INTRODUCTION

Business planning is a way of clarifying and testing assumptions about a specific proposed business venture. Properly done, it combines scientific method with intuition, judgment, and experience. In this sense, business planning is both a science and an art.

The shelves of your local bookstores and libraries contain numerous guides for creating business plans. Information about writing business plans is also available on the Internet and from accounting and consulting firms. While all of these advisory resources can show you how to analyze and assess the merits of a proposed business venture, none do so from the unique perspective of a *cooperative venture*, such as a rural health network.

This guide offers practical insights and tools to newly formed networks, established networks, and urban providers trying to understand how to relate to rural providers in the region. It explores the ways in which cooperative (network) business planning differs fundamentally from single-firm planning, focusing on three topics:

- The uniqueness of rural networks;
- The classical approach to business planning; and
- The art of business planning.

Throughout the guide, examples have been inserted to help illustrate some of the key principles of effective business planning.

Rural Health Networks: A Breed Apart

Rural health networks typically seek to develop business propositions for their members for three reasons:

1. The members lack capital, skills, or other resources necessary to develop and implement a proposed business on their own;
2. The proposed venture requires a customer base or operating scale greater than the members can achieve on their own; or
3. The degree of financial and organizational risk of a proposed venture is so great that it is more appropriate for the members to pursue it collectively.

Business planning for networks differs from business planning for an individual firm in several ways. Without question, the cooperative element inherent in networks is the factor that most complicates effective business planning. Consider for a moment business planning in a single for-profit firm: typically, there is a clearly identified "customer" and a clearly defined decision-making process. While different points of view are expressed, all of the key decision makers agree on the primary criterion for judging proposed projects: Will it maximize the wealth of shareholders? Contrast that with business planning for networks, in which decision makers are forced to navigate a more complex set of dynamics. Typically, networks are represented at the board level by the chief executive officers of member organizations. In this role, they must balance the interests of their own organizations with the interests of the network as a whole. While these interests are seldom in direct and irreconcilable conflict, there is often a dynamic tension between them. Thus, the typical network member often finds himself or herself trying simultaneously to maximize the position of his or her organization, and do what is right for the network.

Network business ventures also differ from single-firm ventures in that the members of the network are often both the owners and the customers of the network's products or services. This dual role may cause members to evaluate some business opportunities differently than a single firm might. For example, members may elect to forgo profits in order to offer products or services to members at lower prices. In other cases, members may be willing to pay higher prices for a network product or service than might otherwise be required, because they (through the network) control the means of production and reap downstream benefits.[1]

Finally, one should anticipate that network business ventures will evolve over time, shaped by changes in the competitive environment of members. As a new venture matures, intended benefits will likely change also. Reasons for change include:

- Changes in members' strategic, operating, and/or financial positions;

[1] Network members may seek to control production of a service or function to reduce uncertainty (e.g., making certain that the service or function is always available or available when they want to consume it) or to assure that the steps in the production process are consistent with their values (e.g., as in the case of managed care medical management).

- Changes in the network's strategic orientation;
- Changes in the importance of the program to the members;
- Changes in the relative bargaining power of members;
- Changes in the venture's industry;
- The effectiveness of the venture's competitive strategy; and
- Changes in the venture's need for autonomy.

In summary, networks are complex entities in which to conduct business planning. Business planning for networks tends to be iterative; ventures are created, monitored, and changed routinely. A common business orientation and political agenda, actively cultivated and strongly embraced, create the platform from which shared businesses are launched. As discussed in the following section, there are logical connections between *strategic planning* and *business planning*.

Linking Network Strategy to Business Planning

Strategic planning is a fundamental act of organizing a network. Unlike a hospital, clinic, or public health department whose purposes and activities are defined in large measure by law and custom, rural health networks are creatures of self-invention. While most organizations define their core functions by the type of business they run, rural health networks do whatever their members want them to do. Their purposes and activities vary with the needs of members, the willingness of members to act collaboratively, and the resources (primarily money and talent) available to bring ideas to fruition.

Defining and developing commitment to a general business direction, identifying a portfolio of potential business initiatives, and establishing an organizational vehicle is the job of strategic planning. In broad terms, strategic planning asks four questions:

- What *could* we do?
- What *can* we do?
- What do we *want* to do?
- What *should* we do?

As outlined in Table 1, *strategic planning* is a process that evaluates the environment of an organization, sets goals, identifies options, and selects certain alternatives for further development. *Business planning* is a procedure for further assessing alternatives identified during strategic planning. Business planning flows out of and overlaps strategic planning. Before proceeding to business planning, a network must first have a *strategic purpose*. That is, an initiative must reflect the agreed-upon strategic orientation of the network, and should help the network achieve its specific goals.

By the time a potential initiative makes its way through the assessment screens used in strategic planning, a network will have a good idea of the alternative's potential costs and benefits and whether the network is capable of implementing it (or can become capable of implementing it). Business planning then subjects a certain number of selected alternatives to greater analytic scrutiny.

Typically, initiatives are selected for business plan development because they have high implementation potential, are capital-intensive, or are organizationally and/or politically complicated. In most cases, business plans define the product, the market, the amount of capital needed, other resource requirements, and the expected benefits of the selected alternative. Assuming the network decides to proceed with the venture, an implementation plan is developed which details the steps required for implementation.

HOW MUCH PLANNING IS TOO MUCH?

Knowing when to stop planning is as important as recognizing the need to begin planning. Developing a comprehensive business plan requires a significant investment in time and capital. This can lead to feelings of frustration over an apparent lack of accomplishment, and in some

TABLE 1

A TRADITIONAL PLANNING PROCESS

STEP	OUTCOME
Assess environment of the network and members	Factual understanding of the external factors affecting network and member performance; assumptions about the future
Assess the capabilities and resources of the network and members	Factual understanding of strengths, weaknesses, opportunities, and threats facing the network and members
Develop (or re-examine) network purpose and mission statement	Statement of network's purpose(s), goal(s), and role(s)
Identify and analyze strategic business and organizational alternatives	Identification of possible programs or preliminary portfolio of initiatives that are consistent with the network's vision and values
Select options for further development and test for financial and/or organizational feasibility	Deeper understanding of initiatives selected for development
Develop implementation plan	The road map to bring the alternative to life

cases can cause members to doubt the wisdom of their continued participation in the network. The process can be accelerated with a preliminary assessment. As a bridge between strategic planning and development of a full business plan, networks, at a minimum, should answer a series of critical questions that influence the decision to proceed:

- Is the market for the product or service large enough?
- Are the number and power of potential competitors too great?
- Is the cost of start-up and/or operation too high?
- Do the network and its members have sufficient human resources, skills, and experience to implement and operate the venture?

The answers to each of these questions should be supported with data whenever possible.

