



JOHNS HOPKINS
M E D I C I N E

Business Plan Guide

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JOHNS HOPKINS MEDICINE BUSINESS PLAN GUIDE

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JOHNS HOPKINS MEDICINE BUSINESS PLAN GUIDE

I. Introduction

Management within Johns Hopkins Medicine needs to prepare a business plan to justify the commitment of significant Johns Hopkins Medicine resources to a new endeavor such as a new program, expanded service, new facilities or capital equipment, or initiatives to increase utilization, and to consider, when necessary, exit strategies. A business plan serves five basic purposes. It:

- defines the opportunity and objectives
- explains why it is in the interest of JHM to pursue the opportunity
- assesses the market for opportunities
- projects the financial implications of the opportunity
- outlines a strategy to achieve objectives

This document guides planners to create consistent, complete and efficient business plans. It is meant to serve as a reference for all new business planning. Each opportunity is unique, so elements of this guide which do not apply to a given business opportunity may be omitted.

There are five criteria that mandate the submission of a formal business plan following this guide to the JHM Business Review Group (BRG). The BRG is a committee composed of senior management that is charged with evaluating proposals involving:

- a joint venture with an outside entity
- the use of the Johns Hopkins name
- significant funding by JHM
- impact on other entities or departments
- regulatory approval

II. The Business Plan Outline

All business plans, though different, should follow the same basic format. The following outlines the major components of this format. As stated previously, a business plan might not require all of these components. Business Units should assess the level of detail required for their plan and tailor the document accordingly. *[Should add some guidelines for the components the Business Unit should complete based on the amount of the investment.]*

A. Executive Summary

This section gives the reader a synopsis of the plan so the general opportunity can be kept in mind while reading the details.

B. Background and Methodology

This section discusses the origin of the business opportunity, the reasons for its consideration and identifies the interested parties. The reasons for consideration must be given in relation to both the JHM Strategic Plan and the involved Business Unit's overall strategic plan and management objectives. This section outlines the data sources used to complete the various analyses (e.g., HSCRC, IDX, Solucient, internet, detailed interviews, etc.) and the work teams formed to accomplish the tasks.

C. External Assessment

This section assesses the potential success of achieving objectives for the new or expanded program in a competitive market.

D. Internal Assessment

This section presents a report on the ability of Johns Hopkins Medicine to perform the functions required by the proposal, based upon analysis of the historical internal performance of the Business Unit that will be performing the new or expanded activities. This section also identifies future service development issues and opportunities of the Business Unit.

E. Financial Projections and Analysis

This section explains the assumptions behind, and implications from, the supporting financial schedules. The sources for all support data must be identified, such as JHH billing system, HCFA standard tables, etc. If the project requires funding, the planned source of the funding must be identified. Any concerns, open issues, or unanswered questions on funding must be listed here.

F. Strengths/Weaknesses/Opportunities/Threats (SWOT) Analysis

A SWOT analysis identifies the strengths and weaknesses of the internal environment and the opportunities and threats of the external environment that impact the Business Unit's ability to operate the new project successfully as well as rival substitute and competitive programs.

G. Goals and Objectives

This section outlines what the Business Unit wants to accomplish with the new service. Marketing, operational, clinical, and financial objectives should be considered.

H. Positioning and Strategy Development

This section articulates the positioning of the new service (identifying the meaningful differences that distinguish the new service from competitors' offerings) and the strategies to achieve the Business Unit's financial, marketing, clinical and operational objectives. Additionally, a rough estimate for funds that should be dedicated to

implementing tactics associated with the strategies is provided.

I. Implementation Plan

This section details how the project will progress from the concept to a functioning area of JHM. A timeline must show how long it will be until the new plan starts functioning and how long it will take to mature and reach its full operating capabilities. Any special start-up issues, such as obtaining facilities, staff or equipment, must be addressed.

J. Evaluation Plan

This section details how the project will be monitored and evaluated. The Business Unit will need to be able to determine how the performance of the new opportunity compares to the objectives and projections delineated in the business plan.

K. Conclusions

This section discusses the pros and cons of the opportunity from financial, marketing, clinical and operational aspects. It will include a recommendation on the action to be taken on the business opportunity, as well as the risk factors involved, i.e., what happens if the project isn't successful.

III. The Business Plan Narrative

The narrative is the full text of each of the major segments noted in the outline. Included here are content requirements and hints on how to find the required information. Formal presentations to the Business Review Group should follow the outline.

Exhibits that directly explain points in each section should be included in each section. For example, maps of market area would follow the External Market Assessment, financial projections would follow the Financial Projections and Analysis section, etc. Information that is attached for general reference but not directly involved in the development of the proposal should be attached as an appendix.

A. Executive Summary

This summary contains:

1. background on the opportunity
2. overview of the market analysis
3. overview of the financial analysis
4. conclusions derived from the analyses
5. recommended plan of action.

The executive summary is the first part of the narrative and stands alone. It should broadly summarize the proposed Business Plan. If successful, it provides reviewers a clear picture of the opportunity as they review the detail of the plan.

