Developing a Sustainable Business Model

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Introduction

Creating a sustainable business model for a multi-stakeholder Alliance is challenging, but far from hopeless. Successful Alliances understand that the key to sustainability is providing benefits that exceed the amount of funding that they receive from their stakeholders. To achieve this goal, an Alliance needs to understand its marketplace, determine what the Alliance does uniquely well, develop a clear view on the Alliance's ambitions, articulate a strong value proposition that translates into a focused set of activities, and then perform those activities effectively.

Over the next few years, Alliances are likely to find opportunities to sustain themselves by reinforcing health care reform, fostering implementation and use of health IT, improving quality at the provider level, and helping stakeholders "bend the cost curve." A variety of funding models are appropriate for Alliances including membership dues, program funding, fee-for-service revenues, royalty funding, grants and donations. A given Alliance may use one or more of these models.

Alliances will improve their chances of achieving sustainability if they take a business like approach. This includes being explicit about value creation, addressing objectives and fairness issues, being forthright in asking for money and other commitments, and identifying trade-offs and alternative courses of action. Although it would be great to hold everything constant once the sustainable model is in place, the rapid evolution of health care means ongoing adjustments are inevitable.

Challenges in developing a sustainable business model

The purpose of this document is to help AF4Q Alliances develop sustainable business models. Before describing how Alliances can reach sustainability, it is instructive to consider how challenging it is to develop such a model and some of the reasons why this is the case. Although it may make for discouraging reading, it is worthwhile to identify the barriers ahead of time so that they can be addressed and overcome.

Macroeconomic and political environment

Sustaining a non-profit during any era is hard, but the current era has been particularly difficult. The near-collapse of the financial system in 2008 combined with the contraction of the economy, increase in long-term unemployment rates, corporate and personal bankruptcies, foreclosures and other hardships have made it tough for fledgling organizations to make headway and for established ones to sustain their viability. In this environment, funders tend to focus more on cost reduction and short-term planning rather than bold, expansive visions. Funders may worry more about holding on to their own jobs than supporting the goals of an Alliance. Meanwhile, charitable organizations turn their attention toward direct service providers, such as homeless shelters and soup kitchens.

Federal and certain state activities are also competing for the time and attention of stakeholders. In particular, the debate and passage of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Patient Protection and Affordable Care Act of 2010 (PPACA) have been major areas of focus for stakeholders. There is a tendency to look toward these large programs for guidance, and Alliance activities tend to receive less emphasis while program rules are being finalized. Although the laws have been passed and implementation is underway, there is still uncertainty about the impact of the changes –and in the case of PPACA even questions about whether it will be repealed. Until the uncertainty is resolved it is natural for stakeholders to proceed cautiously.

Alignment of Alliance mission with stakeholder interests

The AF4Q Alliances have noble missions, which are hard to oppose. Therefore it is usually relatively straightforward to elicit the initial participation of major stakeholders such as local employers, health plans, and provider organizations. However, often these prominent stakeholders participate simply as good citizens without the expectation of deriving measurable business value. For example, corporate employers and commercial health plans are happy to be associated with an organization that strives to reduce disparities but may feel that it is not important enough to their own constituencies to justify deep, long-term financial commitment.

The participation of a diverse range of stakeholders can sometimes have the effect of stifling discussion when organizations are reluctant to share their real concerns and opinions in the presence of competitors or other organizations that they are not comfortable with. Ironically the presence of diverse opinions can lead to a lowest common denominator approach where only the most anodyne notions are discussed. Over time, stakeholders lose interest and decrease their commitment.

In some cases there is a mismatch between the geographic coverage of an Alliance and its stakeholders. For example, the participation of state government and large private employers is vital to Alliances' work. Yet it is difficult for community-based organizations to attract the commitment of state governments and companies whose employees are spread across the state and the country.

Track record/communications

Stakeholders can be demanding when they commit funding, and often are impatient for tangible results. Business people, in particular, sometimes have unrealistic expectations about the pace at which multi-stakeholder, consensus-based efforts can move. There is a risk that they lose interest before the organization is able to show results.

In some cases expectations are not communicated clearly or in the style that stakeholders expect, which can create friction.

Starting point

The formation of an Alliance can have a long-term impact on how it is perceived and can place obstacles along the path to sustainability. For example, stakeholders in some Alliances have become accustomed to a situation in which everything is free to them while RWJF pays the bills. Habits are hard to break and it can be difficult to shift stakeholders to active financial participation when they did not start out that way. It is also difficult to encourage funders to increase their level of support from modest to more meaningful levels. A related challenge is that when a stakeholder begins by providing in-kind support they can be reluctant to shift to hard dollar participation.

In the long-term, Alliances typically require a broad base of support to succeed. However, in certain cases it can be hard to recruit members who were not involved up-front. For example, if one hospital system feels excluded because its rival was involved in the start-up, it can be difficult to draw that system in later. Similarly, if an Alliance is launched with strong involvement of health plans, providers may perceive it as payer-dominated even if that is not the intention.

Keys to success

Despite all the challenges, achieving long-term sustainability is a realistic goal. The main requirement is for Alliances to provide benefits that exceed the amount of funding their stakeholders are asked to provide.

Alliances that are successful follow certain best practices. They typically:

1. Understand the market
2. Determine what the Alliance does especially well
    - Neutral ground
    - Performance measurement and public reporting
    - Quality improvement
    - Consumer engagement
3. Develop a clear point of view on what the Alliance wants to do
    - Reinforcing health care reform
    - Implementing the IT agenda
    - Improving quality
    - Lowering costs
4. Articulate a value proposition by identifying a scope of activities in the "sweet spot" where stakeholder needs, Alliance priorities, and Alliance capabilities intersect
5. Identify appropriate funding model
    - Membership dues
    - Targeted program funding
    - Fee-for-service funding

- Royalty funding
- Grants and donations

6. Match governance to the Alliance's desired future state
7. Evolve over time as the environment changes

1. Understand the market

Alliances can develop a solid understanding of their local market by engaging in direct conversations with stakeholders, asking them about their overall priorities, unmet needs, and how they see the Alliance fitting in to their plans. Each Alliance will find different conditions, but there are some common themes.