GETTING READY TO PLAN

Members join networks for various reasons. While most join networks to improve the performance of their own organizations or to aid in solving a community health or social problem, some members join networks simply because they enjoy the social interaction or they want to "keep an eye" on other members. Networks with a preponderance of members of these latter types are not well positioned to begin planning; it is difficult for these types of networks to find programs that are important enough to all members to cement their allegiance to the network. Ultimately, many members of these networks discover over time that the network is not the proper vehicle for solving their problems.

Substantial roadblocks to effective planning stand in the way of many rural health networks. Some networks were created in response to fears that did not materialize from the spread of managed care and/or competition from urban hospitals. When the strategic purpose of a network is removed (either because the initial problem was solved or because the initial problem did not fully develop), members have to decide whether to agree on a

new strategic purpose or to dissolve the network. Other networks lack the involvement of their members' medical staffs and boards of directors, limiting the strategic options available to members. And some networks focus on abstract concepts, making agreement among members difficult on concrete, time-specific initiatives. Effective business planning begins with self-awareness of the members' roles in the network and of the network itself.

Assessments of a network's readiness to engage in shared business development should consider the level of trust among members, the propensity of individual members to cooperate, and the strengths and weaknesses of the network as a whole. Areas for assessment include: organizational culture (e.g., cohesiveness, purpose of network, nature of decision making); previous experience developing cooperative ventures; responsiveness of decision making; tolerance for risk; ability to absorb losses; business knowledge; need for consultants; availability of capital to finance ventures; and ability to raise capital for ventures.

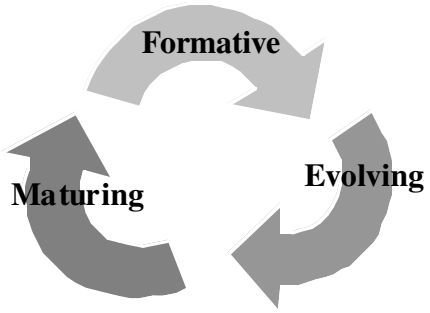
To assist in making the assessment of a network's readiness to engage in business planning and product development, *Networking for Rural Health* has developed a Network Self-Assessment Tool, which can be found on the Academy Web site (www.ahsrhp.org).

Successful rural health networks appear to have a distinct *life cycle*. As shown in Figure 1, rural health networks form, evolve, and mature. In this regard, networks are like a single firm, where organizational accomplishments are dependent upon the effectiveness of leaders and the working relationships of individual managers. The maturation process is by no means linear; changes in the industry, the market, and members' conditions can cause a temporary downturn in the network's effectiveness. Network maturity is not related to age; there are just as many effective "young" networks as there are dysfunctional "old" networks.

Finally, there is no end point to the evolution of networks. A previously effective network can find itself struggling as it seeks to implement more ambitious projects.

FIGURE 1

THE NETWORK LIFE CYCLE



New networks are better positioned to succeed if they attempt projects of short duration that the members believe they can complete. Early successes are often critical to establishing the credibility of the network with the members. Early successes make future successes possible — and more likely. The local market, competition, organization, and time pressure may dictate the opportunities available to a network. That said, many business opportunities are associated with a given stage in the network life cycle. Examples of these are shown in Table 2.

In summary, a well thought-out integrated strategic and business planning process reflective of the network's stage of development, member needs, and personalities will pay dividends many times over. The following section provides a technical guide to the "science" of business planning.

TABLE 2

CHANGING BUSINESS FOCUS OVER THE NETWORK LIFE CYCLE

FORMATIVE	EVOLVING	MATURE
Program planning and evaluation	Joint program marketing	Administrative consolidation
Performance benchmaking	Shared services	New clinical services
Professional peer networks	Common treasury services (e.g., investment)	New lines of business
Network resource manual	Clinical service extensions	Common budgeting and resource planning

Business Planning: A Classical Approach

As previously discussed, business planning is a structured process for evaluating selected business opportunities that frequently have been identified and preliminarily evaluated as part of a strategic planning process. Due to the time and financial investment needed to produce a business plan, they are typically reserved for capital-intensive and/or organizationally complex undertakings.

There are as many different ways to approach business planning as there are business opportunities to explore. Circumstances vary from setting to setting however, and the steps outlined here may not apply fully to every situation. Still, the steps are accepted widely as the actions necessary to complete a typical business plan:

- Define the business
- Define and analyze the market potential of the business
- Project demand, target market share, and develop a marketing strategy
- Develop organizational and management models
- Assess financial and mission implications of the business.

There is no one "right" way to develop a business plan and you may choose to skip some steps or to place increased emphasis on others. Business planning can and should be used to evaluate both *growth* (e.g., new business) and *efficiency* (e.g., expense savings) opportunities. For efficiency opportunities the "market," by definition, is the members of the network.

STEP 1: DEFINE THE BUSINESS

The first step is to describe what the business or cooperative enterprise is, what it will do, and who will use it. Be specific: list products and services to be offered; explain why they are needed; tell who the customers will be; explain why the network should be involved in this line. Is this a new role for the network or has the network engaged in similar enterprises before?

To help define the purpose of the business, it may be useful to develop a business charter. A business charter is a declaration of the benefits the enterprise seeks to confer. It specifies consumers (including community members who do not pay for services directly) and the services offered. Of course, a business charter must be compatible with the mission of the network and its members. Equally important, not every initiative has to be greatly ambitious or pursued for potential economic benefits. Many of the "softer" initiatives, such as advocacy and shared education, add substantial value to network members.

Finally, list explicit goals and objectives to set the tone for the rest of the plan. If, for example, the goal of an enterprise is to offer a service to the members, profitability may not be a measure of success. If the goal is to sell a service to the

community, however, pricing, competition, and profitability become key considerations for the business plan.

ASK YOURSELF

- **Why should I start this business?**
- **What business am I in?**
- **What is the product or service?**
- **What are the business' objectives?**
- **What are the network's objectives for the business?**
- **Who are the customers for this business?**

In defining the business, it is useful to note that multiple goals may be achieved by a single enterprise. Mission and margin do not necessarily conflict. Positive operating margins can make socially desirable missions possible. A program to create an urgent care center, for example, may improve access to services within a community, but it may also reduce the amount of uncompensated care delivered in a hospital's emergency room. Both the community and the hospital benefit from the venture. The creation of a management services organization may lower the operating cost of a physician's practice and boost his or her net income. It may also improve the likelihood that he or she will stay in the community, reducing recruitment costs and interruptions in the availability of services, and improving continuity of care for community residents.

STEP 2: ANALYZE THE MARKET

Used in this context, "market" means an estimate of potential consumer demand for a product or service. The term implies consumers, services or products, and a geographic space in which exchange transactions take place. At its most fundamental, market potential is calculated by multiplying a use rate by the number of eligible consumers, and can be expressed either in terms of dollars or units of service.