Sections B through K:

These sections provide the body of the Business Plan narrative. Each section provides a guide for the detail that supports your plan.

B. Background and Methodology

This section addresses in a general way why the opportunity will be beneficial to JHM.

This section should provide:

1. overall strategy of the proposing entity
2. description of this opportunity and how it fits into the entity's strategy
3. a discussion of the origin of the business opportunity
4. reasons for its consideration including its relation to JHM management objectives and JHM mission statement
5. data sources used
6. work teams formed

C. External Assessment

The purpose of this section is to more specifically present why the proposed project would be beneficial to Johns Hopkins Medicine. This section provides analysis of the market external to JHM in which the Business Unit will be performing the new or expanded activities. There are several possible areas to be investigated and reported. These include: market overview, market sizing, competitor analysis, and primary market research.

1. Market Overview:

The purpose of this step is to evaluate the existing market for service delivery, identify key historical trends and project future demand. The assessment of the market will include an analysis of:

- a. service delivery trends and the impact on future delivery patterns
- b. barriers to entry
- c. health care trends relevant to the new opportunity
- d. current and projected demographic trends

2. Market Sizing:

The purpose of this step is to evaluate the current and projected size of the inpatient and outpatient (based upon available information) market in need of the Business Unit's new service. This will allow the Business Unit to determine what proportion of the market they may capture and to identify program development opportunities. Market sizing requires identifying:

- a. overall patient origin and market share indices to identify key geographic areas of opportunity and potential service areas for the Business Unit
- b. the current market size based on the geographic draw of the program
- c. supply and demand to assess the resources available to meet the consumer's needs in the overall market
- d. market segments and targets within the segments

- e. extent of migration trends, commutation patterns and patient's willingness to travel for service

3. Competitor Analysis:

The purpose of this step is to assess the competition by understanding what the competitor is doing and can do and determining its relative strengths and weaknesses. The outcomes of this analysis will aid in focusing on appropriate program development opportunities that will differentiate the new product.

Competitor analysis requires identifying:

- a. geographic location of competitors
- b. the competitor's service mix
- c. the competitor's market share
- d. whether the competitor is for-profit or not-for-profit
- e. the competitor's capabilities and hospital resources
- f. the competitor's physician resources
- g. existence of other freestanding competitors
- h. methods competitors use to attract patients
- i. areas where the competitor is most vulnerable
- j. potential moves or strategy shifts the competitor will make as a result of the new service
- k. the competitor's pricing structure

4. Technological Developments:

The purpose of this step is to identify anticipated technological developments that would affect the Business Unit's market position. Identifying and understanding technology advancements can impact the Unit by:

- a. supporting the development and introduction of a new service
- b. identifying potential changes in treatment patterns
- c. enhancing the productivity and cost efficiency of the operational practices implemented by the Business Unit
- d. determining the composition of the staff skills required to run the new service.

5. Economic Developments:

The purpose of this step is to determine whether economic developments (e.g., levels of the employment/unemployment, disposable income, financial markets, etc.) would impact the Business Unit's new program.

6. Regulatory and Licensure:

The purpose of this step is to determine what regulatory or licensing changes would impact this program, e.g., JCAHO, MHCC, DHMH or HSCRC.

7. Societal and Environment Changes:

The purpose of this step is to determine if there are emerging societal trends that would affect how potential patients or other market segments would perceive and access the new program.

8. Primary Market Research:

The purpose of this step is to further assess the external environment through surveys, focus groups, mystery shopping or interviews. The purpose of primary research would be to explore:

- a. quantitative and qualitative assessment needs (e.g., gap analyses or needs assessments)
- b. opinions regarding the Business Unit's new service (e.g., level of interest/demand for service, perceived need, etc.)
- c. perceptions about the Business Unit's current provider capabilities
- d. attitudes and concerns about the delivery of health care services both currently and in the future
- e. opinions about key providers who currently offer services similar to those being proposed by the Business Unit

D. Internal Assessment

The goal of this section is to present how Johns Hopkins Medicine will be able to perform the tasks required by the new project, based upon analysis of the historical internal performance of the Business Unit that will be performing the new or expanded activities. This section identifies future service development issues and opportunities of the Business Unit based on operational evaluations and staffing requirements.

1. Operational Evaluation:

The operational assessment defines the Business Unit's delivery capabilities and its ability to support substantial programmatic development. This critical assessment also determines what additional resources are required to support enhancement of the Business Unit. The operational evaluation analyzes:

- a. impact on other departments and entities
- b. current technologies and capabilities
 - strengths
 - areas of needed support
- c. facilities evaluation/space requirements
- d. related support structure of the institution
 - current service delivery/operation structures
- e. customer service assessment (items that contribute to the customer's overall satisfaction)
 - access
 - appointment scheduling
 - amenities

- f. inpatient and outpatient utilization
 - impact on core area
 - impact on ancillary areas
 - impact on other JHM services
- g. suppliers/service delivery – How will you deliver the service? What would happen if our suppliers raised prices or got out of the business?

