Slide one and two

G'day everyone and welcome back to session two of our "NDIS simply" sessions. Before we begin I'd like to acknowledge the traditional owners and custodians of the land on which we meet today the Wurundjeri people of the Kulin Nation and their elders past and present.

I'm Tim Flowers from Insight First and today Elton and I will be working through support margin and volume delivery. In the next 15 minutes or so we'll be talking through how to figure out how much you make on each support type, how growth impacts on profitability and how we can achieve good growth together...

Here's the roadmap:

- What is support margin?
- What is volume growth?
- How do different NDIS products impact margin and growth?
- How much do we make on each support?
- How do we achieve good growth?
- How do our actions change possible outcomes?
- What do we need to remember?

As usual we'll be providing some worked examples and some homework which can help your organisation. Hopefully most of you will make it through the session without nodding off...

Slide 3:

So – Let's start with a simple definition of support margin – We've defined support margin as "the amount a product or service **contributes** to profit or corporate overhead."

Here is a simple idea of what we mean.

Here is an example of an NDIS support. We can bill the NDIS $100 per hour for this support.

The staff cost is $50

The supervisory or program management cost is $10

And so the remaining support margin is $40

This means that for every hour of service there is $40 which is going towards paying overheads or generating profit.

Even if the corporate overheads are $50 per hour, and the program is making a loss overall, this program is worth keeping open, because they contribute $40 of margin towards fixed costs.

Slide 4:

Growth is clearly good if a support product provides a positive support margin and drives good outcomes for clients. Sometimes we may have a case where the support margin is in fact negative…

In this example, the support margin is negative, because the staff costs and the program management costs are actually more than what we are billing the NDIS.

So every hour of service which we are providing. We are actually losing the organisation $10. We aren't even contributing any profit to cover our share of corporate expenses.

In this type of scenario where the support margin is negative, the more we grow, the more money the organisation loses.

The basic takeaway is this – support margins that are small or negative make support discipline more important and losses more likely over time.

Slide 5:

Let's move on to a basic definition about what volume growth is.

We define it simply as "*An **increase** in the amount of **service hours** delivered for a particular program or service."*

If we previously delivered 1,000 hours per year of community inclusion and we increase that number through the NDIS surge period by 500 hours per year we would say that our support volume has grown by 50% over the year…

Slide 6:

So - Why is everyone in the NDIS world so concerned with support volume growth?

This is really because of the size of the additional investment in NDIS made by State and Commonwealth governments. As you can see from the market position summary prepared by NDIA, the funding made available to Victorian participants is projected to double during surge.

The basic idea from the government is that, because of the additional investment put into the sector, there will be increased productivity and efficiency gain overall.

Now I know most people look and say… "yeah listen guys… we cant grow by double… its just not realistic," but the truth really is, the numbers are saying that funding is going to increase by double.

We're just saying that you need to get your piece of the pie to stretch your organisational overhead costs further!

Slide 7:

Now that the disability support system is essentially a retail market where participants have some choice and control over their package and how its delivered, we will all need to understand how NDIS surge will impact our market and how different NDIS products impact our profitability.

This graph outlines the types of supports and profit margins achievable by age group during surge using our current pricing settings.

As you can see, the majority of the scheme's purchases are in the daily tasks and community inclusion product set which is realistically a break-even product unless you are incredibly efficient and disciplined.

While supported independent living is profitable it brings with it some risk and lower purchase volumes. The remaining capacity building and auxiliary purchases tend to be a bit of a mixed bag in terms of profitability but they are also purchased in much lower volumes in the typical surge environment.

Why is understanding different product profitability and volume growth important? We think that it may help you design a helpful product mix and marketing approach for your enterprise over time.

Slide 8:

So lets get into our first worked example of the day.

We are going to be looking at a disability provider which is offering a mix of programs, similar to many of your organisations.

And the plan is to show you what it looks like to calculate a support margin in a real organisation.

As always this material will be available for you to download online as part of the session materials.

[Switch to model]

As you can see, we have created an example organisation and I've put in some corporate costs in this information tab.

And in scenario 1, we can see that there are 5 programs currently being run by Mix It Right Ltd.

Program 1 and 2 are community, social and recreational activities, one is a 1 to 1 program and one is delivered to a group of 3 clients per staff.

Mix it right is also doing some support coordination in program 3, some capacity building work in program 4.

And they also run Early childhood intervention services.

Here are the number of hours which they are delivering. And the amount of time that the staff spend in each division.

Here are the NDIS prices per hour.

Here are the staff costs.

If you look here, this workbook actually cleverly calculates the corporate overhead costs automatically. This is based on the information plugged in from the previous work sheet.

As you can see this has two components, the fixed one which add up to the total of $150,000 per the previous sheet. And the variable costs which increase based on the number of support staff per hour.

If we were to reduce one of the programs to deliver 0 hours and have 0 staff hours, this would result in the fixed corporate overheads being reallocated to the other departments.

[remove hours from support coordination]

So let's have a look at some of the results in Mix It Right Ltd.

I want us to focus here on the support margin. Basically the higher the margin here, the more the organisation would actually benefit from increasing the volume of delivery.

Let's look here at program 4. We can see that even though they are making a loss currently. The support margin is actually still positive. Which means that this program can actually benefit from volume growth.

If the support margin is negative. Then as I said before, growing the program will not help make the organisation more profitable.

Slide 9:

OK – so its time for your first piece of homework!