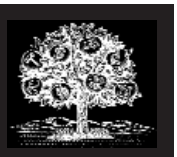
Defining the market for a business plan begins with identifying attributes of potential customers or consumers of the prospective business's products or services. Questions to consider in identifying potential customers include:

- Who will consume the product or service?
- Are these potential customers individuals or organizations?
- Is the product or service consumed by only one sex or people of a certain age?
- Is the service defined by certain health conditions?

Often the "customer" for a network's products or services will be its own members. In these cases, the potential users of the products and services and the cumulative size of the opportunity can be specified in great detail.

Once the consumers are identified, the next task is to estimate how many of them there are in the market. Estimating the number of potential consumers requires making certain assumptions about geographic space. Obviously, the number of people who would consume a particular type of product or service expands as the space gets bigger.

ASK YOURSELF



- **How large is the market geographically?**
- **What specific segments of the market should be targeted?**
- **What volume of services (or income) will these segments generate?**
- **Is the market growing or shrinking?**
- **What factors might cause major disruptions (positive or negative) in the potential market?**

Geographic markets are often limited by physical and psychological factors that influence consumer behavior. When defining a geographic market for clinical services, it is important to consider such issues as:

- Consumers expect primary care and general acute care services to be available locally.
- Demand for selected tertiary clinical programs is virtually unaffected by distance; consumers are willing to travel long distances for these services.
- Highways and other transportation systems define travel times (as opposed to simply distance). Geographic features such as rivers and mountains often exert significant psychological influence on potential consumers' willingness to travel.
- Many elderly, economically disadvantaged, and chronically ill residents of a market area cannot travel easily, even over modest distances.

A key element in this step is to define market segments. Target customers can be segmented geographically or by personal characteristics. For example, products or services could be promoted to all female residents living within 25 miles of the site at which they are offered. Alternatively, products and services could be targeted to firms with more than 100 employees throughout the geographic market.

RULE OF THUMB

Typically consumers will travel as far for primary health care services as they will for routine shopping.

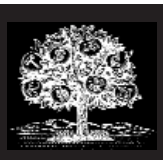
The final step in estimating market potential is to identify and apply an appropriate use rate for the target market segments. Use rates are expressed in many different forms, but all express an element of time and a unit of measurement:

- Dollars spent on health care per person per year
- Patient admissions per 1,000 population per year
- Inpatient days per 1,000 population over age 65 per year
- Cancer incidence (new cases) per 100,000 population per year
- Annual births per 1,000 females, ages 18 to 44

A final set of issues to consider when calculating market demand is that neither the number of potential customers nor use rates are static. Some markets will grow or shrink over time as demographic characteristics shift. Business plans typically forecast changes in population and demographics three-to-five years into the future. Changes in use rates should also be anticipated and included in the market volume projections.

Once the geographic market is defined, use rates are identified, and future market conditions are anticipated, it is time to quantify the market potential. A business example that may be examined by networks, a combination Durable Medical Equipment (DME) and Home Medical Equipment (HME) business, is shown in Table 3.

A WORD OF CAUTION



National use rates are not comparable to rural rates in every situation. Use rural-specific use rates or information about the specific market area whenever they are available. When only national use rates are available, it may be wise to apply a sensitivity analysis (e.g., estimating a "best case," "worst case," and "most likely case," using different use-rate assumptions).

Why consider DME/HME? After all, the Balanced Budget Act created a 32 percent decline in Medicare expenditures from 1998 to 1999 ($14 billion to $9.5 billion). However, this admittedly dramatic reduction masks three key underlying trends:

1. Non-Medicare expenditures for home health continue to increase, from $25 billion in 1997 to $26.5 billion in 1999.

2. Medicare spending for DME continued to rise despite reductions in per unit reimbursement,

TABLE 3

MARKET POTENTIAL CALCULATIONS

SCENARIO 1: DME ONLY		
Service Area Population	2000	2005
Total	100,000	104,000
Percent over age 65	16.5%	17.9%
Per Person DME Sales - Medicare	$132	$167
Per Person DME Sales - All Other	$57	$72
Service Area Market Potential	$6,900,000	$9,300,000

increasing from $4.1 billion in 1998 to an estimated $4.4 billion in 2000.

3. An effective home health program remains an important tool in lowering inpatient lengths of stay, a key cost control mechanism for many rural providers.

Still, an effective DME/HME business remains a risky undertaking and requires access to a population base typically beyond that of a stand-alone rural provider. A network may be an excellent vehicle for spreading risk and lowering initial investment expense.

Note: As a retail "out-of-pocket" expense, national use rates for HME may not be reliable for a given community; as a result, market size is not estimated here.

Not surprisingly, a DME/HME business is a relatively high-growth opportunity. HME includes a tremendous variety of non-durable products useful in the activities for daily living. Because of this wide variability, the demand is dependent on those specific product offerings defined by a network, and cannot be generically estimated. For many rural networks, HME sales can equal 25 to 50 percent of DME sales.

Sources of Data

The vast majority of data sources are not proprietary. With the growth of the Internet, even previously proprietary data is now accessible routinely, *if you know where to look*. Sources for demographic data (e.g., age, sex, natality, mortality, and morbidity rates by county) and use rates include:

- State health departments (vital statistics) and planning agencies
- State hospital associations
- State commerce departments
- State and federal labor departments
- Vendor representatives and insurance agents
- Local libraries and state universities
- State and local chambers of commerce
- U.S. Census Bureau
- National Institutes of Health
- U.S. Department of Health and Human Services

Many sources of demographic data also project population growth. Where projections are not available, as is often the case with use rates, the best predictor of future performance is past experience. Thus, if historical trends are available, they can be extrapolated into the future as an estimate of future performance. In projecting future use rates, be sure to incorporate the effect of all anticipated meaningful changes in the market.

STEP 3: PROJECT DEMAND, TARGET MARKET SHARE, & DEVELOP MARKETING STRATEGY

After identifying and considering factors that influence future demand, business planners next turn their attention to understanding how much of the market potential can realistically be captured by the proposed business venture. At one level, projecting demand is as simple as multiplying the total market demand by the proposed business venture's estimated market share.

The challenge is, of course, to make educated and reasonable estimates of future market share, where the most important factor is the presence or absence of competitors. Experience shows that current market share of a network (or the sum of network members' market shares) is the best predictor of future market share, *even for new businesses.* Chances are any new business will be related fairly closely to one of your existing lines of business.

Caution should be exercised not to over estimate market share. To be sure, substantial market share gains over existing market shares are possible and have been realized by some networks. However, increasing market share in health care is notoriously difficult, time consuming, and potentially expensive. The most dubious volume forecasts show sudden and significant increases in volumes after years of predictable and steady volume — the so-called "hockey stick" forecast.

As a starting point, you need to understand where consumers now purchase the products or services you plan to offer. To better position yourself in the market, it is necessary to understand the strengths and weaknesses of your competitors, which will help you devise your marketing strategy. A realistic assessment of competitors' strengths and weaknesses also allows you to better estimate the share of the market you can expect to capture. Like the size of the market, market share is not static; it varies with the number of competitors in the market and the effectiveness of their marketing strategies.