2. Referral Sources Evaluation:

- a. current referral sources
- b. potential referral sources

3. Patient and Customer Evaluation:

- a. What are the demographics of the customer (age, sex, income, etc.) Who are you serving?
- b. What are the consumer's perceptions and preferences?
- c. Why do they want to come to us versus one of our competitors?
- d. What is the Business Unit's market share (market sizing)
- e. What is the patient/customer profile?

4. Patient Satisfaction

- a. What is their level of satisfaction?
- b. How is satisfaction assessed?

5. Manpower Assessment:

The success of any clinical Business Unit is highly dependent upon the commitment of its physicians and staff. During this step a profile of the staff will be reviewed and ability to support future service development needs will be assessed. Specifically, manpower issues including the following will be determined:

- a. number of full-time or part-time faculty needed to support program
- b. total staff required to support program
- c. capability to re-train existing staff or need to hire new
- d. admitting trends and outpatient activity levels of faculty
- e. age characteristics – level of experience, active years remaining
- f. vulnerabilities – outstanding malpractice suits, contractual obligations
- g. existing physician supply and need in the local market based on data obtained from various sources (e.g., AMA's physician database or various sub-specialty organizations)

E. Financial Projections and Analysis

This section presents the reasoning behind, and results of, the financial implications of this project. Any financial schedules that have been supplied in support of the project will be referenced and explained. The sources for all support data must be identified, such as JHH billing system, HCFA standard tables, etc. Any concerns, open issues, or unanswered financial questions are to be listed here. There are three components in this section: scope, methodology and findings.

1. Scope:

This is a description of the extent of the financial analysis and Business Plan. Generally, the scope is to project the funding needs and financial returns for the first five years of the project. The corporate scope is also important; e.g., does this analysis examine the impact on JHM as a whole or is it limited to the Green Spring facility?

If any peripheral effects are to be examined, they should be explained here. For example, establishing an off-campus physician practice might be expected to generate admissions to JHH and JHBMC. If the marginal income generated by those admissions is to be included in the financial return of the project, and should be noted in the Scope.

2. Finance Methodology:

This is a summary of the methods and sources of data used in the financial analysis of the opportunity. Any underlying assumptions to the financial projections should be mentioned in this section.

The nature of the business plan will indicate the preferred method for evaluating the opportunity. If the plan is meant to generate additional revenue for an existing operation, the contribution margin might be the primary indicator. A plan that requires a new department or facility generally requires full-absorption costing. If the opportunity is to purchase an existing medical facility, the net present value of future cash flow is generally indicated as the key financial figure. It is beyond the scope of this template to develop a procedure to determine the exact form of any conceivable business plan.

3. Findings:

This section details the reasoning and the results of the financial analysis. This portion of the narrative should follow the order of the financial schedules *supporting this project*, referencing each exhibit in order. The narrative should explain any underlying facts or assumptions that are not obvious from reading the exhibit. At times, projections have to be based on less than certain assumptions. For example, a totally new clinical procedure is to be offered to our patients. As our payors will not have that in their fee schedules, an assumption

will have to be made as to the reimbursement expected for this procedure. In this cases, a note to the reader should also be placed on the exhibit itself, as a footnote, indicating that the expected reimbursement is an estimate.

- a. **A standard format** of both layout and content has been developed for financial schedules to ensure consistency from one business plan to the next. This section will reference a sample set of exhibits that has been attached as Appendix C.

Each schedule should begin with a heading that includes:

- The title of the study, e.g., “JHH Pediatrics Building”, on the first line
- A brief description of the contents of the schedule, e.g., “Capital Expenditures”, on the second line
- The exhibit identification, e.g., “Exhibit V”, on the third line. We generally use Roman Numerals to identify exhibits.

In complex cases, it might be necessary to include support schedules showing the derivation of key figures on the main exhibit in order to maintain clarity. In the example above, suppose that there are special needs of the Pediatrics Building that will make the total cost significantly higher than a similar general-purpose building. Rather than show the details on Exhibit V, list them on a separate, following page, titled “Pediatrics Building Details”, Exhibit V-A. If it is also necessary to detail the equipment requirements, show the details on “Capital Equipment Requirements”, Exhibit V-B and carry the total to Exhibit V.

- Exhibit I, the first schedule, will always be the summary schedule of the major financial indices of the study, such as average projected revenues, capital investment required, return on investment, DCF results, etc. Exact contents will depend on the nature of the study. Each of the major figures on the summary schedule should be clearly derived on a support schedule so that the reader can perform an audit of the data flow

Other than Exhibit I, the exhibits should flow naturally from the basic assumptions of the project to more complex schedules built upon those assumptions. The following list of schedules is generic, but gives some idea of the flow concept.

