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Seven Steps to Better Procurement Practices

By Dave Stephens

Streamlining procure-to-pay processes can yield significant efficiencies and savings.

Many healthcare organizations struggle with cumbersome, inefficient processes for purchasing capital equipment, supplies, and services.

Procurement in a public sector versus private sector healthcare organization is quite different. In the private sector, it's typical that most purchases require two approvals, that of a purchasing manager and then a supervisor. For larger purchases, a third, more senior person is often the final signing authority. Private sector organizations can select the "best" vendor for the job, which might mean the best long-term value, not necessarily the lowest price.

In the public sector, there are often four or five signatures required for any purchase. Public sector procurement is

almost always drive by requests for proposals (RFPs) and sealed bids, and the winning vendor must provide the lowest price.

There are hundreds of procurement software solutions available, and many require expensive and time-intensive deployment by the healthcare organization's IT function. The fastest-growing

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segment of procurement solutions is web-based purchasing. A recent study by technology analyst firm Aberdeen Group revealed that simply introducing and using an effective web-based procurement solution saves the average organization five percent on their purchases. All information resides online, and any employee with the appropriate user name, password, and security credentials may access the information at any time. With no software to install or upgrades to implement, on-demand purchasing systems lessen the burden on healthcare organization IT departments.

Web-based procurement solutions provide many benefits to today's challenged healthcare organizations, including:

- > Enabling easy monitoring of spending based on specific rules established by finance and accounting
- > Enforcing automatic budget limits set by finance
- > Curbing nonessential spending

- > Managing inventory more effectively by tracking what employees have ordered, what they have used and what remains
- > Negotiating better prices from suppliers based on detailed spending reports
- > Engaging suppliers through collaborative dialogue and improved communications
- > Isolating large capital spending requests, moving the organization toward more capital-efficient vehicles for business investment
- > Streamlining approval processes to reduce overhead costs
- > Boosting efficiency of employees at every level of the organization

Considering a web-based purchasing solution for your organization? The following strategies will help you gain the most value for your organization.

Strategies for Success

Step 1: Try before you buy. When most healthcare organizations purchase technology, they complete a Google search, identify several potential vendors, invite them in to present, view a demo, read several brochures, check references, and then make their choice.

The aggressive finance or accounting director will insist that the two to three “finalist” vendors provide a free trial of their solution to help them better understand:

- > How well the solution maps to the organization’s business processes
- > Where potential gaps in software functionality may exist
- > How easy the solution is to use on a day-to-day basis

If a vendor is unwilling to provide access to its system, reconsider that vendor.

Step 2: Avoid the features and functionality arms race. Most web-based procurement software systems include

the same basic core capabilities. Each enables employees to create requisitions, gather approvals, create purchase orders and manage invoices. Vendors will attempt to compete on so-called “unique features and functions” by adding dozens or even hundreds of obscure features to differentiate their systems from others, hoping buyers will be drawn in by the alleged comprehensiveness of their solution.

Finance and accounting directors should make a list of the features and functionality they require at the start of the purchase process, and focus intently on which vendor provides a solution that meets those needs, and avoid a features and functionality arms race.

Step 3: Get bottom-up input into the service selected. Many implementation teams within healthcare organizations only pay lip service to involving the actual users of technology during deployment planning. They are often under pressure to identify a service and get it in place as fast as possible at the lowest possible price. Or, they fear that involving everyday users will result in “scope creep.”

Involving employees who will actually use the procurement solution provides multiple benefits:

- > Systems end up with all the functionality that is required as well as are implemented in a practical way that is as easy as possible to use.
- > Employee involvement ensures user buy in, since the final system purchased is “their” system, too.
- > Involvement minimizes or eliminates “rework” to the system after deployment, since users will help identify and solve hidden problems that could derail the implementation.

Step 4: Embrace the 80/20 implementation rule. Many healthcare organizations

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still employ the “Big Bang” approach to deploying software throughout their organization. They one day make available a completely new software solution to address a series of activities and expect employees to radically change behavior overnight. As a result, many of these deployments either don’t work at all, don’t work as intended, or end up being of such little value as to be worthless.

A more effective approach is to apply the age-old 80/20 rule, deploying the new solution in waves. Focus on delivering 80 percent of the new system’s capabilities first. Only when these functions are up and running effectively should the organization move forward with implementing the remaining 20 percent of the system’s functionality. Following the 80/20 approach will help the healthcare organization:

- > Achieve early success that will foster enthusiasm as well as gain additional support and momentum for the project
- > Reduce or eliminate customizations that increase the level of risk and cost of the project

Correct any problems before moving forward with the more complex part of the implementation

Step 5: Ensure executive visibility and commitment. Lack of a strong senior-level sponsor is a principal reason new software initiatives fail within a healthcare organization. Often, a project will start off with much fanfare and executive commitment, but as time goes on, an executive’s attention is required on other

projects or he or she leaves the organization or is transferred to another division. Without that senior-level sponsor, projects can lose momentum as other staff witness the loss of executive support. For this reason, it's critical for project managers to stop periodically (at least monthly) and take an objective look at their projects and ask the following questions:

- > Is the senior executive still passionate about this project?
- > Has communication between the senior executive and the project team remained at the same level as when the project started, or has it gradually deteriorated?
- > Is the executive still actively communicating the value of this project across the organization?

Step 6: Create new processes built around automation. When bringing new technology systems online, healthcare organizations often automate their existing processes versus creating a new model to maximize efficiencies from the newly automated processes.

Ensuring that a few, critical influential users are completely trained and comfortable with the new system will help ensure that everyone else who will use the system eventually has confidence as well as a valued resource to which to turn.

It is important to look at the new system as an opportunity to fundamentally improve an organization and make it more efficient, more responsive and more effective. When implementing a new purchasing system, healthcare executives should:

- > Take the time to document the current purchasing process. Undertaking this activity may be the first time executives truly understand the organization's complete purchasing process.
- > Actively solicit feedback from everyone involved about how the process can be improved
- > Be sure to share this solution with the purchasing system vendor. High-quality vendors will know the best practices associated with other healthcare organizations and can share these, often at no cost.

Step 7: Leverage the "influential users." Not all users of a purchasing system are created equal. In most healthcare organizations, there are a few "go to" people with more extensive experience and skill than their peers, the so-called "mavens" Malcolm Gladwell identifies in his book *The Tipping Point*. These influential users are not necessarily senior or junior—they are those who understand and adopt the new purchasing system the quickest.

Many organizations make the mistake of rolling out solutions to everyone at the same time, regardless of skill level. Senior executives should consider a more careful rollout strategy. Ensuring that a few, critical influential users are

completely trained and comfortable with the new system will help ensure that everyone else who will use the system eventually has confidence as well as a valued resource to which to turn. Important ways to leverage these influential users include:

- > Ensuring influential users are part of the solution selection team. In addition to providing valuable viewpoints, they are far more likely to support the system that is finally selected.
- > Making sure these users have frequent project updates and the opportunity to provide feedback throughout the implementation process
- > Bringing influential users online first. This helps build momentum across the entire organization. It will also help prepare these users to serve as coaches for others.
- > Publicly designate your influential users as "system experts" in each department and take the time to provide them with additional training as necessary.

A Timely Strategy

In today's challenging economic environment, healthcare organizations must adapt to doing more work with the same or fewer amount of people. Automating core processes such as purchasing can provide a win-win for the organization—gaining better control over the organization's spending and budgeting while improving the productivity of the finance and accounting department. ☞

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