Finally, your marketing strategy should attempt to anticipate how competitors will likely react to your entry into the market, as most competitors will take actions to protect (if not increase) their market share. Will new competitors enter the market after you? Will existing competitors leave the market? In thinking through these scenarios, it is important to determine if your business will be taking customers away from competitors, or if your business intends to satisfy currently unmet demand.

ASK YOURSELF

- **Who are my current (and potential) competitors?**
- **What are their strengths and weaknesses?**
- **Is the service price elastic, and if so, what price should I charge?**
- **How could I make potential customers aware of my products and services?**
- **What share of the market could I expect in one year? After three years? After five years?**

Pricing and Market Elasticity

"Unmet demand" can be influenced by pricing and marketing strategies to the extent that the proposed business offers a better "choice/price/value" option; both total market demand and your share of this market may be positively affected. Factors that commonly influence consumer-driven demand include price, location, quality, convenience, and amenities. Excluding third party reimbursed services, prices charged for a service or product will affect its consumption. All things being equal, consumers who pay all or a substantial portion of the cost tend to purchase less expensive goods and services.

Market volume also may be influenced by promotion. The business plan should describe *how* you are going to make the target population aware of your product or service. News stories (newspapers, radio, television), advertising, direct mail, open houses, and speakers bureaus are ways to

TABLE 4

ESTIMATING MARKET SHARE (DME ONLY)

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Est. Market	$6,900,000	$7,400,000	$8,000,000	$8,600,000	$9,300,000
Est. Market Share	20%	25%	30%	35%	40%
Revenue Potential	$1,400,000	$1,900,000	$2,400,000	$3,000,000	$3,700,000

make your business known. It is important to decide how you want to position your product or service in the market. You may, for example, promote your business as "the hometown alternative." Other approaches may be to differentiate yourself from competitors on the basis of price or quality.

Table 4 estimates market share for the DME example presented earlier and discusses key considerations underlying the estimates.

Key Considerations

- Network members' cumulative market share for inpatient services is 45 percent.
- Home health (nursing) services are highly fragmented and most agencies are too small to offer DME.
- Product offerings at local pharmacies are limited.
- WalMart and "big box" pharmacies offer greater selection but travel times and service levels are issues.

Marketing Position

Networks should develop a DME/HME business featuring good product variety and excellent service that is integrated into the member hospital's discharge planning process. Limit store front (or consider partnering with local pharmacies) and focus instead on sales through Web site, catalogue, and other direct marketing channels.

Depending on the magnitude of the proposed business initiative, you may choose to use market research to supplement the business planning phase to better design your products and services to meet the needs and wants of your consumers. Two of the most common tools of market research are opinion surveys and focus groups. These tools are discussed in *Principles of Rural Health Network Development,* available from the Academy for Health Services Research and Health Policy.

STEP 4: DEVELOP ORGANIZATIONAL AND MANAGEMENT MODELS

This step of the business plan describes the "nuts-and-bolts" of the business from an operating perspective. The description specifies the resources needed to bring the business to life in terms of facilities, equipment, and staff.

You can begin by naming the business and describing where it will be located. In some cases, location of the business may be part of your marketing strategy; in other cases, the physical location of the business may not matter as much.

Business location may sometimes be a contentious issue for rural health networks. For example, to lower operating costs of the business, one member may offer to house the business in facilities it owns. Other members may believe that locating the enterprise in facilities contributed by a member would too closely identify the business with that

member. In a network covering a large geographic space, central location of the business may be perceived as only marginally beneficial to members on the outer edge of the area. If the project is worth doing, it should be developed in a way that helps assure success. Often this means starting out in space provided by members and moving to a new location or additional sites as the business grows.

You should identify the physical space, supplies, and equipment that are needed for the business. If a permanent investment in inventories is required, identifying the size and content of inventories will also be important. Your earlier estimates of volume will dictate the facilities, supplies, and equipment needed to operate the proposed business.

Staffing

The types of products or services to be offered and the volume that will be produced influence labor requirements. It is therefore important to describe the type and number of employees necessary to operate the business. If employees with special skills are required, assess the availability of potential employees within the region and discuss how they might be recruited. In today's tight labor market, people with particular technical skills are in demand and expensive to recruit and retain. In some cases, staff may be acquired from member organizations on a temporary basis.

One class of employees with special skills is managers. You should describe the management team or the requirements for managers, and outline supervisory and reporting relationships. Creating an organization chart for the new business is a good way of focusing your thinking on the organization of work and the division of labor and supervisory responsibility. Will this business be a stand-alone enterprise? If so, how will performance and accountability be assured?

Finally, this section of the business plan should include a schedule of the major activities needed to bring the business to life. This section can be presented in tabular form identifying the task to be completed, the person responsible, the desired outcome of the action, and the target date for completion. The detail included in this action plan and the length of time it covers will vary according to the complexity of the proposed venture. Table 5 summarizes the key operational and organizational considerations for the DME/HME example presented earlier.

TABLE 5

OPERATIONAL & ORGANIZATIONAL CONSIDERATIONS FOR DME/HME

Typical Needs	Key Considerations	Potential Impact
Management	Ability to utilize existing talent? Need for reporting to members? Corporate compliance? Licensing? Business skills?	Overall management by existing hospital manager; consider partnering with regional DME company.
Employees	Hours of operation? Service expectations? Licensing requirements?	Hours: M-F 10AM to 6PM; 1 Clerk & 1 DME Tech; Sales force vs. hospital.
Facility	Use existing assets vs. new facility? Rent vs. own? ADA compliance? Business specific fixtures?	Small warehouse centrally located is needed; consider local pharmacy partners for store fronts.
Capital Equipment	Computer systems? Repair/service capability?	Outsource major repairs; consider partnering with regional DME company.
Inventory	What is needed? How much of each item?	Purchase inventory vs. delay bill arrangement; match HME to customers' income levels.

QUALITY HEALTH NETWORK'S CREDENTIALING SERVICE

A credentialing service is an example of a far simpler business than a DME or HME that are often started by rural health networks. This is true because there is less risk involved with a credentialing service. The increasing importance of "Critical Access Hospital" designation makes this a particularly relevant topic as linkage to a network and an independent credentialing process are prerequisites to this designation.

The Quality Health Network (QHN), comprised of 30 hospitals covering a midwestern state, recently started its credentialing program. Of its 25 members located in a rural census tract area, 10 are currently designated a "Critical Access Hospital." In addition to credentialing, QHN also offers a medical staff compliance audit function. Both services are available to non-members as well as members.

The primary motivation for starting the service was quality and Critical Access Hospital program requirements. Many of QHN's smaller members assigned credentialing to someone who also held other multiple responsibilities, and it was often not possible to devote the level of effort and attention this important function deserves. As shown below, the service is run as a break-even business.