- Exhibit II: Volume, pricing and revenue projections for the period of the study. The sample assumes that there will be three procedures performed; examinations, Treatment A, and Treatment B. The charges and volumes are projected for each procedure, then totaled.
- Exhibit III: Staffing assumptions showing the number of FTE's (by job type) which will be required to produce the projected volumes. Staffing and salary projections should be based on similar units, if possible. Any major deviations

from existing staffing should be explained in the narrative.

- Exhibit IV: Supplies or other variable expenses that will be needed to meet the projected volumes, such as radiology film, OR supplies, etc., are estimated by procedure. The volumes are linked to the volumes in Exhibit II.
- Exhibit V: Capital requirements of the project. This may include new buildings, renovations to old buildings, or major equipment purchases. All capital items need a useful life estimation so that depreciation expense can be derived for each item.
- Exhibit VI: From the data in the preceding exhibits, a projected operating statement can be developed. This will show the revenues, collections, expenses and profit for each year of the study. Depending on the nature of the project, the expenses can be compressed into a few categories or detailed at the account level. Employee benefits are estimated at 22% of salaries for JHH, 28% for JHU, as of December, 2000.
- Exhibit VII: A projected balance sheet can be derived from the operating statement and capital purchase assumptions. Standard projections for accounts receivable and accounts payable are $\frac{1}{4}$ of the annual revenues and operating expenses, respectively.
- Exhibit VIII: Annual cash flow, as derived from the operating statement and balance sheet. Cash flow begins with the projected net profit, adds back any non-cash expenses like depreciation, adjusts for change in current balance sheet items, deducts capital expenditures and adds in any funds obtained from investments or loans.
- Exhibit IX: If a project has a significant “ramp up” time where it is incurring expenses for several months before sufficient revenues and collections are generated to cover those expenses, it will have to be funded with working capital to keep it solvent. Developing a monthly cash flow projection for the first year can project the working capital requirements. A cumulative cash shortfall is derived from the monthly cash flow results. The working capital required is taken as the maximum cash shortfall, plus 20% to cover unforeseen contingencies.
- Exhibit X: Generally accepted payback statistics, such as Return on Investment (ROI), years payback, evaluation as an ongoing concern, etc., will give senior management a standard yardstick against which to measure the proposed project. The statistic to use depends on the nature of the project.
- Exhibit XI: A sensitivity analysis shows how well the project can absorb

unfavorable circumstances. Working from the projected operating statement, this schedule shows the effect if volumes are 10% under projections in Exhibit II. A project that can maintain profitability under adverse conditions is more likely to be approved than one that is financially unstable.

As each business plan will be different from the others, all of the above exhibits might not be needed for each plan. Conversely, there may be plans in which additional support schedules are needed to validate the assumptions.

Many of the concepts in the sample exhibits are self-explanatory. Others, like developing projected balance sheets, require experience with fairly abstract accounting concepts. The JHHS Financial Analysis Unit of the JHHS Finance Department is available to assist in the development of these exhibits or to review your draft exhibits.

b. Financial assumptions. The financial projections are only as reliable as the source data upon which they are based. Financial projections are based on current revenues, salaries and expenses, extrapolated to fit the conditions assumed in the business plan. For information on where to start looking for source data, please see Appendix C.

F. Strengths/Weaknesses/Opportunities/Threats (SWOT) Analysis

A SWOT analysis identifies the strengths and weaknesses of the internal environment and the opportunities and threats of the external environment that impact the Business Unit's ability to operate the new project successfully as well as rival substitute and competitive programs.

G. Goals and Objectives

This section begins the process of transitioning the findings of the assessments into meaningful business decisions.

- 1. Goals** reflect the direction the business unit wants to go with the new project, such as "To become the dominant provider of complex diabetes care in Maryland."
- 2. Objectives** outline specific, quantitative statements that will be achieved by the Business Unit over a designated timeframe, such as "Increase the monthly number of clinic visits to 350 within two years." The method for collecting data to measure progress toward achieving the objectives should be determined. If a measurement process is not in place, additional money should be set aside to develop a suitable electronic data collection process.

H. Positioning and Strategy Development

The Business Unit should consult with Strategic Planning and Market Research to determine the following:

1. **Positioning** to differentiate the program from competitor offerings.
2. **Strategies** to delineate the steps needed to put programs into place that will ensure the Business Unit achieves their marketing, operational and financial goals and objectives. An example of a marketing strategy would be, "Improved communications and relationships with referring physicians in the broad geographic area," market expansion, market penetration
3. **Tactics** to achieve the various strategies such as "Develop a direct mail campaign to physicians in Central Maryland."

Once marketing tactics are developed, the Business Unit should work with Corporate Communications to develop final budget and implement the marketing communications projects.

I. Implementation Plan

The purpose of this step is to develop the details of how the project will progress after approval is obtained to develop the proposal into reality.