In general, stakeholders are enthusiastic about the concept of a neutral, multi-stakeholder group where everyone can come together to discuss difficult issues and find common ground. There is usually a shortage of such forums, and to the extent that Alliances can fulfill this role they can expect to find a receptive audience. Simply establishing a forum where everyone is invited is not enough. It needs to have the right leadership, facilitation and format to meet the needs. Stakeholders are seeking neutral ground that encourages the free flow of information and provides a safe environment where everyone feels they have an equal seat at the table and where confidentiality is respected.

The shaky macroeconomic picture and unsettled policy environment are challenges to the sustainability of Alliances. However, stakeholders are also seeking ways to cope with the difficult, changing situation, and Alliances can play an important part, especially if they are positioned as clearinghouses for emerging information and ideas.

In today's environment, it is hard to find a stakeholder that considers itself to be a "deep pocket" that can step up to cover a disproportionate share of Alliance expenses. Health plans are often viewed as high-capacity revenue sources, and that view is frequently accurate. However, health plans are quick to point out that they are quite constrained financially. Health care reform limits their administrative expenses and squeezes reimbursement, while commercial enrollment is declining as unemployment rises and employers scale back coverage. Meanwhile much of their revenue is derived from lower-profitability administrative services only (ASO) business from self-insured employers, which leaves plans with little margin to support Alliance activities.

Employers have a large stake in health care quality, yet they are facing financial pressures themselves and also feel they are already paying for quality improvement initiatives by working through health plans. With the growth of health care spending, many of the largest employers are hospitals and health plans –who don't think of themselves as traditional employers for this purpose.

Provider organizations are another logical source of funding. But hospital margins are tight and face further pressure from health care reform and cost containment efforts by commercial health plans. Physicians are not accustomed to providing substantial funding, although in some cases they may have the means.

Charitable foundations can be significant sources of funding. However, many have suffered from the financial downturn and curtailed their giving. Some have also refocused their efforts on organizations that provide "direct services" to needy people, a focus not generally included within Alliances' main activities.

Stakeholders are often seeking a responsive, professionally run organization with critical mass and staying power; they are reluctant to commit meaningful resources to transient or low-capability groups. However, they are often willing to fund or do business with strong organizations that have the ability to take on important business tasks that are best performed by neutral parties, but that the stakeholders would otherwise perform themselves.

In some markets, stakeholders care a great deal about the equity of contributions and benefits, to the extent that they may focus more on avoiding freeloaders than on the magnitude of the requested financial commitment. In such cases, the issue often has nothing to do with the Alliance itself but is based on historical actions in the community.

Alliances should expect that different members of a stakeholder group might think differently. For example, not all health plans in a community will have the same outlook. Nor will all hospitals. Again, this is usually due to historical conditions rather than the Alliance itself. For example, a hospital system with high market share may view the environment differently than a smaller hospital; a locally based health plan may differ from a national player. Understanding these differences within and among stakeholder groups is necessary.

Discussion in this section has focused on institutional dynamics, but individual personalities and relationships are also very important, and these are essential to recognize and assess. Alliances also have to look objectively at how they are perceived. Smaller and newer Alliances are often strongly identified with their Project Director. This can be a good thing in building up an organization – stakeholders are generally more willing to back a new organization if it is headed by someone they respect—but identifying an Alliance too strongly with an individual can prevent the organization from reaching its potential over the long-term and has inherent risks in case something should happen to the individual.

2. Determine what the Alliance does uniquely well

The understanding of market needs should be overlaid on an assessment of the Alliance's strong capabilities to identify the overlap. The only way an Alliance can achieve sustainable funding over time is to establish a strong overlap between the

needs of the market and what the Alliance can actually deliver. If the Alliance can identify areas of market need that overlap with areas the Alliance is uniquely qualified to address, that is even more promising.

When an initial analysis does not reveal a strong overlap, the Alliance has three choices:

1. Improve its capabilities over time to address an area of need
2. Expand the definition of the market to include stakeholders that have an interest in what the Alliance can deliver effectively
3. Scale back expectations for sustainability

The good news is that Alliances can usually find areas of overlap between market needs and their own capabilities.

Neutral ground

Most, though not all, Alliances are able to bring stakeholders together on neutral ground, and to do so better than other organizations in the community. Initially it may be sufficient to set up a multi-stakeholder Alliance and invite people to meetings. The novelty of such encounters may sustain the Alliance for a while, but the group needs to move forward and achieve real results not obtainable elsewhere in order to thrive.

Key success factors include:

- Having representatives of all key stakeholders (or stakeholder groups) at the table
- Having representation by senior people from stakeholder organizations: decision makers and thought leaders. This leads to more effective sessions with meaningful, informed discussions that lead to action, and avoid frustrating situations where representatives are simply reporting back to their bosses
- Attracting representatives that are at roughly the same level. For example CEOs prefer to work with other CEOs. If one health plan sends a CEO and another sends a Director, the CEO is unlikely to keep coming back
- Having active, informed facilitation that gently steers the conversation in the right direction, brings key data to bear, but is not too heavy-handed
- Developing norms and a distinctive Alliance “feel” over time so that people understand the value and differentiation of such forums

Common frustrations include:

- Conversations that devolve to the lowest common denominator as people seek to avoid offending one another
- Key voices that are missing from the debate
- Over-participation by one or more stakeholders

- Discussions that are good unto themselves but lack meaningful follow-up actions or results
- Perennial discussions, which seem to rehash the same arguments at every meeting
- Ineffective facilitation

Establishing neutral ground can be very valuable and differentiated. However it is difficult to achieve and even then it is hard to get stakeholders to assign a high financial value to it directly. Still, if done right it can form the basis for long-term sustainability and attachment of stakeholders to the group. In particular, once this special environment is established, stakeholders will be committed to preserving it and will bring important topics to the table that can turn into revenue-generating activities.

