

Corporate Expense Management Solutions

Procure to Payment: Hospital Spotlight

Background & Objectives

American Express is focused on providing products and services that enable organizations to efficiently manage their business expenses. Our commitment to understanding global markets trends has allowed us to evolve to meet the changing needs of our clients. To better understand how hospitals throughout the United States manage purchasing expenses, we conducted a research study. The quantitative and qualitative study included a survey and interview program aimed at public and private hospitals' key challenges, top priorities and procurement strategies.

Methodology

The Hospital Procurement online survey was emailed to procurement and finance executives in United States hospitals. Overall 200 responses were received and 127 respondents were senior hospital procurement and finance executives. The responses of the 127 senior finance and procurement executives were compiled, analyzed and combined with information obtained from interviews to develop the *Procure to Payment: Hospital Spotlight*.

Survey Respondent Profile

Job Function

Dir. Purchasing/Sourcing	57%
CFO/VP Finance/Controller	27%
Other ¹	16%

Annual Revenue Size

> \$10M	6%
\$10M to \$49.9M	28%
\$50M to \$499.9M	44%
\$500M to \$999.9M	13%
\$1B to 1.9B	2%
Information not provided	7%

Hospital Type

Public Hospital	47%
Private Hospital	53%

Executive Summary

The *Procure to Payment: Hospital Spotlight* highlights the key procurement priorities, challenges and solutions used at United States public and private hospitals. The research identified the difficult balance hospitals face in driving procurement savings and improving procurement processes.

Efficient purchasing processes leads to savings. Half of survey respondents believe their chief challenge in hospital procurement is the reduction of paper in the procurement process. In fact, 61% of public and private hospitals are using a manual paper-based process while the remaining 39% of hospitals have streamlined the procurement processes through the implementation of procurement to payment solutions. Hospitals that have leveraged technologies to streamline purchasing processes have benefited from lower administrative costs, healthier cash flow, and better collection of purchasing data.

Savings is critical, but process and leveraging technology grows in importance. While the majority of senior financial and procurement respondents (62%) agree that cost savings is *the* top priority at their institution, they also identified leveraging technology systems and improving business processes as key priorities. As hospitals look to achieve these objectives, they are faced with a myriad of purchasing options that have both strengths and weaknesses. *Procure to Payment: Hospital Spotlight* includes a review of the advantages and disadvantages of Electronic Data Interchange (EDI), Web Portals (including Electronic Invoice Presentment and Payment), Corporate Purchasing Solutions (CPS), and Extensible Markup Language (XML).

Spending data is under utilized at hospitals. Almost half of the respondents identify gathering, analyzing and using data to negotiate better rates with suppliers as a primary challenge. In fact, 72% of hospitals use checks as their major payment method for most commodities, this has contributed to a manual and time consuming data gathering process.

The right procurement-to-payment solution is dependent on the hospital's technology readiness and cash flow position. Hospitals' purchasing challenges and goals are wide ranging. Key factors to consider include the hospitals' and suppliers' ability to implement and maintain technology systems as well as the hospitals' cash flow position. *Procure to Payment: Hospital Spotlight* segments hospitals into categories to provide an in-depth look at best practices for different hospital types.

¹ Including: CEO, Controller, Dir. Accounts Payable, Dir. Finance, Medical Dir., Chief of Staff

The Paper Trail: An overview of the hospital procurement process

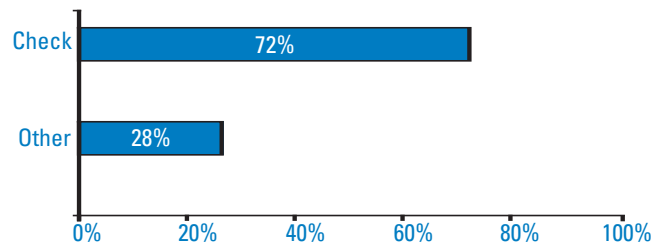
Traditionally hospitals have utilized a manual paper-based process to purchase medical surgical/supplies and equipment. This process requires the matching of purchase orders to receiving documents, inventory information, and supplier invoices prior to the disbursing of checks to suppliers. Due to this time consuming process many hospitals struggle to maintain accurate inventory, purchasing or payment data. In fact, executives surveyed ranked the reduction in the paper process as *the* top challenge in hospital procurement.