1. Next Steps After Approval

- a. complete financing/detail costs
- b. determine location/required square footage
- c. complete building/remodeling
- d. determine manpower / staffing requirements
- e. identify resources / materials
- f. obtain necessary permits
- g. appoint development oversight team

2. Start-up Issues

- a. hiring, training or retraining staff completed
- b. complete CON requirements, if applicable
- c. determine how we will attract patients to this new venture - Smaller programs that do not require extensive marketing planning may wish to develop a communications piece (e.g., brochure, announcement or letter of introduction) or implement a limited advertising campaign. Corporate Communications should be contacted to coordinate these efforts.
- d. determine if support is required from other JHM entities

3. Full Operations

- a. full implementation (maturity) date
- b. detail costs involved
- c. manpower / staffing
- d. resources / materials
- e. description of departments impacted by this project

J. Evaluation

The purpose of this section is to delineate the criteria that will be used to evaluate the business opportunity. The Business Unit should:

- a. determine the time interval for evaluating measurement(s) – it is recommended that a semi-annual review occur the first year, with quarterly reviews thereafter.
- b. establish criteria for successful performance
- c. define metrics to track outcomes (e.g., volume, gross and net revenue, expenses, profit, return on investment, etc.)

Please see Appendix D for the business plan evaluation form.

K. Conclusions

This section consists of discussion of the findings from the analyses and assessments in the Business Plan and the pro and cons of the opportunity. It will include a recommendation on the action to be taken on the business opportunity, as well as the risk factors involved (i.e. what are the downside risks; what happens if the project isn't as successful as planned?).

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APPENDIX B

Sample Business Plan Exhibits

The financial exhibits on the following 11 pages are for a hypothetical business opportunity. They illustrate the level of content required and the basic flow of the data through the exhibits.

Exhibit I is always a summary of the key financial indicators of the project. Following exhibits should progress from detail to summary, so that the reader will be led through the development of the financial model in a logical order.

The page numbers below indicate the page in the main narrative on which the exhibit is described.

I.	Financial Summary	Page 11
II.	Volume and Revenue Projections	Page 11
III.	Staffing	Page 12
IV.	Supply Expense	Page 12
V.	Capital Expenditures	Page 12
VI.	Projected Operating Statement	Page 12
VII.	Projected Balance Sheet	Page 12
VIII.	Projected Annual Cash Flow	Page 12
IX.	Projected Monthly Cash Flow	Page 12
X.	Payback Statistics	Page 12
XI.	Sensitivity Analysis	Page 13

**JHH PEDIATRICS BUILDING
FINANCIAL SUMMARY
EXHIBIT I**

A. Projected Operating Statement

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Net Revenues	\$ 431,250	\$ 879,750	\$ 1,346,018	\$ 1,372,938	\$ 1,400,397
<u>Expenses</u>	<u>383,140</u>	<u>505,671</u>	<u>681,522</u>	<u>699,931</u>	<u>718,887</u>
Net Profit	\$ 48,110	\$ 374,079	\$ 664,495	\$ 673,007	\$ 681,510
 <i>5-year Average</i>	 <u>\$ 488,240</u>				
 <i>5-year Average NPV Return</i>	 <u>\$332,424</u>				

B. Projected Cash Flow

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
From (To) Operations	\$ 5,048	\$ 321,072	\$ 612,246	\$ 726,763	\$ 735,144

C. Return On Investment [Net Present Value]

5-year Average NPV Return	<u>\$332,424</u>
Total NPV Investment	<u>\$1,043,783</u>
<u>NPV Return on Investment</u>	<u>31.8%</u>
 <u>Years Payback</u>	 <u>3.1</u>

**JHH PEDIATRICS BUILDING
VOLUME AND REVENUE PROJECTIONS
EXHIBIT II**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Examinations	2,500	5,000	7,500	7,500	7,500
<u>Charge</u>	<u>100</u>	<u>102</u>	<u>104</u>	<u>106</u>	<u>108</u>
Total Charges	250,000	510,000	780,300	795,906	811,824
Treatment A	1,000	2,000	3,000	3,000	3,000
<u>Charge</u>	<u>200</u>	<u>204</u>	<u>208</u>	<u>212</u>	<u>216</u>
Total Charges	200,000	408,000	624,240	636,725	649,459
Treatment B	500	1,000	1,500	1,500	1,500
<u>Charge</u>	<u>250</u>	<u>255</u>	<u>260</u>	<u>265</u>	<u>271</u>
Total Charges	125,000	255,000	390,150	397,953	405,912
<u>Grand Total Charges</u>	<u>\$ 575,000</u>	<u>\$ 1,173,000</u>	<u>\$ 1,794,690</u>	<u>\$ 1,830,584</u>	<u>\$ 1,867,195</u>