Performance measurement and public reporting

Performance measurement and public reporting represents an opportunity for Alliances to add value and build sustainable models. It is an area that all Alliances focus on, but success is hard to achieve, especially in the early years. Activities in this area also run the risk of generating ill will, undermining consensus achieved on other topics, and being superseded by programs run directly by Alliance members (e.g., health plans), states or the federal government.

Key success factors include:

- Establishing consensus that PM/PR is important. As of 2010 this is not as high a hurdle as it once was, but there are still pockets of resistance
- Gaining agreement to publish the initial reports –even with imperfect data. This is a critical test of the Alliance's ability to deliver results from establishing neutral ground. The natural tendency of the provider community is to initially resist the idea of public reporting and even when accepted to seek to keep it limited in its scope and ambition for how it is used. Other constituents –payers and purchasers especially—expect the Alliance to step up to make public reporting meaningful. The Alliance can succeed if it produces reporting that is accepted by providers and is viewed as something new by payers and purchasers. It is generally worth pushing providers out of their comfort zone, because the fears providers express pre-release are rarely borne out
- Building the analytic strength and data sources to produce meaningful reports
- Achieving a breadth of reporting (e.g., geographic, specialty, measures, populations) that fulfils stakeholder needs
- Demonstrating early, practical success, sometimes referred to as "quick wins"

- Persuading stakeholders to use the reporting as the basis for central business activities such as pay-for-performance, tiering of providers, and QI, rather than just an interesting intellectual exercise
- Going beyond what any single stakeholder can achieve by itself on key dimensions (e.g., statistical significance, cost of data collection, credibility of analysis)
- Establishing a path of continuous improvement and expansion to meet the evolving and growing expectations of stakeholders. These include:
    - Greater breadth and depth of reporting in general
    - Analysis and reporting to support the Patient Centered Medical Home
    - Support for Accountable Care Organizations
    - Ability to use EMR data and to reconcile it with administrative data
    - Support for the attainment of Meaningful Use
- Making the reporting directly applicable to QI so that providers can review the results of a report, act on them, improve and have the efforts show up in future reports at an individual and aggregate level

Common shortcomings in PM/PR include:

- Physician resistance to the overall idea of reporting, to the data sources used, to the way the data are analyzed, the way they are portrayed, and how they may be used by payers and consumers
- Inability to re-identify records for patient care purposes
- Long time lags in reporting, which tend to be worse than when data is coming from certain sources (e.g., aggregated claims data)
- A narrow focus that positions the information for demonstration purposes or intellectual curiosity but does not lead directly to quality improvement or cost reduction
- Inherent problems in data quality ("garbage in garbage out") that are hard to overcome. This can be true with administrative and clinical data.
- Lack of participation by all payers, which limits the analysis to a subset of a provider's panel. Lack of Medicaid and Medicare data is common and problematic
- A disconnect between what is reported administratively and what providers experience clinically
- Inconsistency with other reports. Most providers already have some reports available to them, and the Alliance's reporting is likely to show differences. It is hard to get someone to spend more time digesting reports, especially if they are satisfied with what they have already
- Alliance reporting may be de-emphasized in favor of mandated reports (e.g., CMS) or reporting that is tied to existing pay-for-performance programs
- Small sample sizes, especially for survey data such as patient experience, which limit the robustness of the results
- Lack of consumer engagement. Consumers may not know about the information and may not act upon it even when they do

- Lack of usefulness for employers and patients because data is not presented at a meaningful level of granularity, e.g., the individual physician level
- Existence of a dominant payer or provider that believes they can obtain the same or better data internally

Quality improvement

All AF4Q Alliances devote resources to quality improvement, although they do so in different ways. Many work in ambulatory settings (e.g., PCMH, meaningful use attainment), others in the inpatient environment (e.g., TCAB, standardization of discharge across an IDN's hospitals).

Key success factors include:

- Building on the Alliance's performance measurement and public reporting to help providers improve on the key metrics
- Providing respected, peer-based resources to design and deliver the programs
- Enabling interaction among providers
- Engaging providers as partners in improvement, rather than dictating to them
- Showing sensitivity to provider concerns and areas of vulnerability
- Including mid-level providers and nurses

Common shortcomings include:

- Dictating answers to providers in a "report card" fashion
- Not linking quality improvement closely enough to real-world experience
- Tying quality improvement too closely to incentive compensation
- Being too exclusive in defining which providers are eligible to participate
- Not translating Alliances' QI activities into long-term performance improvement

Consumer engagement

Consumer engagement is a very important area in order to ensure that the value of Alliances' activities is realized at the patient and caregiver level. It will become even more important in the future as consumers are asked to play a greater role in their health and to pay a large portion of the bill. As PPACA rolls out a large number of consumers will be entering the health care system for the first time. In many areas this will be quite disruptive to providers and payers, who are not prepared to cope with the unique needs of this population. This will create an opening for Alliances that have the right skill set and relationships.

The Alliances' strengths in this area have to be evaluated on a relative basis, because few organizations in health care have achieved great results.