The inefficient process contributes to late supplier payments and poor vendor relationships. As a result, most hospital supplier payment agreements include lengthy payment terms. Not surprisingly - even with the lengthy payment terms - many hospitals still struggle to pay vendors on time due to extensive administrative processes.

Purchasing solutions offer hospitals options for a more efficient process and a healthier cash flow position.

Purchasing solutions offer hospitals options for a more efficient process and a healthier cash flow position. These options include Electronic Data Interchange (EDI), Web Portals (including Electronic Invoice Presentment and Payment), Corporate Purchasing Solutions (CPS) and Extensible Markup Language (XML). Although hospitals would like to implement more efficient procurement and payment options, they are still heavily reliant on manual and paper processes. In fact seventy-two percent of survey respondents rely on check drafting as the primary payment method for most commodities (see Figure 1).

Figure 1: Payment Methods Used at Hospitals



Note: Survey respondents provided payment method data on the following commodities: basic medical supplies (gloves, syringes, etc.), cleaning supplies, computers, drugs, furniture, lab equipment, medical equipment, office supplies and uniforms.

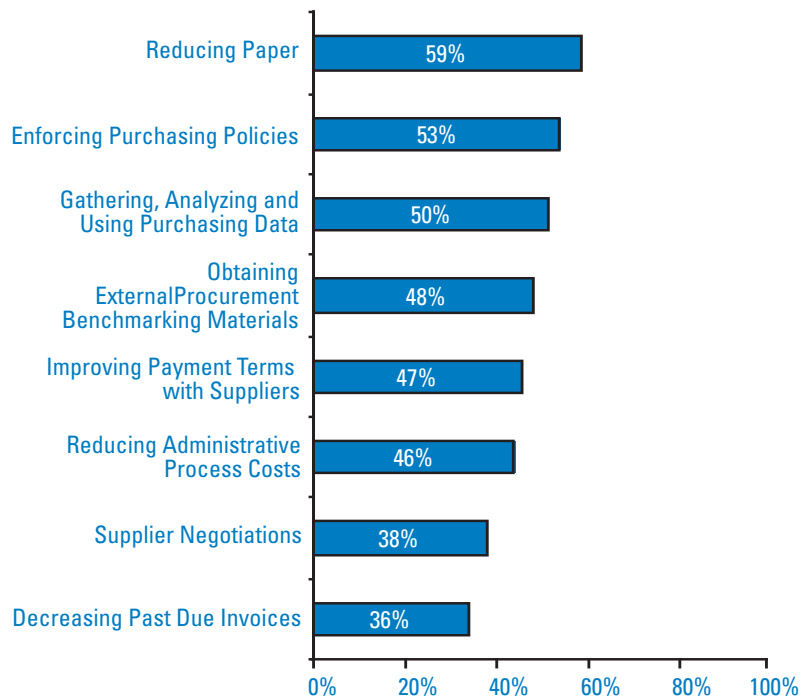
The Hospital Balancing Act: Improving procurement processes, controlling costs and enforcing policies

Alongside the challenge of developing more efficient procurement processes, many hospitals are struggling to maintain profit margins. Due to a rise in the costs per patient discharge and slower reimbursements from Medicaid, Medicare and insurance companies, hospitals are challenged to maintain a positive cash flow. As a result, hospital executives strive to strike a difficult balance between controlling costs and improving business processes. This struggle creates a need for hospital executives to more closely analyze and prioritize areas of spend and capital investments. In fact, more than half of the survey respondents identified cost savings as their first priority and this was followed by the need for improving business processes and leveraging technologies. Hospital executives recognize the need to improve processes through leveraging technologies - but in many instances they lack the financing to invest in technology systems. Since improving business processes can have a positive long-term impact on controlling costs hospital executives are starting to focus on cost-effective ways to improve purchasing processes.