2.0% Assumed annual increase on rates

**JHH PEDIATRICS BUILDING
STAFFING
EXHIBIT III**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
M.D. Supervision FTE	0.10	0.10	0.20	0.20	0.20
<u>Salary</u>	<u>120,000</u>	<u>123,600</u>	<u>127,308</u>	<u>131,127</u>	<u>135,061</u>
Total Payroll	12,000	12,360	25,462	26,225	27,012
R.N. FTE	2.00	3.00	4.00	4.00	4.00
<u>Salary</u>	<u>40,000</u>	<u>41,200</u>	<u>42,436</u>	<u>43,709</u>	<u>45,020</u>
Total Payroll	80,000	123,600	169,744	174,836	180,081
Clinical Assistant FTE	3.00	4.50	6.00	6.00	6.00
<u>Salary</u>	<u>25,000</u>	<u>25,750</u>	<u>26,523</u>	<u>27,318</u>	<u>28,138</u>
Total Payroll	75,000	115,875	159,135	163,909	168,826
Department Manager	1.00	1.00	1.00	1.00	1.00
<u>Salary</u>	<u>50,000</u>	<u>51,500</u>	<u>53,045</u>	<u>54,636</u>	<u>56,275</u>
Total Payroll	50,000	51,500	53,045	54,636	56,275
Receptionist	1.00	1.00	2.00	2.00	2.00
<u>Salary</u>	<u>20,000</u>	<u>20,600</u>	<u>21,218</u>	<u>21,855</u>	<u>22,510</u>
Total Payroll	20,000	20,600	42,436	43,709	45,020
<u>Grand Total Payroll</u>	<u>\$ 237,000</u>	<u>\$ 323,935</u>	<u>\$ 449,822</u>	<u>\$ 463,316</u>	<u>\$ 477,216</u>

3.0% Assumed inflation rate on salaries

**JHH PEDIATRICS BUILDING
SUPPLY EXPENSE
EXHIBIT IV**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Examinations	2,500	5,000	7,500	7,500	7,500
<u>Supply Cost</u>	<u>2.50</u>	<u>2.56</u>	<u>2.63</u>	<u>2.69</u>	<u>2.76</u>
Total Expense	6,250	12,813	19,699	20,192	20,696
Treatment A	1,000	2,000	3,000	3,000	3,000
<u>Supply Cost</u>	<u>5.00</u>	<u>5.13</u>	<u>5.25</u>	<u>5.38</u>	<u>5.52</u>
Total Expense	5,000	10,250	15,759	16,153	16,557
Treatment B	500	1,000	1,500	1,500	1,500
<u>Supply Cost</u>	<u>7.50</u>	<u>7.69</u>	<u>7.88</u>	<u>8.08</u>	<u>8.28</u>
Total Expense	3,750	7,688	11,820	12,115	12,418
<u>Grand Total Supplies</u>	<u>\$ 15,000</u>	<u>\$ 30,750</u>	<u>\$ 47,278</u>	<u>\$ 48,460</u>	<u>\$ 49,672</u>

2.5% Assumed inflation rate on supplies

**JHH PEDIATRICS BUILDING
CAPITAL EXPENDITURES
EXHIBIT V**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Building	1,000,000	-	-	-	-
<i>Useful Life</i>	<i>20</i>	<i>years</i>			
Depreciation	50,000	50,000	50,000	50,000	50,000
Equipment	25,000	-	25,000	-	-
<i>Useful Life</i>	<i>5</i>	<i>years</i>			
Depreciation	5,000	5,000	10,000	10,000	10,000
Total Capital Expenditures	1,025,000	-	25,000	-	-
Total Annual Depreciation	55,000	55,000	60,000	60,000	60,000

**JHH PEDIATRICS BUILDING
OPERATING STATEMENT
EXHIBIT VI**

		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Total Charges	\$	575,000	\$ 1,173,000	\$ 1,794,690	\$ 1,830,584	\$ 1,867,195
<u>Deductions @</u>	<u>25%</u>	<u>143,750</u>	<u>293,250</u>	<u>448,673</u>	<u>457,646</u>	<u>466,799</u>
Net Revenue		431,250	879,750	1,346,018	1,372,938	1,400,397
Expenses:						
Salaries		237,000	323,935	449,822	463,316	477,216
Benefits @	22%	52,140	71,266	98,961	101,930	104,987
Supplies		15,000	30,750	47,278	48,460	49,672
Utilities		24,000	24,720	25,462	26,225	27,012
<u>Depreciation</u>		<u>55,000</u>	<u>55,000</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
Total Expenses		383,140	505,671	681,522	699,931	718,887
<u>Net Profit</u>		<u>48,110</u>	<u>374,079</u>	<u>664,495</u>	<u>673,007</u>	<u>681,510</u>
<i>5-year Average</i>		488,240				