	Credentialing	Audit Function
Pricing	$100 per new appointment $75 per reappointment	$125 per day (members) $150 per day (non-members)
Participation	13 member hospitals 2 non-member hospitals	5 member hospitals 1 non-member hospital
Revenue	$30,000	$1,500

The personnel manpower needed for this program is a credentialing coordinator. Salaries and benefits should total approximately $25,000. Supplies, rent, and other miscellaneous expenses will run approximately $5,000. Start-up costs were approximately $75,000, used primarily for computers and other technology equipment. This was funded by a grant and by the participating members. Satisfaction with this service is very high and additional growth is anticipated.

STEP 5: ASSESS FINANCIAL AND MISSION IMPLICATIONS OF THE BUSINESS

The acid test for any prospective business venture is the financial plan. Questions such as "Is the business affordable?" and "Is it profitable?" are answered by taking the assumptions made in the earlier part of the business plan about sales volume, pricing, facilities, supplies, equipment, and human resources and quantifying them in terms of dollars.

The first issue to consider in the financial plan is capital. The plan should identify how much capital is needed and where the capital for the business might be obtained. In estimating the need for capital, make certain to include working capital needs (investments in cash, securities, accounts receivable, and inventories) as well as investments in facilities and equipment. Capital needs that will not be financed by operations are typically estimated over a three- to five-year time frame. You

should also indicate what you will do if you have underestimated the amount of money you need. Will network members be asked to contribute additional cash? Will the network attempt to obtain a bank loan?

ASK YOURSELF

- **How much capital is needed to start the business?**
- **Where will the capital come from?**
- **How much revenue (net of allowances) will be generated at a given level of volume?**
- **What will it cost to produce products/ services at a given level of volume?**
- **How much profit is estimated at a given level of volume?**

Initial capital to finance the new business can come from several sources: the network may have sufficient reserves to fund the project initially; network members may contribute individually to the venture; or the network may obtain a loan from a bank or seek public funding (i.e., bonds). Another source of capital is grants from foundations (including those of members) or charitable trusts.

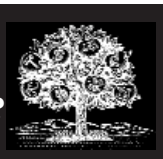
A business plan is your primary tool for obtaining financing from sources outside of the network. It is the device by which lenders will assess the potential of your business and the probability that you will repay the loan promptly and fully. The quality of your business plan is a major factor in the decision of the lender to help fund your project.

Testing Assumptions

Financial estimates are only as good as the assumptions upon which they are based. Because no one is certain of the future performance of the business, it is wise to test the sensitivity of profitability to different volume levels. In addition to a "break-even" analysis, financial plans typically assess three levels of performance: the "most likely" level of volume; a "best case" level (10 to 20 percent above the most likely level); and a "worst case" level (10 to 20 percent below the most likely level).

To ensure valid financial estimates, begin by estimating revenue at the prices determined in the marketing strategy for each level of volume. After conducting an initial break-even analysis, it may be necessary to revisit the issue of pricing in the marketing strategy. If the only way to make the venture profitable is to raise the price beyond a competitive rate, the venture does not have much chance of success. Price may dominate purchase decisions unless there is something about the product or service that distinguishes it from other similar products or services. Also, if the service provided is a health care service, a high cost may place it outside of usual and customary payment screens used by insurers.

ASK YOURSELF



- **What is the break-even point?**
- **How sensitive is profitability to changes in volume and other operating assumptions?**
- **What are the cash flow implications of starting the business?**
- **How long until the business is profitable?**
- **How good an investment is this business?**
- **What non-economic benefits will the business produce?**

For services provided directly to patients, remember that the price you charge will not be the price you receive from all payers. Some payers discount charges or have their own payment structure. Make certain that the payer mix and applicable contractual allowances are taken into consideration in calculating revenues.

TABLE 6

DME/HME FORECAST REVENUE & EXPENSE (EXCLUDES START-UP COSTS)

	Year 1	Year 2	Year 3	Year 4	Year 5
DME Sales	$1,400,000	$1,900,000	$2,400,000	$3,000,000	$3,700,000
HME Sales	$300,000	$400,000	$500,000	$600,000	$700,000
Total Revenue	$1,700,000	$2,300,000	$2,900,000	$3,600,000	$4,400,000
Cost of Goods Sold	$1,100,000	$1,500,000	$1,900,000	$2,400,000	$2,900,000
Operating Expenses	$500,000	$600,000	$750,000	$850,000	$900,000
Gross Pre-tax Earnings	$100,000	$200,000	$250,000	$350,000	$600,000
Start-up Costs/ Capital Investments	$600,000	$200,000			

TABLE 7

DME/HME EXPENSE DETAIL

2 Year Startup Costs	
Technology	$400,000
Inventory	$400,000
Total	$800,000
Operating Costs	
Salary & Benefits	$305,000
Rent	$25,000
Leases & Loans	$35,000
Utilities	$7,000
Advertising	$85,000
Insurance	$5,000
Dues	$3,000
Other	$35,000
Total	$500,000

TABLE 8

DME/HME SENSITIVITY ANALYSES

	Year 1	Year 2	Year 3	Year 4	Year 5
Most Likely Case					
Total Revenue	$1,700,000	$2,300,000	$2,900,000	$3,600,000	$4,400,000
Gross Pre-Tax Earnings	$100,000	$200,000	$250,000	$350,000	$600,000
Gross Pre-Tax Margin (%)	6%	9%	9%	10%	14%
Worst Case					
Total Revenue	$1,400,000	$1,800,000	$2,300,000	$2,900,000	$3,500,000
Gross Pre-Tax Earnings	$50,000	$125,000	$160,000	$230,000	$420,000
Gross Pre-Tax Margin (%)	4%	7%	7%	8%	12%

Pro Forma Financial Statements

For the different levels of volume, you should produce pro forma financial statements for three-to-five years into the future. It is unlikely that the new business will produce profits immediately. Examining the financial performance over a period of time helps identify when the project might be expected to break-even and how much cash will be needed until it does. Identifying the break even point during the planning stage of the venture can reduce some of the anxiety that accompanies the start of any new business. The pro forma financial statements to include in the financial plan are:

- Statements of revenues and expenses;
- Statements of cash flow; and
- Balance sheets.

Financial ratios of liquidity, profitability, and capital structure should be calculated from the pro forma financial statements. Key differences in these measures under the "best case" and "worst case" scenarios are typically included. Tables 6 – 8 show pro forma financial statements and sensitivity analyses for the DME/HME example.

Key Assumptions

- Current service area population is 100,000; household income is below national average.
- Sales emphasize catalogues, Web site, and direct marketing over storefront sites.
- Total market share is limited by significant price advantage offered by national retailers.
- DME sales adjusted down to reflect higher rate of uninsured.
- HME sales adjusted down to reflect lower household income; HME sales assumed to be 20 percent of DME sales.
- All costs of goods sold based on industry average as a percentage of sales.