Key success factors include:

- Recognizing the importance of consumer engagement to the success of the Alliance. Not every Alliance has reached this level
- Closely linking consumer engagement with the Alliance's performance measurement activities
- Providing useful information that cannot be obtained elsewhere
- Taking advantage of best practices in communications with consumers, including targeting the optimal media and literacy levels
- Publicizing the availability of the information
- Including genuine consumer/patient perspectives on the Alliance Leadership Team

Common shortcomings include:

- Lack of empathy with consumers. This is seen most often with provider-led organizations
- Failing to include true consumer voices on the Alliance Leadership Team. This is a hard area to fill because real consumers and patients often lack the time, expertise, and confidence to participate fully
- Providing information for consumers that is not differentiated or current, or causing confusion by offering information that overlaps with information provided by others, such as health plans or providers
- Using outdated communication tools and techniques

3. Develop a clear point of view on what the Alliance wants to do

Successful Alliances are able to articulate a compelling vision for themselves that guides their priorities. In practice, the need to do so during the AF4Q grant period is fairly modest. The National Program Office's dashboard provides a detailed set of goals that must be achieved as a condition of funding. The real challenge emerges over the longer term, when the Alliance has to decide for itself what to prioritize as it matures.

In most cases there is strong overlap between the AF4Q program goals and the Alliance's ambitions, so there is not usually a major disconnect between the present and the future. Still there are likely to be some differences in priorities and in the weight placed on different program areas.

It can be hard for Alliances to get out of the mode of "grant chasing" –where they bend their goals in order to fit what's fundable. Grant chasing is a losing strategy in the long run; it prevents the organization from establishing a clear identity and sense of purpose. It often means adding resources to take on new responsibilities, which leaves the organization no better off financially and increases the risk of missed execution.

A more appropriate vision takes into account what the Alliance does uniquely well and where the market is heading. The direction each Alliance takes will vary based on its local circumstances, leadership, and history, but there are some common themes that are likely to resonate over the next several years.

Reinforcing health care reform

Now that PPACA has been enacted, players throughout the health care system have a keen and sustained interest in how it will affect them. Alliances are well positioned to play important roles and there are a variety of potential activities included within this category.

A major emphasis for health care reform is increasing access to insurance for consumers. Alliances could stake out a role in that effort through their consumer engagement focus, for example providing resources to help people get enrolled in government and private plans, and possibly playing a part in the emerging insurance exchanges.

Demonstration projects, e.g., for the patient centered medical home, will be chartered as part of health care reform. The intent of PPACA is for demonstration projects to lead more directly to scale up than has been the case for previous demonstration projects. The HHS Secretary will have the authority and funding to make this possible.

Implementation of health care reform is likely to cause dislocations in communities as providers, payers, and other organizations restructure in the wake of health care reform and the community grapples with the fallout. A neutral party encompassing all key stakeholders can add significant value as a safe forum for discussing sensitive issues, including the formation of accountable care organizations (ACOs). There are opportunities for Alliances to provide additional value by acting as knowledge centers to disseminate evolving information on health care reform rules and best practices from other communities.

Shortages of physicians, nurses and other health professionals are expected to worsen as the percentage of people with insurance increases. Some Alliances are well-placed to work with the wide variety of stakeholders who can increase the workforce directly (such as universities) and those that can do so indirectly by making the local area a more attractive place to practice.

States – and to some extent local governments – will assume new responsibilities related to health care reform, including in the area of public reporting. Alliances can often provide the capabilities and staff to allow government to meet its needs, while the Alliances' non-profit, multi-stakeholder structure is comfortable for those in government.

Implementing the IT agenda

A transformation from paper records to digital systems is underway across the health care provider community. ARRA/HITECH and PPACA will accelerate the transformation, but they are not the only drivers. Associated technological challenges are daunting but the cultural adjustments are even larger.

All AF4Q Alliances will find themselves involved in this transformation. There are a variety of ways to approach this. The bulk of health IT funding under ARRA/HITECH is in the form of incentives for achieving Meaningful Use of electronic health records. But there is also more than $2 billion set aside to help providers make the transformation and to enable Meaningful Use. The Office of the National Coordinator of Health Information Technology (ONC) has recently funded a variety of grant programs, including Regional Extension Centers, statewide Health Information Exchanges, Beacon Communities, and workforce grants. The organizations that are running these programs at the local level are still in their formative stages and are natural partners for Alliances to consider. Alliances may become extension agents even if they have not been part of the original grant process.

There will also be opportunities to supplement or complement ARRA programs. For example, despite the ambitious spending on programs to bring providers up to speed on Meaningful Use, the Regional Extension Centers lack the funding and the mandate to serve the whole community. Providers may still require REC-style services even if they are not available from government-subsidized RECs.

Government support for Meaningful Use is very provider oriented. That leaves a major gap in consumer-oriented programs. Alliances that are serious about consumer engagement may find health IT a fertile, underserved area.

Improving quality

Improving quality has been central to the work of the Alliances and is likely to remain so. Over the longer term this may include assisting practices in interpreting and improving quality metrics provided by the Alliance or other PM/PR sources. It may also translate into providing support for private and/or public pay-for-performance programs where providers have a clear incentive for improvement.

In the long term, reduction of disparities is likely to shift into the quality improvement category. Although disparity reduction is usually thought of as an equity goal, as performance improves overall the only way to continue making improvements is through reducing disparities, i.e., improving performance related to patients who are not achieving equal access or outcomes.

Quality improvement is usually first tackled within a specific setting of care, such as with an ambulatory physician office or an inpatient department, because that is the easiest way to start. Data are more readily available and it is simpler to address organizationally. However, serious quality issues arise in transitions of care between different settings. This problem is starting to be acknowledged, but is not

yet well addressed. Alliances may find this is a fruitful area of focus because it draws on the multi-stakeholder/neutral party capabilities of Alliances and their data gathering, interpretation and quality improvement strengths.

Lowering costs

With a few exceptions Alliances have not made cost an explicit area of focus. Cost containment is also not explicitly addressed by PPACA. However, cost is such an important issue for sustainability of the health care system that it will increasingly appear on the list of Alliances' top priorities.