3.0% Assumed inflation rate on utilities

**JHH PEDIATRICS BUILDING
BALANCE SHEET
EXHIBIT VII**

	<u>Initial</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
ASSETS						
Cash	\$ -	\$ 5,048	\$ 326,119	\$ 938,365	\$ 1,665,128	\$ 2,400,273
Accounts Receivable	-	107,813	219,938	336,504	343,234	350,099
Total Current Assets	-	112,860	546,057	1,274,870	2,008,363	2,750,372
Buildings	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Machinery	25,000	25,000	25,000	50,000	50,000	50,000
Accum. Depreciation	-	(55,000)	(110,000)	(170,000)	(230,000)	(290,000)
Net Fixed Assets	1,025,000	970,000	915,000	880,000	820,000	760,000
TOTAL ASSETS	\$ 1,025,000	\$ 1,082,860	\$ 1,461,057	\$ 2,154,870	\$ 2,828,363	\$ 3,510,372
LIABILITIES						
Accounts Payable	\$ -	\$ 9,750	\$ 13,868	\$ 18,185	\$ 18,671	\$ 19,171
Long-term Debt	-	-	-	-	-	-
TOTAL LIABILITIES	-	9,750	13,868	18,185	18,671	19,171
EQUITY						
Investments	1,025,000	1,025,000	1,025,000	1,050,000	1,050,000	1,050,000
Current Earnings	-	48,110	374,079	664,495	673,007	681,510
Net Assets	-	-	48,110	422,189	1,086,685	1,759,691
TOTAL EQUITY	1,025,000	1,073,110	1,447,189	2,136,685	2,809,691	3,491,201
TOTAL LIABILITIES AND EQUITY	\$ 1,025,000	\$ 1,082,860	\$ 1,461,057	\$ 2,154,870	\$ 2,828,363	\$ 3,510,372

**JHH PEDIATRICS BUILDING
CASH FLOW
EXHIBIT VIII**

	<u>Initial</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Net Profit or (Loss)	0 \$	48,110	\$ 374,079	\$ 664,495	\$ 673,007	\$ 681,510
Change in Current Assets	0 \$	(107,813)	\$ (112,125)	\$ (116,567)	\$ (6,730)	\$ (6,865)
Change in Current Liabilities	0 \$	9,750	\$ 4,118	\$ 4,317	\$ 486	\$ 500
<u>Plus Depreciation</u>	<u>0</u>	<u>55,000</u>	<u>55,000</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
Cash From Operations	0 \$	5,048	\$ 321,072	\$ 612,246	\$ 726,763	\$ 735,144
Less Capital Expenses	(1,025,000)	-	-	(25,000)	-	-
<u>Plus Investments</u>	<u>1,025,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
Net Cash Flow	-	5,048	321,072	612,246	726,763	735,144
Prior Period Cash Balance	-	-	5,048	326,119	938,365	1,665,128
Cash Balance	-	5,048	326,119	938,365	1,665,128	2,400,273

**JHH PEDIATRICS BUILDING
PAYBACK STATISTICS
EXHIBIT X**

10% Discount Factor for Present Value Calculations

A. Return on Investment

	<u>Initial</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Net Income/ (Loss)		\$ 48,110	\$ 374,079	\$ 664,495	\$ 673,007	\$ 681,510
Add: Depreciation		\$ 55,000	\$ 55,000	\$ 60,000	\$ 60,000	\$ 60,000
Changes in Working Capital	\$ 1,025,000	\$ (98,063)	\$ (108,008)	\$ (112,249)	\$ (6,244)	\$ (6,365)
Less: Capital Purchases	\$ (1,025,000)	\$ -	\$ (25,000)	\$ -	\$ -	\$ -
S/T Cash Flow	\$ -	\$ 5,048	\$ 296,072	\$ 612,246	\$ 726,763	\$ 735,144

<i>Present Value Factors</i>	<i>1.0000</i>	<i>0.9091</i>	<i>0.8264</i>	<i>0.7513</i>	<i>0.6830</i>	<i>0.6209</i>
Present Value of Cash Flow	-	4,589	244,687	459,989	496,389	456,467

5-year Average NPV Return \$ 332,424

Investment	\$ 1,025,000	\$ -	\$ -	\$ 25,000	\$ -	\$ -
Present Value of Investment	1,025,000	-	-	18,783	-	-

Total NPV Investment \$ 1,043,783

NPV Return on Investment 31.8%

Years Payback 3.1

B. Business Valuation

	<u>Initial</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Terminal Year</u>
Cash Flow	\$ -	\$ 5,048	\$ 296,072	\$ 612,246	\$ 726,763	\$ 735,144	\$ 7,351,445
<i>Present Value Factors</i>	<i>1.0000</i>	<i>0.9091</i>	<i>0.8264</i>	<i>0.7513</i>	<i>0.6830</i>	<i>0.6209</i>	<i>0.5645</i>
Present Value of Cash Flows	-	4,589	244,687	459,989	496,389	456,467	4,149,699
<u>Total of PV Cash Flows</u>	<u>\$ 5,811,820</u>	<u>Value of project in current dollars</u>					

**JHH PEDIATRICS BUILDING
SENSITIVITY ANALYSIS
EXHIBIT XI**

Effect of 10% reduction in volumes

		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Total Charges		517,500	1,055,700	1,615,221	1,647,525	1,680,476
Deductions @	25%	<u>129,375</u>	<u>263,925</u>	<u>403,805</u>	<u>411,881</u>	<u>420,119</u>
Net Revenue		388,125	791,775	1,211,416	1,235,644	1,260,357
Expenses:						
Salaries		237,000	323,935	449,822	463,316	477,216
Benefits @	22%	52,140	71,266	98,961	101,930	104,987
Supplies		13,500	27,675	42,550	43,614	44,704
Utilities		24,000	24,720	25,462	26,225	27,012
<u>Depreciation</u>		<u>55,000</u>	<u>55,000</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
Total Expenses		381,640	502,596	676,794	695,085	713,920
Net Profit		6,485	289,179	534,621	540,559	546,437
<i>5-year Average</i>		<i>383,456</i>				
<i>Original 5-year Average</i>		<i>488,240</i>				
Reduction in Average Profit		21.5%				