As you can see, a DME/HME business can be quite successful economically, achieving margins of up to 14 percent. In fact, some networks achieve even better results. It is imperative to keep in mind however, that key variables can dramatically impact this forecast performance. Further, this level of business performance requires significant scale (of population) and is capital-intensive to develop and may be more relevant for larger rural health networks.

Putting it All Together

Completing the steps outlined in the classical approach to business planning will give a network a good overview of the potential of a proposed venture. These steps attempt to focus the thinking of the network on vital aspects of the business: purpose, market position, operating requirements, and financial performance. The exercise of business planning using this approach can highlight network projects that should be pursued as well as identify those that should not move forward.

This section has stressed *the process of business planning* rather than the creation of the business plan itself. The planning function alone may be suitable for some networks. If network planners need to communicate to a broader audience — other members, lenders, or government officials — the process will need to be documented in a written business plan. The following is presented as a possible outline for a business plan:

1. Background: Describe the network and its previous cooperative ventures; describe the product or service and explain the need it is intended to satisfy; define business goals and objectives.
2. Marketing: Summarize the market analysis and the marketing strategy, clearly highlighting projected market share, volume, and pricing strategy. Marketing studies performed in the assessment should be included in an appendix.
3. Organization, management, and production: Summarize the organization and management of the new business and include an organization chart. If management staff have been hired, include their resumes in an appendix; if they have not been hired, include a position description. Identify the other human resource needs. Describe the facilities and equipment needed to start the business. Briefly explain how the business accomplishes its work.
4. Financing: Present projected financial information stressing needed capital, cash flow, and break-even point; present results of sensitivity analysis on financial position; indicate sources of capital financing that will be used for the business. Pro forma financial statements for three-to-five years, financial ratios, and a break-even analysis should be included in the appendix.

An executive summary of all of this information is recommended and should be placed before the "Background" section.

Special Business Planning Issues For Cooperative Ventures

Because planning may not mean the same thing to all network participants, it is extremely important to agree on a planning process before actually beginning to plan. Properly done, members should not be surprised by any aspect of the process. Participants should agree on a framework for goal setting, data collection and analysis, and decision making. By agreeing to the rules of the process in advance, the participants understand the steps and resources necessary to complete the plan and where the process stands at any particular time. This knowledge should make members more comfortable with the process and reduce ambiguity that might lead to distrust. A well-designed planning process will ease network decision making and improve network cohesion.

Before an option is selected as a candidate for a business plan, it should be evaluated for its compatibility with the mission and the overall strategic direction of the network. Businesses that are not compatible are not candidates for further development. Some networks identify in advance the criteria for the types of businesses and programs they will develop. Only options that make it through this screening process are considered.

PROGRAM SELECTION CRITERIA

The selection of programs for the network to undertake is based on a rational appraisal of factors that reflect its mission and vision. The questions that are asked for program selection are:

- Does this initiative make sense regionally?
- Is the problem important and in the long-term interests of the community?
- Does it address a coordination, quality, access, or health status objective?
- Is it a step toward better distribution of health resources?
- Is it a prudent investment in a cost-conscious market?
- Will it improve physician, payer, and/or plan relations?
- Is it consistent with board decisions and commitments?
- Does it compliment the business activities of members?
- Do we have enough control of results to be successful?

Source: CHOICE Regional Health Network, Olympia, Washington.

If a proposal is accepted for further development, it is typically subjected to the type of analysis outlined in the section called "The Classical Approach." In a single firm, that level of analysis may be sufficient. Network ventures — especially those related to health care — require considerably more analysis and decision making.

In this section, we will consider four issues: tax implications of the venture to the network, its members, and the business itself; licensing and other regulatory entry barriers; antitrust considerations; and allocation of profits and losses.

Issues for Tax-Exempt Rural Health Networks

- To what extent does the network governance structure allow for a for-profit entity to control charitable assets?
- To what extent do the network structure and operations allow a person with substantial influence to profit improperly from his or her dealings with tax-exempt entities?
- To what extent do the network's activities further tax-exempt purposes?

Source: Teevans, J., "Forming Rural Health Networks: A Legal Primer," Washington, D.C.: Alpha Center, 1999.

TAX IMPLICATIONS OF NETWORK VENTURES

Rural health networks can be composed of either members that are all tax-exempt (not-for-profit) entities or a mixture of tax-exempt and taxable (for-profit) entities. Some networks may also be tax-exempt at the state level but not at the federal level. Rural health networks that have a diverse membership that includes both for-profit and not-for-profit organizations should be aware of the Internal Revenue Service (IRS) rules that may affect them. In essence, the IRS attempts to assure that not-for-profit entities engage only in activities that further their tax-exempt purpose (charitable, religious, scientific, or educational) and engage in no activities that inure to the benefit of private individuals or taxable entities. Many rural health networks that seek incorporation also obtain tax-exemption under Section 501(c)(3) of the Internal Revenue Code. Not-for-profit rural health networks need to structure their governance and operations (including cooperative business ventures) carefully to avoid placing their tax-exemption status in jeopardy. For a review of the tax-exempt issues affecting rural health networks, see *Forming Rural Health Networks: A Legal Primer,* which is available from the Academy for Health Services Research and Health Policy.

There may be additional prohibitions on the ability of public hospitals to participate in some network ventures, especially those of unincorporated networks. Most state laws prohibit the use of public hospital funds or credit, as well as loans and gifts for the benefit of a private party. Some public hospitals may therefore be prohibited from capitalizing new ventures directly if they include any private individuals or for-profit entities. Because assuming unlimited liability in a general or limited partnership may be considered an illegal extension of the credit of a governmental entity (e.g., a county or a municipality), public hospitals in some states may be prohibited from participating in ventures that put their assets at risk. (Incorporation, however, erects a "corporate shield" that helps protect the assets of members should a judgment ever be rendered against the network.) Some state laws prohibit public hospitals from stock ownership in business corporations, which may constrain their participation in certain kinds of collaborative ventures. Before engaging in joint ventures through a rural health network, members should consult with attorneys familiar with their state's constitution and statutes about possible legal prohibitions to participation (Mason, Shaman, and Dube, 1989).

Finally, the network must decide whether to operate the proposed venture through the network, thereby using the tax status of the network, or to spin-off the venture, creating its own corporate identity with its own tax status. If the latter course is chosen, the network must decide whether to operate the venture as a tax-exempt entity or to pay taxes on the profits of the business. Once again, this decision should be made in consultation with a local attorney.

