



Marketplace Metrics

Board of Directors Meeting

March 10, 2014

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- Existing Financial Measures
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Existing Dashboard

- Based on feedback, the existing dashboard will be modified to eliminate the following metrics:
 - Previously uninsured
 - Most common knowledgebase articles
 - Duplicate account data for brokers and health coverage guides
- The metrics discussed in this presentation will be additions to the existing dashboard based on feedback from the Board to expand in the area of finance and operations

Metrics Objectives

Objective #1 - Report on financial metrics that can be analyzed objectively for the purpose of developing realistic strategies and action plans to improve financial performance.

Develop, Analyze and Act on Financial Metrics that can –

- Provide a clear picture of current financial health
- Identify relevant financial and statistical trends that preempt potential future financial issues or concerns
- Serve as benchmarks for internal trending
- Be used to identify opportunities to improve financial efficiencies

Objective #2 – Support Financial reporting to governance and regulatory stakeholders

Objective #3 – Identify operations metrics that provide an indication of overall operations health and wellness. Should track to major initiatives set forth in operations plan.

Financial Measures - Basics

- Metrics building blocks
 - Gross Revenue = Revenue from all sources
 - Net Revenue = Gross Revenue – All expenditures (including depreciation)
 - Gross Income = Gross Revenue – Operating expenditures (direct and allocated)
 - Earned Income = Gross Income – Grants revenue
 - Cash Flow = Net Revenue + Depreciation – Liabilities + Receivables
 - Total Assets: Does not include unspent grant funding
 - Planned investment: Future CapEx

Existing Financial Measures Review – Gross Income and Net Revenue

- **Gross Income (Included in Statement of Financial Activities)**
 - **Calculation** – Gross revenue – Operating Costs
 - **Description** – Indicates the profitability of the business operation after deducting the direct costs associated with delivering service
 - **Analysis** – Must be a positive number, or at least projected to be a positive number over the long haul. Must cover administrative (overhead) costs. Reflects opportunities to adjust pricing (increase revenues) and apply efficiencies (decrease costs) to business operations. Review monthly, quarterly and annually against trends and forecasts.
- **Net Revenue (Included in Statement of Financial Activities)**
 - **Calculation** – Gross Income – Overhead Costs
 - **Description** – Fundamental Measure of Business Financial Health
 - **Analysis** – Along with asset reserve must account for future periods' investment requirements. Review monthly, quarterly and annually against trends and forecasts.

Existing Financial Measures Review – Gross Margin

- **Gross Margin**
 - **Calculation** – Gross Income/Gross Revenue
 - **Description** – Traditionally, this measure is used as a benchmark to evaluate pricing of products based on Cost of Goods Sold. For Connect for Health, pricing parameters are influenced by legislation, public perception and other external forces. These affect market-type pricing flexibility. Thus, gross margin can be used to measure operational efficiency vis a vis gross revenue variability (which is driven by transaction volume)
 - **Analysis** – Realized economies of scale, by leveraging existing asset potential, will cause this ratio to grow as revenues grow. Shrinking revenues will challenge business to stabilize this ratio as much as possible by shedding fixed costs.

Suggested Financial Metrics Detail

Review – Savings Indicator

- **Savings Indicator**

- **Calculation** – $(\text{Gross Revenue} - \text{Gross Expenses}) / \text{Gross Expenses}$
- **Description** – Measures the organizations ability to increase its asset base over time relative to the expenses it incurs.
- **Analysis** - One of the inferences that can be drawn from this ratio is the organization's ability to absorb downturns in revenue without impacting reserves. Removing grant funding and startup expenses from the calculation yields the Earned Income Ratio (discussed in the next section) which provides a better measure of sustainability.

This metric makes the most sense year over year and compared to other exchanges. If looking at this metric quarterly or monthly, should compare to previous years period rather than immediate prior period.

- **Example** - Organization 1 has Gross Revenues of \$1,100,000 and Gross Expenses of \$1,000,000 - Savings Indicator = $(\$1,100,000 - 1,000,000) / \$1,000,000$ or **.1**
Organization 2 has Gross Revenues of \$200,000 – Gross Expenses of \$100,000 --- The same Gross Margin as Organization 1, but the Savings indicator is $(\$200,000 - \$100,000) / \$100,000$ or **2.0**. Organization 2 is in a much better position to save money given the variability of revenue and expense streams

Suggested Financial Metrics Detail

Review – Earned Income Ratio

- **Earned Income Ratio**
 - **Calculation** – $(\text{Earned Income} - \text{Gross Expenses}) / \text{Gross Expenses}$
 - **Description** – Measures the proportion of all expenses covered by earned income - This is a similar measure to the savings indicator, the only difference is that it does not include revenue from grants, taxes and assessments. It is a primary indicator of an organization's strength of sustainability.
 - **Analysis** – Any ratio above zero indicates that the organization is sustainable. The larger the positive number, the stronger the financial viability of the organization. This metric makes the most sense year on year and compared to other exchanges. If looking at this metric quarterly or monthly, should compare to previous years period rather than immediate prior period.