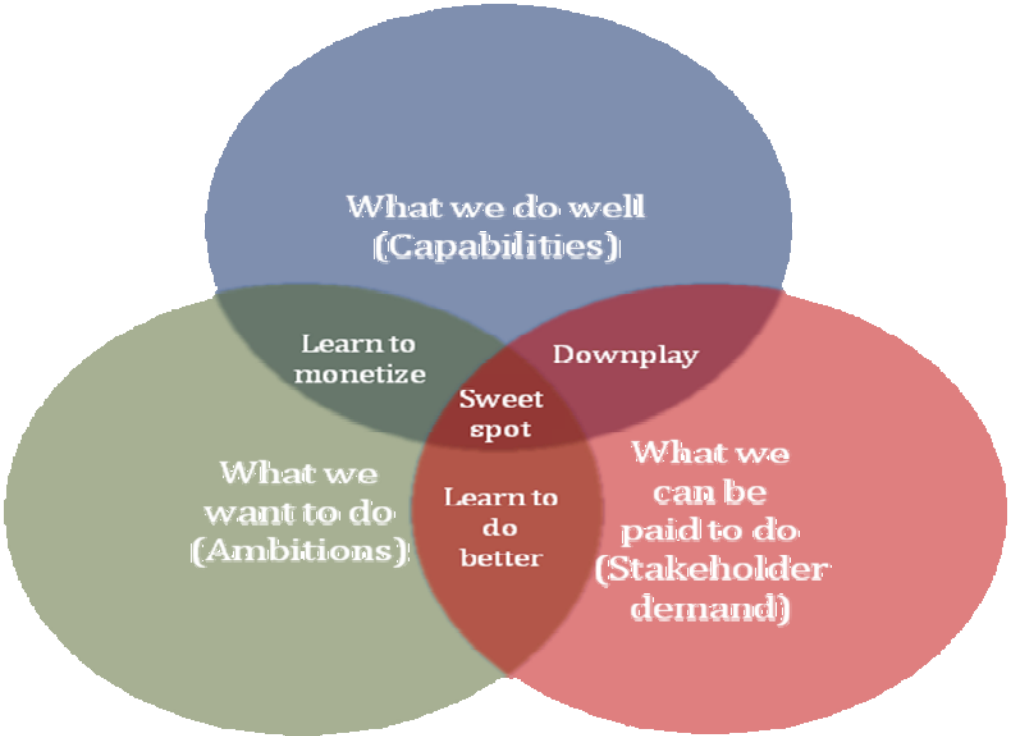
For a multi-stakeholder organization, a focus on lowering costs is a very tricky thing, and can be a zero-sum game. After all, one stakeholder's costs are another's revenue. When a health plan's medical costs decline, there is usually a corresponding loss of income for providers.

Still, most stakeholders will agree that there is an imperative to "bend the cost curve," i.e., to slow the growth of aggregate costs over time. And there are areas where all parties can agree, such as reducing hospital readmissions for heart failure or encouraging appropriate use of medications. There is also an argument that lower health care costs increase the attractiveness of the community to prospective employers and residents, which can benefit everyone.

4. Articulate a value proposition

After an Alliance has developed an understanding of the market, determined what it does especially well, and developed a clear sense of its ambitions, it is ready to determine the specific scope of activities to evolve to over time.

The following Venn diagram (developed by Bud Caddell) is useful in identifying the "sweet spot," which is the overlap of all three circles: stakeholder demand (what the market is willing to pay for), what the Alliance does well (its capabilities) and what the Alliance wants to do (its ambitions).



It is also productive to examine where two circles overlap, to see if those activities have the potential to move to the sweet spot over time:

- *Overlap of stakeholder demand and ambitions*. This presents a clear opportunity to invest to improve the Alliance's capabilities over time. In this situation, the Alliance would likely be disappointed if the activity were performed somewhere else.
- *Overlap of stakeholder demand and capabilities*. There may be older activities that the Alliance is performing today that would not be in scope if the Alliance were starting up today. The temptation may be to jettison them in the name of focus, and that is probably what should happen over time. In fact, if there is a serious clash with the Alliance's mission or the activities are a major distraction, it may be best to stop such activities right away. However, it often pays to take things slowly. Steady revenue generating activities may take longer than expected to replace, and eliminating legacy activities may alienate stakeholders the Alliance wants to retain for other parts of its mission.
- *Overlap of ambitions and capabilities*. This segment may include cutting-edge ideas that fit the mission but are difficult to fund. Sometimes these activities can be modified or repositioned somewhat to fit better with what stakeholders demand. Other times it is a matter of identifying a broader set of stakeholders who may be interested. And sometimes these are activities that have to wait or that can be subsidized by other revenue generators.

The diagram can be used as a consensus-building tool as the Alliance develops a value proposition. Specific activities can be mapped to it for discussion. Not all stakeholders will agree completely on what fits in the sweet spot, but as long as activities are not in conflict with one another and the Alliance does not overreach, that is acceptable. When it comes to implementation, there can be some pruning. Not being ambitious enough in defining the sweet spot is a more serious problem, because stakeholders may not fund the effort unless they foresee a significant impact. This is a balancing act that each Alliance has to consider, depending on its own level of maturity and the nature of its stakeholders.

In general, one can expect the sweet spot to contain an extension or continuation of what an Alliance is doing already, along with a few new areas. AF4Q guidance and the activities undertaken to date have sent most Alliances down a path that is largely compatible with this "sweet spot" framework. Even if an Alliance does not expect to make many changes to its program of activities, it can be worthwhile to test the plan with this framework to make sure there is good alignment between capabilities, ambitions, and what stakeholders are willing to pay for. This is especially important when transitioning from RWJF support to a broader funding base.

Take a business-like approach

Alliances are not businesses, nor should they be. And yet when seeking a sustainable business model an Alliance need to think more like a commercial enterprise. It may feel uncomfortable and unfamiliar, but it brings needed discipline.