LICENSING AND REGULATORY BARRIERS

It should come as no surprise that health care is among the most highly regulated industries in the United States. Some of these regulations may apply to business ventures of rural health networks, especially if a venture involves the provision of health services. Nearly all health services

entities are subject to some level of state or federal licensing law. Additionally, to participate in the Medicare and Medicaid programs, business ventures featuring patient care may need to be certified by the Health Care Financing Administration or its state agents. Networks that want to offer managed care services may be required to obtain an insurance license from the state insurance commissioner. Part of the network business planning exercise for proposed ventures is an assessment of licensing and certification requirements and an evaluation of the resources necessary to comply with these regulations.

Some shared services provided to members as part of network membership or on a fee-for-service basis through the network are also subject to state and federal regulations. A number of services typically shared by rural health network members fall under this category, including radiology, laboratory, dietetic services, linen and laundry services, and quality assurance (including infection control and utilization review). State and federal surveyors evaluate all patient care-related services furnished to a provider as if provided by staff of the facility. Planning for service sharing should include an assessment of the regulatory impact on members of using shared services.

Although some states have eliminated certificate-of-need (CON), many states still employ this process for at least some health care services. The provisions of most CON application processes incorporate the business planning principles described previously, including assessments of demand/need for services, competition, and financial feasibility. Part of the business planning effort of networks should include an assessment of the additional resources and time necessary to comply with state CON law. As the CON process in many states relies more on attorneys than health care planners, the cost of legal assistance should be factored into the resource estimate.

Opportunities for Rural Health Networking

- Joint buying arrangements
- Joint purchasing and/or marketing of expensive or high-tech equipment
- Joint ventures to offer specialized or other expensive health care services
- Administrative and clinical efficiencies
- Quality, cost, and utilization controls
- Service consolidations
- Pooling of resources for information systems
- Provider networks

Source: "Antitrust Issues for Rural Health Networks," Neil Motenko, presented at *Legal Issues and the Formation of Rural Health Networks,* a conference on Networking for Rural Health, Chicago, IL, June 28, 1999.

ANTITRUST CONSIDERATIONS

Antitrust laws are based on the assumption that competition results in lower prices and higher quality. Accordingly, the laws seek to ensure that consumers have competitive choices for services. Actions that are harmful to competition may violate antitrust law. Because some rural health networks include potential competitors (according to antitrust market definitions), it is important to consider the level of antitrust risk before engaging in certain ventures.

Having acknowledged their potential exposure, rural health networks, nevertheless, can participate in a variety of business opportunities that usually do not expose them to antitrust liability. These business opportunities include ones in which rural health networks typically engage: group purchasing, clinical joint ventures, and resource sharing.

The topic of antitrust liability for rural health networks is complex. Networks can clearly engage in some activities with minimal risk, while other activities produce substantially more risk. Networks should obtain advice from qualified legal counsel on their potential antitrust liability for

structure, governance, and cooperative ventures. *Forming Rural Health Networks: A Legal Primer,* available from the Academy for Health Services Research and Health Policy, provides an overview for the lay reader of antitrust issues for rural health networks. For another perspective on the issue, see *Rural Health Network Evolution in the New Antitrust Environment,* available from the University of Minnesota Rural Health Research Center (www.hsr.umn.edu/centers/rhrc/).

ALLOCATION OF PROFITS AND LOSSES

Profits in rural health networks formed as for-profit corporations are paid proportionately according to the number of shares in a particular class. Profits may also be retained for investment in other network ventures. Profits in networks formed as not-for-profit corporations are also distributed on a pro rata basis in relationship to the contribution of members, unless otherwise specified. Profits may be distributed to for-profit members of not-for-profit networks. This assumes that the proportion of for-profit members (and contributions) were known at the time that tax-exempt status was obtained. If the number of for-profit participants (e.g., physicians) in a not-for-profit network increases, the network should consult with an attorney before agreeing on a profit allocation plan.

Generally, cooperatives have the option of making a "patronage dividend," which is typically paid in part to members and partly retained by the network for reinvestment. In this case, the dividend is proportional to the member's purchases of network products and services.

In partnerships, profits are distributed equally without regard to the capital contributions of partners unless there is an agreement defining partner's rights in the business. If a partnership agreement sets out the proportion by which profits will be allocated, but is silent on the distribution of losses, each partner will be responsible for losses in the proportion to which he or she shares in the profits. Agreements among participants in unincorporated associations usually outline the distribution of profits and losses in joint ventures.

In planning for network ventures — especially ones in which members provide capital — consideration should be given to the distribution of profits. All members should know how future profits will be allocated. Do benefits accrue to members? If so, in what proportions? If not, how are profits treated by the network?

SUMMARY

Business planning can be an effective tool for networks to better understand the rewards and risks associated with a proposed business venture. However, this planning is more complex for networks because the proposed business ventures often affect the core businesses of the members themselves. Recognizing and responding to this duality of customer/owner relationship lies at the heart of managing the network business planning process. Insights into this "art" are provided in the following section.

Managing the Network Business Planning Function

Managing the network planning function is more art than science. All networks are not functional at conception, but rather become effective over time. Properly utilized and managed, the planning process can be a powerful catalyst for bringing together disparate perspectives and energizing a group to action. In this sense, business planning is more "art" than science.

Networks are like marriages — uplifting and maddening at the same time — and without constant nurturing, destined to end in painful and costly divorce.

Art is a skill obtained only by doing. While quantitative analysis is the cornerstone of planning, it cannot replace qualitative judgment, creativity, and commitment born of experience. The artful aspects of network business planning fall into four general areas:

- Motivating and maintaining member interest
- Building trust among members
- Balancing strategy and action
- Making decisions and reaching conclusions

MOTIVATING AND MAINTAINING MEMBER INTEREST

Business planning can be a complex and time-consuming process. As a consequence, initial enthusiasm for planning may not last. Some board members and physician leaders are more interested in the answers than the process. One of the key roles a network executive can play is to stimulate interest in planning among members.

Motivating board members to plan begins with agreement on the goals of the plan and the method chosen to accomplish the goals. The desire to reach the desired goal is what impels action. Network members, however, will be motivated to plan only if they believe that the outcome of the plan is worthy of their investment of time and the steps being taken are the right ones. Motivation is based on self-interest; it is the job of the network executive to remind members of the desired outcomes of the project. Planning goals and methods should be made clear at the outset and reiterated throughout the process.

Network executives need to be conscious that circumstances change and people change their minds. As a result, initial commitment to a planning goal can wane before the process is completed. People will not be led where they are unwilling to go. As with any leadership situation, network executives must know when it is appropriate to push and when it is wise to pull back.

BUILDING TRUST AMONG MEMBERS

Seven Elements of Trust

1. Commitment
2. Familiarity
3. Personal responsibility
4. Integrity
5. Consistency
6. Communication
7. Forgiveness and reconciliation

Source: Annison and Wilford, 1998.