50% of the hospital executives agree the gathering, analyzing, and using procurement data is a primary challenge

Also amongst chief hospital challenges, the majority of survey respondents found it difficult to enforce procurement policies (see Figure 2). Not surprisingly 50% of the hospital executive respondents agree the gathering, analyzing, and usage of procurement data is a primary challenge (see Figure 2). These two challenges are related since in order to effectively enforce spending policies institutions must be able to gather and analyze spending data. In fact, leading institutions utilize aggregated spending data to monitor compliance and develop effective policies. Since many hospitals are still using manual procurement processes, they cannot optimize or monitor procurement policy compliance.

Figure 2: Key Hospital Procurement Challenges

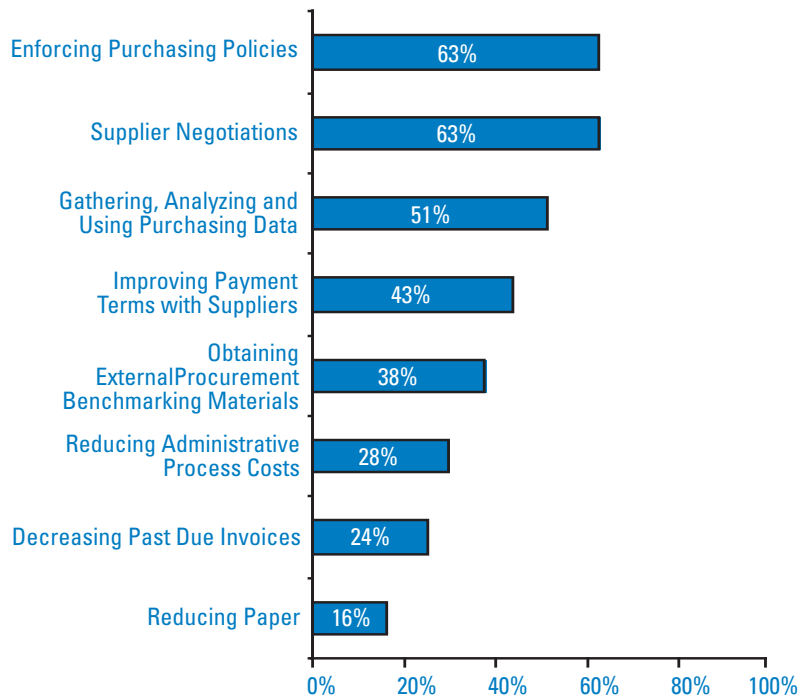


Effective supplier negotiations, procurement policy enforcement and gathering and utilizing spending data have the greatest contribution to controlling spending

Hospital Procurement Strategies: Leading practices in hospital procurement

More than half of the hospital executives surveyed agree that effective supplier negotiations, procurement policy enforcement and gathering and utilizing spending data have the greatest contribution to controlling spending (see Figure 3). That said, hospitals need to implement solutions that help to deliver these cost saving strategies.

Figure 3: Practices that Contribute to Controlling Spending



Recognizing that there is no “silver bullet” solution to hospital procurement, hospitals are trending toward implementing a variety of procurement strategies that deliver savings, provide purchasing data and improve procurement processes. Dependent on the hospital's needs - as it relates to process integration and cost savings - the hospital may implement or use a number of procurement technologies. A review of the many procurement solutions available to hospitals identifies four primary procurement solutions - Electronic Data Interchange (EDI), Web Portal, Purchasing Cards and Extensible Markup Language (XML).

Electronic Data Interchange (EDI)

EDI is a well-known purchasing solution that provides hospitals with the ability to link procurement communications and transactions through the use of a Value Added Networks. Value Added Networks allow for streamlined movement of information between hospitals and their suppliers. This is important since in order for EDI systems to properly accept information it must be configured to meet the data standards of both the hospital and supplier systems. EDI systems are configured for each of the hospital's suppliers and enables full system integration between the hospital, its internal systems (purchasing, inventory, finance, etc.) and external supplier systems.