Be explicit about value creation

The first aspect is to be explicit about the value the Alliance is delivering. Value in the business context has a specific meaning: it is the benefit obtained divided by the cost of obtaining that benefit. Over the long term, the ratio needs to be greater than 1. In other words, if a stakeholder contributes $100,000 per year in dues they will expect to obtain more than $100,000 in benefits. $200,000 or $500,000 in benefits is even better. When stakeholders discuss "return on investment" this is often what they mean.

It is worthwhile to formally describe the value stakeholders receive from the Alliance and to remind them of it regularly (but tactfully). Not everything can be quantified. Still, it helps to provide a framework that stakeholders can apply for themselves. It is often best to start with more concrete benefits, which often involve cost savings and are easier to explain. Such benefits are not very exciting to Alliances, but they are straightforward to quantify and stakeholders are more likely to view them as real. An example of such a benefit is when each of four health plans can pay 25 percent of the cost of administering a performance measurement or transparency program rather than separately paying 100 percent of the cost for four internal efforts.

Stakeholders (especially the business-minded ones) may be reluctant to assign dollars and cents to more amorphous benefits, such as the value of collaboration on neutral ground. Yet as long as stakeholders are persuaded that the concrete value of their payments is more than what they are paying, they tend to be open-minded about other programs. If possible, try to quantify non-concrete benefits or at least provide a framework for helping stakeholders understand the Alliance's rationale.

Address objections and fairness issues

Inevitably some stakeholders will express dissatisfaction with the revenue model: they may feel they are being asked for too much, or worse, that someone else is not participating at all or fully. It is best to takes these concerns seriously and to try to address them objectively.

First, it is always wise to thank stakeholders for their support and let them know they are appreciated. Second, no allocation formula will be completely fair, and it can be hard to eliminate all freeloaders or to adjust the allocation for one stakeholder without causing problems with another. It is helpful to refer back to the previous section about value creation. To the extent that stakeholders feel they are receiving value that equates to a multiple of their contribution level, it becomes less critical to get the exact formula right.

5. Identify an appropriate funding model

Good planning can prepare an Alliance for success, but new challenges arise when determining how to pay for the organization and who will do it. This section provides guidance on identifying funding models and putting them in place.

Funding models come in multiple flavors, and it is often desirable to mix and match models to suit the specific scope of an Alliance's activities and the needs of its stakeholders.

Membership dues

As Alliances mature, they should generally consider incorporating a membership dues model into their planning. Dues are appropriate when stakeholders have a desire to belong to the organization and feel that they receive benefit from all or most of its activities. Alliances that play a strong convening role and are able to develop neutral ground typically find that membership dues align well with that role.

Dues structures vary widely. Some organizations have flat-rate dues where all stakeholders pay the same amount annually. Others use simple formulas based on number of employees, revenue, or stakeholder category. Dues-based revenue is advantageous for an Alliance because it generates predictable revenue that is helpful for budgeting, it gives an Alliance the freedom to respond to emerging priorities rather than go to its membership for each activity, and it can be perceived

as equitable and transparent by members. Member organizations tend to include dues payments in baseline budgets that are renewed from year to year without extensive discussion or effort on the part of the Alliance.

One way for an Alliance to evolve to a dues structure is to offer a number of a la carte services with relatively high prices, and then bundle those services into explicit membership benefits. For example an Alliance could establish a per-session price for its Quality Improvement Learning Collaborative and a per hour price for consultation on workflow, then offer a membership dues rate that is attractive relative to the a la carte services. Rather than paying $250 per session for two Learning Collaboratives and $150 per hour for two hours of consulting –or $800 total—a physician will readily make the decision to sign up for a $500 membership that includes these explicitly-valued services along with other tangible and intangible benefits.

Dues have some downside as well. In the name of equity, dues assessment formulas can become complex and outdated. For example, if dues are based on number of employees and the region's employer base shifts from large industrial companies to smaller, service based companies, the formula may no longer work. Another issue that can arise is when stakeholders feel uncomfortable with providing too much autonomy on spending to the Alliance's staff. The Alliance can attempt to manage this proactively, by providing transparency in budgeting and/or having a strong finance or programs committee within the governance structure. Having an Alliance executive with strong communications skills makes a significant difference.

Benchmarking of other Alliances can be useful to provide ideas, anchor dollar amounts, and shift the discussion away from the local context where feelings may be bruised based on historical interactions.

Targeted program funding

In some Alliances, stakeholders provide financial support for specific programs. Often, such funding is layered on top of base membership dues and is used to support programs or activities that other stakeholders do not prioritize as highly, or for which special funding is available. For example, health plans may provide funding for patient experience data collection, an activity they might otherwise undertake and pay for internally.

Program funding has important advantages. It is tied to specific stakeholders' priorities, which can make it easier for stakeholders to support an Alliance at higher funding levels than membership alone. The funding is also likely to come from different budget areas than membership funding. This provides a two-fold benefit: it expands the total pool from which the Alliance can draw and increases the number of contact points within major stakeholders.

Program funding also enables the Alliance to draw from a wider funding base than the membership alone. Some stakeholders whose initial interest in the Alliance is

narrow can be cultivated over time to become members. If membership is made a condition of participation it raises barriers and may deter funders, divert them to other organizations, or cause them to form entirely new organizations.

An example of this approach is a program to reduce expenditures on Low Back Pain (LBP). LBP expenses are a serious concern for many medium sized employers that would otherwise not consider participating in an Alliance. It adds to their medical expenses if they are self-funded and it is costly to overall productivity due to missed work. If an Alliance can demonstrate bottom-line improvement, it should be able to recruit employers to fund the program. Once employers are exposed to the work of the Alliance they may consider longer term and/or broader support. Even if not, such programs can expand Alliances' funding, awareness and impact consistent with their missions.