To achieve any of the benefits of networking, members must trust one another and the network as a whole. As used here, "trust" means that members rely on other members to behave in predictable, ethical ways. Trust grows out of familiarity with the stated or implied values and observed behavior of fellow members. Because members of new networks may not be well acquainted with one another, and because turnover is high in many rural health care professions, trust-building is a recurring need for networks that takes time, effort, and resources.

Some organizational theorists suggest that trust cannot be created intentionally, that it can only be recognized retrospectively (Sabel, 1991). Arguing against this position, Perrow (1992) contends that trust is generated by context, and that trust-building contexts *can* be created. Used effectively, planning can be an important trust-building vehicle for rural health networks. Planning can build trust as members collaboratively work out the process and decision rules for planning; announce their individual and collective goals; and sit across from one another discussing issues of substance. Perhaps most importantly, they can get to know one another more fully, which is a fundamental component of building trust. The level of trust among members should be higher at the end of a planning exercise than at the beginning.

As mentioned previously, network leadership often must manage the potentially conflicting network and member-specific perspectives. To win support, a business initiative must be viewed by a member as a means to an end that is directly associated with the well-being of the member organization. Although a threshold level of trust among members is necessary for any network venture, it is not the only factor in assessing the readiness of members for business development. Before a venture is undertaken, each member should consider:

- The benefits of cooperation: What will my organization gain from participation? (profit, community goodwill, and personal satisfaction)
- The resources offered: What will my organization be asked to contribute to the venture? Does my organization possess any capabilities that would make a unique contribution to the venture?
- The costs of cooperation: What will it cost me (capital, opportunity costs, loss of strategic flexibility, loss of autonomy) to participate?
- The need to cooperate: How badly does my organization need the venture and *how urgent* is this need?
- Other alternatives: Are there other ways to obtain the benefits of cooperation without committing to this venture?

How a network member responds to this initial assessment will determine the member's "degree of interest in cooperation and its constraints on what arrangements might be agreeable" (Harrigan and Newman, 1990).

BALANCING STRATEGY AND ACTION

Network executives may be inclined to think big. The business ventures that are planned by the network, after all, will fall within their administrative authority. Network members, on the other hand, may be more cautious. Comments such as, "We are moving too fast," and "The task is too big to be accomplished," are evidence that the network executive may be out of synch with the membership. When this occurs it is useful to pause and rethink the planning process, remembering that consensus is vital to the success of the project. When seeking to build consensus, remember that members analyze their relative bargaining power over issues such as who will contribute resources (money, facilities, equipment, expertise, and time) and how outputs will be shared. The discussion of sharing resources, risks, and rewards forms the backdrop to business planning for networks, but the discussion need not be (and most frequently is

not) contentious. Cooperation and competition exist side-by-side in networks. Thus, network planners must be willing, at various points in the process, to stop, negotiate, and bring the group to consensus before the process can move forward. Failure to do so places the venture at risk.

TIP
Early successes establish network credibility and pave the way for future success.

When conflicts arise, it is useful to re-establish concurrence on goals. If the goals have not changed, it may be useful to attempt to disaggregate a project and to implement it one part at a time. For example, rather than developing all of the systems necessary for a rural health network to offer a managed care product (as either a managed care organization or a provider-sponsored network), a network may implement a sub-system, such as medical management. Implementing a medical management program positions a network to prosper under a managed care system. But even if further managed care development does not occur, the creation of a medical management system will yield benefits in terms of improved quality of care, greater efficiency, and perhaps greater member profitability.

"Advance Positioning" is a variation on the theme of building capacity incrementally. Positioning is a strategy in which capacity is built before a clear demand for services emerges. In an environment that is volatile and fast-moving, successful organizations are constantly aware of emerging opportunities. For example, the Rural Wisconsin Health Cooperative noted several years ago that purchasers of health care services were calling for greater provider accountability. Using money from a Robert Wood Johnson Foundation grant, the Cooperative designed a quality improvement project for its members. Over time, the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) developed its outcomes-based performance measurement program called ORYX. The Rural Wisconsin Health Cooperative, by virtue of having developed a workable quality measurement system for its members, was designated a JCAHO-approved outcomes measurement vendor for ORYX. Today, all hospitals accredited by JCAHO must submit data to an approved vendor, positioning the Cooperative to turn a member service into a profit-making product line.

As no one knows truly what the future will hold, successful positioning calls for equal amounts of prescience and luck. Networks cannot be so far ahead of the curve that their innovations are meaningless to others who may follow. Similarly, networks cannot spend too long developing positioning strategies or the opportunities may pass. Network business development strategy requires constant surveillance of the environment for opportunities and an ability to move quickly and decisively once opportunities are identified. Because all of the facts about a project may not be known while planning for it, network decision makers must rely on their experience and business judgment.

MAKING DECISIONS AND REACHING CONCLUSIONS

Some members may be unsettled by the level of uncertainty inherent in some business plans and may request more data and more analysis or may defer making a decision indefinitely. March and Simon (1958) drew a distinction between satisfactory and optimal standards for decision making. Finding an optimal alternative, they said, is radically different from finding a satisfactory alternative, because the criteria applied to the choices are vastly different.

"An alternative is *optimal* if: (1) there exists a set of criteria that permits all alternatives to be compared; and (2) the alternative in question is preferred, by these criteria, to all other alternatives. An alternative is *satisfactory* if: (1) there exists a set of criteria

that describes minimally satisfactory alternatives, and (2) the alternative in question meets or exceeds all these criteria." They continue, *"Most human decision making, whether individual or organizational, is concerned with the discovery and selection of satisfactory alternatives; only in exceptional cases is it concerned with the discovery and selection of optimal alternatives"* (original emphasis) (March, pp. 140-141). March and Simon coined the word "satisficing" to denote this "good enough" type of decision making.

Network planning decisions should be made when participants feel comfortable with the probable outcomes of their decisions, knowing that the future is seldom forecast with complete accuracy. Those members who question the wisdom of some planning decisions should remember that the task of management does not end with making planning decisions. An effective manager plans, measures, and corrects in a constantly repeating cycle. Many "errors" made in planning can be corrected during implementation. It is also useful to remember that in turbulent times, organizations with a bias for action are often rewarded. Besides, you don't need a network to maintain the status quo; the purpose of a network is collaborative *action*. Finally, some network members might argue that the art of planning — exercising judgment and intuition — should dominate over the science of planning. "This business planning process," they might say, "is all textbook stuff — we don't need it." Actually, the art and science of planning go hand-in-hand, and dominance of one over the other shifts according to circumstances. Science provides the structure for planning, and art allows the planners to be creative.

The process laid out for the science and art of business planning in this guide is one that rural health networks can use for most projects. However, following each and every step is not required to have a successful project. Similarly, following all of the steps to the letter will not *assure* the success of a project. Network members should analyze what they need to know to implement a business venture and pursue only those steps of the planning process that they require. Understanding the "rules" of business planning will allow networks to select which rules pertain, apply them creatively, and make decisions based upon them.

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