EDI is best utilized with key suppliers which the hospital possesses a long-term relationship.

A challenge of EDI is the lengthy implementation time and costs to enable the systems. The supplier and hospital must have the resources to pay for the technology, the associated charges from the Value Added Network and related software costs. For this reason, both organizations must commit to the time and financial resources required to implement EDI. EDI is best utilized with key suppliers which the hospital possesses a long-term relationship. Although it is clear that the usage of EDI can result in a great improvement to business processes and decreased administrative procurement costs, EDI systems typically benefit suppliers since they will only need to enable the EDI solution once and hospitals will need to enable each supplier individually. Due to the necessary IT resources and funding requirements, EDI is most commonly leveraged at larger hospitals.

Web Portals

Web Portals offer hospitals and their suppliers an effective solution to bridging the communication gap during the procurement process. The two main types of Web Portal systems are Electronic Invoice Presentment (EIP) and Electronic Invoice Payment and Presentment (EIPP). EIP and EIPP take data from purchase orders or invoices and provide line item details for each transaction. Unlike EDI, Web Portals can adjust the configuration of information for each supplier and allows hospitals greater flexibility in building procurement interfaces. Due to lower set-up requirements, EIP and EIPP can be implemented to a broad range of suppliers including those that do not represent a long-term supplier relationship or high volume transactions. Unlike EDI systems, hospitals only need to set up the EIPP or EIP system once and each supplier must enable their customers individually based on the solution provider chosen by the hospital. For this reason, it is imperative to work with a Web Portal provider skilled at the supplier enablement process. The solution provider should be able to assist hospitals with enabling long-term and infrequent suppliers. Web Portals are a good option for mid-size hospitals looking to improve procurement processes and reduce the administrative costs related to the procurement process.

Corporate Purchasing Solutions (CPS)

Hospitals can increase savings, gather "high quality" procurement data and ensure better process integration through the usage of Corporate Purchasing Solutions (CPS). CPS can be used alone or in combination with other technology procurement strategies (i.e. EDI, Web Portals, XML). Often referred to as Purchasing Cards or Purchasing Accounts, CPS can provide hospitals with line item details for purchasing transactions as well as establish spending controls and limits on transactions. The data provided by CPS is typically easily manipulated and can be integrated with financial and accounting systems. Additionally, Purchasing Cards can be used to extend the time hospitals have to pay suppliers or conversely ensure faster payment to suppliers.

CPS is a way to balance costs and improve processes for both large and small hospitals.

For many hospitals CPS is a way to balance costs and improve processes for both large and small hospitals. Due to the simple implementation process, CPS can be quickly applied to any procurement process - including long or short-term supplier relationships and high or low volume transactions. IT staff requirements during CPS implementation are minimal as compared to EDI, Web Portals or XML. In fact, once CPS is implemented, the need for IT involvement is almost non-existent. As an increasing number of hospitals begin to use CPS as a part of their procurement to payment process, medical and surgical suppliers are also benefiting from hospital's CPS implementation. This is in part due to the potential for faster payment, decreased credit and collection costs, and improved automated business processes. In fact some suppliers are now receiving payment 14 - 30 days faster than with a manual check process. Also, since supplier acceptance is important to successful CPS programs, it is important to work with a CPS provider that dedicates resources to supplier enablement.

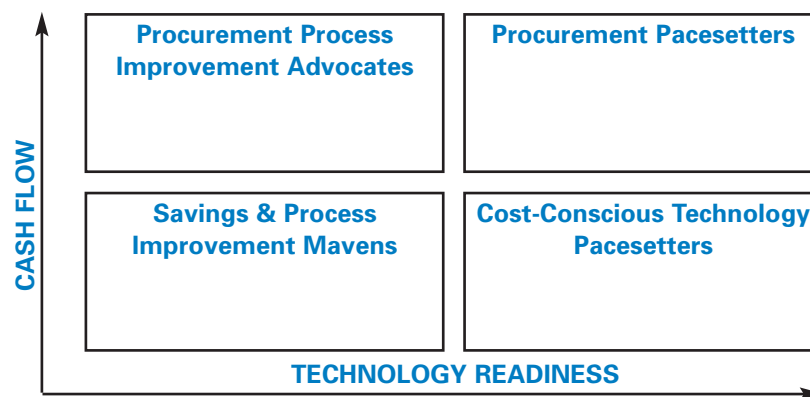
Extensible Markup Language (XML)