Program funding has downsides, and these disadvantages can be more serious than those that characterize membership funding. A common problem is that large contributors can end up dominating, and this may undermine the commitment of smaller members if not handled well. For example, if a large funder underwrites a substantial portion of a conference series undertaken under the auspices of the Alliance, that funder may expect to have a disproportionate say in how the agenda is shaped, who presents, and how the conference is run. Alliance staff members are likely to be accommodating –since the funder is large, generous, and seemingly benign. However, there is a risk that regular members may see the Alliance as overly influenced by the large funder, which can undermine the very important spirit of neutrality that the Alliance is trying to foster. Longer term, it may lead to a decline in commitment and funding by other members.

Program funding can also be more volatile than membership funding, and therefore demands more management attention and overhead. Program ramp-up and ramp-down can be rather sudden and put a strain on the Alliance. This can be managed, however, by recognizing its existence and striving for multi-year program commitments. It is ideal –and sometimes feasible—to have rolling, long-term commitments, so that an initial 3-year program is extended a year at a time. That way it always has at least 3 years of visibility. This is challenging to accomplish in practice, however. Another option is to make certain long-running programs permanent and incorporate the funding into higher membership dues.

Fee-for-service funding

Fee-for-service funding refers to offering services or products that are purchased by customers. In this case there is generally no explicit requirement that the customer/stakeholder share the mission of the Alliance or otherwise support it. It is simply a commercial transaction between buyer and seller. Examples of activities that are often offered on a fee-for-service basis are physician practice consulting, chart review services, and sale of books or program materials.

The Massachusetts eHealth Collaborative (MAeHC) was funded with an initial $50 million grant from Blue Cross Blue Shield of MA. Providers in three communities were eligible for free services from the organization. However, as MAeHC developed a strong track record and reputation, other providers became interested in obtaining MAeHC services. Eventually MAeHC established a for-profit Professional Services Corporation as a wholly owned subsidiary, which provides services to providers and other organizations in competition with commercial entities. These activities are consistent with MAeHC's mission and provide a diversified funding stream.

Alliances may have the opportunity to offer similar services. The Regional Extension Centers, which are designed to help physicians achieve meaningful use of EHR, will be unable to serve more than a fraction of eligible providers. Physician practices may be willing to contract with Alliances that can help them achieve Meaningful Use incentives in the near term and avoid penalties over the longer term.

On the positive side, obtaining fee-for-service funding demonstrates the organization's capacity to provide outputs that are of value in the marketplace. Customers are expected to pay based on their true business needs, uninfluenced by any mission or community benefit outlook. It also introduces commercial discipline to the Alliance. For example, stakeholders may tolerate missed deadlines and slow communications from a non-profit membership Alliance, but they are less forgiving in dealing with commercial vendors. This discipline can be applied to other Alliance activities, which generally results in higher service levels and stakeholder satisfaction. If the commercial enterprise is especially successful, it can subsidize other areas of Alliance activity.

However, fee-for-service is a difficult model for Alliances to execute successfully and should be restricted to a modest percentage of total revenue. Fee-for-service activities can make some members uncomfortable that the organization is straying from its mission. Certain members may express concerns about doing business with some types of customers (such as pharmaceutical companies or health plans). It takes time to address these concerns and it cannot always be done effectively. Sometimes the concerns are legitimate and outweigh the revenue potential.

Although commercial discipline is generally a good thing, especially if it leads to better member service overall, the type of staff required for commercial work may differ in temperament and training from those best-suited to the core work of the Alliance.

Royalty funding

In some instances Alliances can license their intellectual property or content to other parties who incorporate it into their product or service offerings. Examples include continuing medical education (CME) materials and software tools. A major

advantage of royalty funding is that it is usually generated passively. In other words, it represents payments for byproducts of the Alliance's other work that are commercialized by others. As such it is simpler and less risky to administer than fee-for-service programs described above. In some cases royalty streams are predictable and long-lived.

An HIV-oriented non-profit organization conducted an open meeting to educate physicians, public health officials and the public about new guidelines for routine HIV testing and the interaction with treatment. The meeting was paid for through a program funding mechanism by the organization's government and industry sponsors and fully covered its costs. In addition, a CME publisher agreed to adapt the outputs of the meeting to be used as online course materials for providers who were unable to attend the in-person meeting. The publisher agreed to pay the HIV organization a per user royalty in exchange for the right to provide the materials. The agreement required time and effort to negotiate and implement, and raised questions from the HIV organization's board. However, broader dissemination of the materials was consistent with the objective of the HIV organization and the sponsors of the open meetings.

Royalty funding has challenges, too. When an external party produces and distributes the product or service, the Alliance loses some control. It is important to develop contractual agreements that prevent the use of Alliance material in ways that could harm the Alliance. For example, an Alliance may gather data from its members with the understanding that the information will be used for quality improvement and public health. If licensees use the data for a different purpose it may cause problems. Some royalty streams are very rich but many deliver low revenues. Therefore in most cases it is not wise to rely on royalties to cover a large share of the budget.

Grants and donations

A key motivation of sustainability planning is often to wean Alliances away from their dependence on grant funding. However, grants and donations can be a healthy part of a long-term sustainable business model, as long as they are not the dominant source of funding and are obtained from a diverse set of funders.

Grant funding enables foundations and other donors to advance an issue that is important to that funder, even if there is no clear "value proposition" for Alliance stakeholders. The motivation of such funders is largely mission-based. To the extent that the mission of a funder and an Alliance matches, there can be a good basis for cooperation. Donors are seeking effective, efficient organizations to fund. If an Alliance can satisfy such donors –especially large, sophisticated ones like the Robert Wood Johnson Foundation—it also represents a strong vote of confidence for other stakeholders.

Grant funding should have a dynamic relationship with an Alliance's other funding sources. For example, a foundation may fund a research and development effort (e.g., performance measurement and public reporting) that eventually leads to a product that can be supported by program funding or fee-for-service revenue.