APPENDIX C DATA SOURCES

After thoroughly defining the project, the business plan has to project the expected capital needs, revenues and expenses of the project. This is generally done for the first five years, as most projects “mature” in that period of time, reaching their sustainable volume and staffing levels.

Capital Expenses

Capital expenditures are for items costing more than \$5,000. The major categories are facilities, such as new buildings or major renovations to existing structures, and equipment, such as a new magnetic scanner. Facility costs should be derived with the assistance of the Vice President, Facilities. Capital equipment prices can be obtained from vendors of such equipment.

Revenues

If an opportunity is expected to generate revenues through increased patient volume, accurate projections of the potential volume and the charge per case are needed. Volumes should be determined in consultation with the Director of Business Development in Strategic Planning and Market Research.

Charges can be obtained from various sources; the CaseMix database for hospital charges and the IDX billing system for physician fees. When dealing with inpatient revenues, the HSCRC case rates are a major limiting factor and cannot be ignored. It can be a difficult task to determine who is the keeper of specific revenue data. The JHH Financial Analysis Unit has extensive experience in these matters and is an excellent source for obtaining financial data; contact the Director of Financial Analysis for assistance.

Expenses

There are two major categories of expenses, variable and fixed. Variable expenses are those which change with volume, such as medical supplies; the more patients you see, the more supplies you use. Fixed expenses are unrelated to patient volume, such as rent for a physician office, which will have to be paid even if there are no patients seen in a given month. Expenses for an existing hospital cost center can be found in the Statement of Direct Income and Expense (SDI&E) reports, issued monthly with year-to-date information included. The most recent June SDI&E will contain the totals for the previous fiscal year, which is a good base from which to draw data. Historical data may have to be modified to reflect changes inherent in the proposed project. For example, if a new piece of equipment will reduce supply expenses by 20%, you will have to reduce the historical per-case supply

expense accordingly.

Staffing can be estimated as a ratio of current variable labor expense or by defining specific job categories required to staff the new function. Salary data can be obtained from the Payroll Department.

Again, the Financial Analysis Unit has extensive experience with obtaining and modifying data for projections; they are a good source to begin tracking down information for a business plan.

Executive Information System

JHM has been developing the Executive Information System (EIS) for the last few years. This is a cost accounting system which draws information from the general ledger, billing, payroll and other systems. This information is applied to cost standards for billable procedures to obtain very detailed unit costs. It is anticipated that the system will be available for JHH and Bayview Medical Center use sometime in Fiscal Year 2001, with all other JHM entities being brought on the system over the next couple of years. When this system is available, it will provide much of the financial information needed to produce a business plan.

Appendix D
Johns Hopkins Medicine Quarterly Business Plan Evaluation Form

Name of Business Plan / Investment: _____
Date Program Approved: ____ / ____ / ____
Date Program Commenced Operations: ____ / ____ / ____
Period of Time Covered in this Report: ____ / ____ / ____ to ____ / ____ / ____

SUMMARY:

Please provide a brief summary of how the program has performed to date and in the most recent period.

PERFORMANCE:

Original Business Plan Projections

Volume:
Gross Revenue:
Net Revenue:
Expenses:
Net Income:
Initial Capital Investment:
Return on Investment:

Actual Performance

Volume:
Gross Revenue:
Net Revenue:
Expenses:
Net Income:
Initial Capital Investment:
Return on Investment:

EXPLANATION OF VARIANCES:

Please explain all variances from plan. For each variance, please note the expected performance in the next period as well as year-end. Additionally, if the variance is significant, please provide an action plan for bringing the program back to plan.

Include in a COVER MEMO:

History

The first business plan template was developed in 1995 as a joint project between Planning & Marketing and Finance as an internal guideline for those two departments in developing business plans.

However, proposals for new ventures developed outside of P&M and Finance were still being presented to senior executives and board members in a variety of formats. Sometimes vital information would be missing, necessitating a reworking of the plan. Even if all pertinent information was included, the first portion of the review would be to determine where in the document the various facets were to be found, wasting valuable time.

Senior management requested that a standard business plan format be developed. This would ensure both that those preparing the business plan would be aware of what supporting details were needed and also that the information would be presented to top management in a concise and coherent format. The revision of mid-1997 was presented to, and approved by, senior management as the format to use in presentations to their weekly Business Review Group (BRG) meetings. The purpose of the BRG is to thoroughly evaluate all business opportunities presented that require the use of the Johns Hopkins name or investment capital.