XML is a flexible procurement solution that can reduce procurement process costs and improve the procurement to payment process. Launched in 1998, XML provides both line item detail and data descriptions. Similar to Web Portals, XML adjusts the configuration of information for each supplier relationship, allowing greater flexibility in the building of interfaces. XML's format is fully integrated with the Internet and therefore allows for real time data to move between internal and external supplier systems. While suppliers and hospitals can both benefit from XML, hospitals and suppliers must have an equally advanced IT department and sufficient budgets to implement a successful program. Currently these systems are not widely used at hospitals.

Selecting the Right Hospital Procurement Strategy

To better understand which procurement solutions will work best at individual hospitals, hospitals were segmented into four segments based on their cash flow position and degree of procurement technology readiness (see Figure 4). For segmentation purposes “technology readiness” is defined as the degree to which the current procurement process is manual or technology based and integrated with other (internal and external) systems.

Figure 4: Hospital Procurement Strategy Segmentation



The four segments are:

- **Savings and Process Improvement Mavens:** This segment represents hospitals that are challenged with maintaining a positive cash flow and that have a mostly manual procurement to payment process. At these institutions, the chief barriers to improving procurement processes is the need to control and monitor spending as well as a lack of investment resources (both time and costs) needed to successfully implement procurement technology strategies. Savings and Process Improvement Mavens would benefit from implementing a Purchasing Card solution. Since the benefits of this solution include low implementation costs and limited need for IT resources. It is an ideal way to institute a more automated procurement process which helps provide spending controls and limits.
- **Procurement Process Improvement Advocates:** Not struggling to maintain a positive cash flow, these hospitals are challenged by developing a more efficient procurement to payment process. These institutions usually possess a time-consuming and paper intensive purchasing process. This segment seeks to improve procurement processes while maintaining control over cash flow and approval practices. Procurement Process Improvement Advocates would benefit from the implementation of almost any of the available procurement systems. The decision should be based on the hospital's fiscal and capital investment priorities. If the hospital is able to invest in the financial and IT infrastructure needed to implement an EDI or Web Portal system it would provide great long-term administrative cost savings and tremendous process improvements. In combination or as an alternative to these efforts, these hospitals can utilize a Purchasing Card program to obtain high quality data and help maximize control over the procurement process.
- **Cost-Conscious Technology Pacesetters:** Although maintaining a positive cash flow and meeting supplier payment obligations are amongst the chief priorities of these hospitals, they have managed to develop a procurement strategy that is not a manual paper-based process. With a continued focus on process improvement, these hospitals are looking to find new savings strategies that will contribute to a profitable bottom line. *Cost-Conscious Technology Pacesetters* would benefit from more effectively utilizing spending data to negotiate more favorable rates with suppliers. Additionally if these hospitals have not instituted a Purchasing Card program it should be considered since it is one of the most cost-effective procurement solutions.

- **Procurement Pacesetters:** Utilizing a wide variety of procurement technology solutions and maintaining a healthy cash flow are the key identifying factors of *Procurement Pacesetters*. These hospitals remain committed to streamlining the procurement to payment process and are constantly evolving to make their processes more efficient and cost effective.

Amongst all of the segments a common theme is clear, it is important for hospitals to examine their procurement process and identify scaleable and affordable areas of improvement based on their specific hospital's needs. There is a wide variety of procurement and payment solutions available that can be customized to cost effectively meet the needs of both hospitals and their suppliers. The primary goal for hospitals needs to be working towards developing a procurement system that encourages savings, contributes to controlling spending, streamlines processes, reduces administrative costs and increases the accuracy of procurement data.

To find out how your hospital can drive savings and improve processes, call **877-AXP-2892** or visit www.americanexpress.com/corporateservices