Suggested Financial Metrics Detail

Review – Income Reliance Ratio

- **Income Reliance Ratio**
 - **Calculation** – $\text{Income Source} / \text{Total Income}$
 - **Description** – Compares the amount of income from a particular income source to the organization's total revenue.
 - **Analysis** – This metric might be best articulated as a pie chart. Overtime we will see grant revenue decreasing, tax credits remaining steady, broad based assessment decreasing and administrative fees increasing due to increased volume. For internal comparisons, compare year over year and to future budgets. May also provide value in budgeted vs. actual + forecast.

Suggested Financial Metrics Detail Review – Expense Category Ratio

- **Expense Category Ratio**
 - **Calculation** – Expense Category/Total Expenses
 - **Description** – Compares the amount of expense from a particular expense category to the organization’s total expenses.
 - **Analysis** – This metric might be best articulated as a pie chart. The first task in developing this metric is to decide on expense categories - current considerations include Front-office Service Center Operations, Back-office Service Center Operations, Technology Operations, General & Administrative, Marketing & Outreach, In Person Assistance (both Assistance Sites & CAC’s). For internal comparisons, compare year over year and to future budgets. May also provide value in budgeted vs. actual + forecast. May also be valuable to compare these metrics to other exchanges in the same phase of development.

Suggested Financial Metrics Detail Review – Program Services Expense Ratio

- **Program Services Expense Ratio**

- **Calculation** – Program Expense/Total Expense
- **Description** – The program ratio measures the relationship between program expenses (funds devoted directly to marketplace operations) and the Connect for Health Colorado's total expenses (including costs associated with management & governance)
- **Analysis** – Connect for Health started with a very high Program Ratio. Over time, organizations should strive to maintain the highest possible program ratios, devoting as many of their resources to "program activity" as possible.¹

For internal comparisons, compare year over year and to future budgets. May also provide value in budgeted vs. actual + forecast. This would also be an excellent benchmark to compare to other exchanges who are in the same phase of development.

¹ <http://www.guidestar.org/rxa/news/articles/2004/why-ratios-arent-the-last-word.aspx>

Suggested Financial Metrics Detail Review – Program Services Expense Ratio

- **Revenue per Employee (Revenue/FTE)**

- **Calculation** – Gross Revenues/number of employees or number of FTE's
- **Description** – In general, provides a measure of labor intensity
- **Analysis** – Further definition of this metric is required. It is probably not meaningful to only measure Connect for Health employees. This metric is intended to apply to operations staff primarily. As such, it should be applied to include the vendor staffed service center (back office and front office) employees.

Because current labor intensity is affected by IT implementation and system stabilization, some adjustment could be made to this ratio. As more IT functionality comes on line, the unadjusted labor intensity should diminish .

Another possible approach to this metric could be to calculate and track Revenue by type of employee – for instance, Revenue/Back Office FTE, Revenue/Front Office FTE and Revenue/ HQ FTE.

Additional Financial Leading Indicators

- Additional Leading Indicators
 - Number of enrollees and changes to enrollment numbers
 - Enrollee retention at renewal
 - Premium pricing
 - Number of policies offered by carriers
 - Marketing efficiency
 - Appeals causes/resolutions
 - Conversion ratios for outbound campaigns
 - Customer satisfaction ratings

- These items were discussed during the finance committee meeting as management indicators. These are not metrics that will be reported publicly, but they may be addressed in Board and Committee updates from time to time.

Suggested Operations Metrics – Sales and Retention

- **Grow customer base year-after-year**
 - **Calculation** – Percentage of enrollments relative to baseline projections
 - **Description** – Demonstrates ability to meet sustainability as an organization
- **Retain a percentage of existing customer base**
 - **Calculation** – Percentage of customers who purchase year over year relative to baseline
 - **Description** – Indication of ability to retain customer base

Suggested Operations Metrics – Sales and Retention (cont.)

- **Broker Agent Channel Support Initiatives**
 - **Calculation** – Increase in sales as a percentage of baseline sales in 2014.
 - **Description** – Demonstrates ability to continue to persist a productive channel.
 - **Analysis** – Define increase as appropriate to this channel.
- **Health Coverage Guide Channel Support Initiatives**
 - **Calculation** – Increase in sales as a percentage of baseline sales in 2014 (adjusted appropriately by overall program size).
 - **Description** – Demonstrates ability to continue to persist a productive channel.
 - **Analysis** – Define increase as appropriate to this channel.
- **Customer Service Center Channel Support Initiatives**
 - **Calculations** – Enrollment conversion rates for inbound and outbound calls.
 - **Description** – Demonstrates ability to continue to persist as a productive channel.

Suggested Operations Metrics – Optimize Operations and Support

- **Improve Cycle Times**
 - **Calculation** – Time between application initiation to enrollment effectuation. Demonstrate on a percentage basis improvement year to year.
 - **Description** – Demonstrates ability to deliver reliable and timely transactions
- **Efficient Staffing and Attrition Control**
 - **Calculation** – Performance relative to contractual SLAs
 - **Description** – Demonstrates ability to continue to persist a productive operational organization

Timing & Implementation of Measures

- Expand Intacct Dashboard as implementation progresses
- Include copy of reports with Marketplace Dashboard to full Board
- Full reporting of financial measures by 4/30/2014
- Future considerations for accounts receivable/operating cash flow
- Baseline operations performance and define measurement benchmarks summer of 2014

Questions?