[Go to my company tabs]

As you can see there are some tabs here which we have left blank for you to put your company's financial information.

All the cells which are highlighted are fair game for you to fill in. There's also space on the next tab for you to input your own programs which you are in charge of.

[Back to slides]

I encourage you, if you are struggling with this, fill in the information the best you can and then get some help from someone in the finance team! Or get someone who is reporting delivery data to help.

And remember at the end of the day, these tools and this homework is to help you to make **informed** decisions.

Slide 10:

How can we achieve good growth together? There are two key strategies that we will cover in today's session.

The first is growing with fixed cost discipline.

There are certain corporate costs which are fixed and certain ones which will vary with service delivery volume.

When we think about this, it makes sense because the more services we provide, the more electricity we will use. But every organisation only has 1 CEO, no matter how many hours of service they deliver.

Slide 11:

This is how some suppliers plan to generate substantial support efficiency. By doubling the services provided but keeping some of the fixed costs broadly the same. As you can see this business goes from making a very marginal profit indeed to making around 8% profit for each dollar of revenue!

Slide 12:

The second key strategy to achieving good growth together is looking a winning the right mix of support work.

It's important to know which supports you want to deliver more of, which ones you want to deliver less of and which ones you should deliver none of!

As we saw in the worked example, each program has a different support margin attached to it. So in order to maximise profit in the long term we need to focus on product mix that has sufficient support margin and sufficient volume.

While we are doing this we also need to understand that maximising participant outcomes is a key focus. This isn't all about profit and making money.

Slide 13:

So how does product mix discipline look in practice?

Here is a worked example of an organisation who has two options in front of it. In the first case they cap the core supports being offered to the market so that the business breaks even overall. Even though they are making losses on the core supports they continue to deliver them because they make a difference to the participants and they don't create a loss overall.

In the second case you can see that the core supports are not capped and significant losses are generated. While they are making a difference to the participants they won't be able to keep doing that for the longer term.

There is no mission without margin…

Slide 14:

Let's go back to our worked example and have a look at how changes in the **mix** actually affect the organisation.

[Switch to workbook]

In this second tab here, we have the information which we saw just now. But there is a new option! To increase the amount of service hours we deliver.

So let's pretend that you can only focus on one program to grow. What would you pick?

Well, if you were to only make the decision based on financial information. The most financially savvy thing to do would be to increase the program with the largest support margin.

In this case it's the ECIS program.

If we increase the program by 50%, we can see that the profit margin actually increases to 9.3% if we were to try the same thing with a different program, we can see that the margin would actually not increase as much.

This model will actually also work, to show what happens if we reduce hours in a program. For example, what happens if we decide, let's not do program 4 the capacity building program, it's a loss making program after all with the lowest support margin.

[reduce 100% for program 4]

If we look at the results, you will see that yes, in fact the profit margin has gone up, even though the total profit decreased.

But more importantly let's look at some of the other numbers. Like in program 1 and 2, didn't these programs used to be profit making? What happened?

The answer is that the corporate overheads which were being paid for by program 4, actually needed to be redistributed to the other cost centres.

So the point of this exercise and this worksheet really is to tell everyone out there, that getting the mix right is really crucial. Its not just about shutting down one department with no consequences to the others.

It looks like we really are all in this together!

[Back to slides]

Slide 15:

And now its time for more homework! YAY!

There is a tab for your company to let you try some different product mixes. This should give you an idea about what would happen if you change your own product mix.

Make sure you look at what the support margins are, and see which program would benefit the MOST from growing.

And crucially! Always remember **discipline**! The model won't actually work if we forget our basics like:

- Billing promptly and accurately
- Keeping rostering discipline and maintaining the billable %
- Keeping fixed corporate costs FIXED

Slide 16

So What? Why does this matter?

Well… If you are a board member you care because you want to be true to purpose but solvent at the same time. If you are a CEO or a support leader you want to ensure that you will be there for your participants in the long term. If you are a support deliverer you will want to understand the importance of your actions and how the supports you provide to your clients impact your organisation in the longer term.

Ultimately this is about growing in healthy ways that are consistent with purpose and client outcome.

Slide 17:

What should you take away from this webinar?

Well we think these are the important things to remember. Growth is expected for everyone, make sure you are working for your piece of the pie!

With that growth, we expect to see cost savings, but this is only when growth is combined with commercial discipline.

We hope you use the worksheets to calculate your support margins and see how your organisation is going. And also recognise that to keep support margins high, it is a case of making sure that your staff are engaged, reporting accurately, and delivering quality services and outcomes.

And most importantly, it's important to remember that despite the bottom line and the profit margin and the profit numbers, the outcomes are what count the most.

Learning which programs are most profitable shouldn't only be about making money! But about supporting the good, life changing programs which create genuine change.

Knowing the profit margins is about knowing how to keep these programs running by supplementing them through other profitable programs.

Slide 18

What are your next steps?

We think they sound simple but require real persistence…

- Do your homework! And also last week's homework!
- Make sure you are making **informed** decisions
- Think, plan and act wisely
- Lead with clear thinking and discipline

Slide 21

As with our previous sessions please feel free to reach out for help where you need it!

While we don't have the capacity to answer questions in Realtime during this webinar we'd welcome feedback and queries where you have them via the website!

Thanks for joining us for today's session. Session four will be available shortly. In that workshop we'll be talking a lot more about Intelligent support design. We'll be covering about how changing the design of your supports can have on your organisation and how your choices and actions can change your outcomes.

Go well!