Visionary funders can help conceptualize and provide resources for activities that could not be funded otherwise but that become more fundable over time. For example, "reducing disparities" may seem like a worthy goal, but one that does not yield a financial "return on investment" for stakeholders. Yet as providers measure and improve quality over time, it eventually will become clear that the only way to get to the next level is to reduce disparities. With grant funding, an Alliance can prepare for that day.

The downsides of grants are familiar. Most have a limited life. All require resources for grant writing, which has to be invested even in the absence of a guaranteed payoff. Sometimes the grants are underfunded relative to the work requirements, which means an Alliance can actually lose ground by having to subsidize grant-funded initiatives with money from elsewhere.

"Grant chasing" is another frequent challenge. Each grant maker has its own priorities, which don't always line up well with the mission of the Alliance. But especially in a world where budgets are tight, it can be tempting to rationalize that any given RFP is a strong match for the Alliance.

Don't be shy about asking for money and other commitments

Alliances need funding and the commitment of stakeholders to fulfill their missions. All else being equal more money and greater commitment will make Alliances more successful. Sometimes leaders of Alliances and other non-profits are insufficiently ambitious in their budgetary ambitions. They may feel embarrassed to ask for funding or lack the experience to do so. They may not be confident of the value their Alliance creates or may not know how their funding proposals fit into the budget of stakeholders.

When stakeholders contribute larger amounts to Alliances they also often devote more attention to the organization. For example, they may send a more senior representative to serve on boards and committees, and the Alliance's work may gain visibility at higher levels within the organization.

Alliances are addressing issues that are central to the interests of stakeholders. Health care cost, quality, and access are not small matters. It's completely reasonable for Alliances to seek the resources to do their work, as long as they are contributing to progress on these issues.

Identify trade-offs and alternative courses of action

Alliance stakeholders sometimes impose constraints on themselves that make it difficult to achieve sustainability. For example, there are often concerns about

selling data generated by the Alliance or objections to soliciting funding from certain organizations, such as pharmaceutical companies. If an Alliance is not careful, it can find itself in an unfundable position.

One way to address this issue is to make tradeoffs explicit. If certain funding sources are off limits, either other stakeholders will have to provide higher funding than they otherwise would, or they will have to accept some combination of a narrower scope of activities, longer timeframe for accomplishment, lower impact, or lower probability of success.

If the argument is laid out in a logical way and supported by data, it can help resolve the problem. Stakeholders may be more accepting of providing additional funding, they may accept restrictions in scope, or they may decide that their objections to certain funders are not ironclad.

6. Match governance to future state

As an Alliance matures and implements a sustainable business plan, it often needs to make adjustments to its overall governance structure. A full discussion of governance is beyond the scope of this document, but there are certain best practices that bear directly on sustainability that are worth mentioning.

Alliances often launch with constituency boards, where the members represent their own interests. Over time it is usually best to shift toward a board that focuses on the well being of the organization itself and fulfillment of its mission. Some Alliances benefit from councils that represent member views, e.g., physician council, health plan council. These groups can meet on their own, even when they are not all on the board.

Board composition should match the organization's scope of activities and its scale. As Alliances grow and become more complex, they need to add people who are knowledgeable about topics such as finance, strategy, and law. When Alliances take on core functions that stakeholders would otherwise perform, the level of board representation will rise and certain stakeholders will express the need for representation. For example, if Alliance measures are being used to determine physician bonuses, which would otherwise be administered by health plans, then the plans will want an oversight role. Physicians may, too. Some parties may also want to make sure certain people or entities are excluded.

Successful organizations are able to transcend their founding members and take advantage of opportunities to upgrade board membership over time with people who are more senior and more accomplished than the founders. This can be uncomfortable, but it is a real opportunity to build strength that is often missed.

An Alliance's board can be used strategically to build linkages to other organizations. Inter-connected boards provide insight and influence over related

organizations, and help ensure equilibrium in a community. Real and perceived conflicts of interest, however, must be acknowledged and addressed.

Board members should rotate regularly. Six years (either two three-year terms or three two-year terms) is an appropriate term limit for someone to be on the board without a break. As a rule, a minimum commitment of two years is needed to maximize the effectiveness of the board and ensure continuity.

Once an Alliance is well established it is time to cultivate the next generation of leaders. A good way to do so is to invite prospective board members to participate in task forces or board committees initially. Having a standing nominating committee is another good practice.

7. Evolve over time

Developing a sustainable business model requires significant effort, so it is tempting to want to hold everything in place once the plan is completed. Yet the modern health care environment is changing fairly quickly, and standing still may not be a realistic goal. For example, plans developed over the past two or three years have had to adjust to the deep recession, ARRA/HITECH and PPACA. This does not mean that a plan should be fluid or that grant chasing is acceptable. Rather it requires keeping close tabs on the environment and recognizing when a shift is warranted.

Stay close to stakeholders

Successful Alliances keep their finger on the pulse of key stakeholders. This means meeting regularly with stakeholders, seeking their input on top priorities and soliciting feedback on how things are going. It is wise to remind them of the Alliance's value proposition from time to time; it is rarely top of mind for them and they may forget it without an explicit reminder. A good practice is to document the value specific stakeholders receive from the Alliance and ask them to validate it.

Institutionalizing relationships between the Alliance and its stakeholders is a worthy goal as the Alliance matures. It is normal for initial relationships to be between individuals; we expect founders to use their connections to establish initial relationships to launch a risky new concept. Over time, though, it is healthier for the Alliance and the stakeholders if the relationships expand beyond the initial, personal one-to-one bonds. This helps broaden support within stakeholder organizations for the Alliance and reduces the risk that support will dissipate when there is a change of personnel or responsibilities at the stakeholder or within the Alliance itself.