




Responding to Healthcare's Most Urgent Business Issues

**Advocate Health Care
Case Study**



\$50 Million in Supply Chain Savings Part of Ongoing Efforts to Optimize Resources

PROVIDER PROFILE

Based in Oak Brook, IL, Advocate Health Care is metropolitan Chicago's largest fully integrated, not-for-profit healthcare delivery system. Advocate has ranked among the nation's top 10 healthcare systems for six straight years based on a number of factors, including utilization, financial stability, integration, contracting capabilities and clinical performance, according to annual surveys conducted by Verispan (March 2003), as reported in *Modern Healthcare*.

Advocate was founded in 1995 by a merger of Evangelical Health System and Lutheran General Health System. Each of these entities has deep historical roots, with Lutheran General Health System tracing its history to 1897 and Evangelical Health System to 1906.

Today Advocate operates more than 200 sites of care, including eight hospitals with 3,500 beds and the state's largest privately held home healthcare company. With more than 24,800 employees (approximately 19,900 fulltime equivalents), Advocate is the second largest private employer in the Chicagoland metropolitan area (*Crain's Chicago Business*, November 25, 2002) and the only healthcare provider listed among the 25 best places to work in the Chicagoland metropolitan area (*Chicago magazine*, October 2000).

In 2003 there were more than 4,500 individuals on the active staff of the system's acute care hospitals. In addition, Advocate has Chicago's largest economically aligned physician network with more than 2,600 affiliated physicians. In 1998, Advocate began the process of implementing Lawson® Enterprise Resource Optimization (ERO) solutions to assist with the organization-wide management of core functions, encompassing Supply Chain, Finance and Human Resources.

CHALLENGES AND OPPORTUNITIES

A Consequence of Strong System Growth

Like many of its growth-oriented counterparts in the healthcare industry, Advocate Health Care found itself with a plethora of technologies and legacy systems for managing its core functions.

"We had systems across the financial spectrum that were well past their ability to provide technological solutions in today's business environment. The systems were generally over 20 years old," says Dominic Nakis, Vice President of Finance and Corporate Controller. "Moreover, they were all from different vendors. Our general ledger system was different from our payroll system, which was different from our materials management and accounts payable systems. For the most part, these systems were not tightly linked, which made disseminating timely financial information to our managers a clumsy process."

The proliferation of systems, which became especially acute following mergers and acquisitions from 1995 through 2000, presented major hurdles for all of the organization's core functions, including Supply Chain.

"We were operating with three different software vendors and eight or nine standalone systems," says Vice President of Supply Chain, Jon Bruss. "We certainly did not have one way of doing things, either."

The organization did have a centralized contract management function, and end users were provided contract information. Still, he comments, "everyone pretty much did his or her own thing."

Managing the accounts payable function became equally challenging over time. "Because none of these systems would talk to each other, our handling of procurement activities consisted mainly of manual processes," recalls Susan Wendel, Accounts Payable manager. "There was never automated three-way invoice matching the way it is now. We had to do a lot of research and paperwork to issue payment."

REALIZED VALUE

Since implementing its Lawson system and improving business processes, Advocate Health Care has documented a number of specific benefits, including:

- \$30 million in supply chain cost savings during the initial 18-month period
- \$50 million in cumulative savings from 2001 through the end of 2003
- Ongoing cost-saving targets, including a \$12 million goal for 2004
- Supply cost per adjusted discharge ratio that's 14% below the national average. Supply cost compared to net revenue that's 21% below the national average
- Strict budgetary compliance through built-in purchase limits and approval workflows
- Improved support for patient care through product standardization and contract compliance
- Accommodation of substantial organizational growth without corresponding increases in Purchasing staff
- An accelerated ordering process with Lawson Requisitions
- Consistent capture of vendor discounts
- Less Purchasing Department involvement in repetitive manual tasks, leaving more time for strategic activities
- \$1 million annual savings by moving form printing from external suppliers to in-house production

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Jon Bruss
Vice President of Supply Chain,
Advocate Health Care

The \$30 Million Challenge

Advocate's leadership recognized the potential to carve out considerable costs from the purchasing side of operations. “In 2001 things changed radically,” states Bruss. “Our leadership charged Supply Chain to save \$30 million during an 18-month period. We knew that, in order to do this, we needed to standardize and consolidate our purchasing — and create compliance across the system.”

Standardization and consolidation, he explains, would lead to a streamlined set of vendors and products, positioning Advocate's contract managers to negotiate more favorable pricing.

The multi-million dollar question: How would sweeping change be achieved in such a large healthcare organization with so many entities?

COMBINING PROCESS AND TECHNOLOGY

From the outset, Advocate's decision makers understood that achieving their cost-reduction goal, as well as operational improvements across the supply chain, required more than a “technological fix.” What was needed, above all, according to Bruss, was “an organization-wide standardization process: one system and one way of operating...a best practices approach.”

Advocate's leadership had already determined in 1998 that Lawson would provide the technological infrastructure for both Accounts Payable and Supply Chain.

“One of the things that stood out was Lawson's background in healthcare. That was very attractive to us,” says Jim Doheny, Director of Accounting. “We were looking for a company that understood our nuances versus the overall market. Also, Lawson was reputed to be a leader in the enterprise applications arena. We needed a system that crossed all of our financial systems, rather than going back and forth between different ‘best-of-breed’ solutions.”

Tina Perez, Director, Supply Chain Information Management, too, was part of the enterprise application selection team. Tina observes, “It's amazing that everyone agreed on Lawson. With any system there's room for improvement and growth. However, Lawson gave us the most functionality and options along with the degree of flexibility we needed.”

In implementing Lawson Supply Chain at two hospitals in 2000, there was certainly an appreciation of the efficiencies and operational enhancement to be gained. Now, with the “\$30 million challenge” looming, the Lawson solution took on an even more important role. “It would become a key tool in centralizing our purchasing and creating compliance throughout the system,” says Bruss.

Foundation for Consolidation and Control

First, however, the organization needed to establish standardization in its purchasing processes — an enormous challenge considering that there were approximately 5,000 end users buying 80,000 items.

“We knew that our efforts would succeed or fail based on the actions of our end users,” explains Bruss. “We had to foster a mindset in which people would want to comply with our decisions because they helped make the decisions.”

Already in place were 12 “system councils,” comprising various disciplines, including physicians, nurses and other clinicians. At that time, the councils focused primarily on clinical practices and policies. With the \$30 million cost reduction goal on the table, they quickly took on a central role in Advocate’s purchasing standardization efforts.

In fact, these councils, now numbering 24, continue to be an important part of the ongoing product standardization endeavors.

“A contract manager from the Supply Chain Department attended each of the council’s monthly meetings,” says Bruss. “We wanted to know what their needs were and which products would best meet those needs. Each council would help us identify opportunities to consolidate and standardize our vendors and products.”



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Director,
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For the councils to deliver on this new responsibility, good quality information was essential. Specifically, they required a clear picture of spending and usage patterns before they could move ahead with any recommendations. Fortunately, the councils had Lawson Accounts Payable data as an information resource.

“Lawson Accounts Payable data was and continues to be important to the work of the councils because we’re able to report spend by supplier for current product usage when we consider new products and issue requests for proposal,” explains Bruss. “In the past, our suppliers knew better than we did what our total spend was.”

Ultimately, the councils would zero in on “best of breed” products across all categories, supporting the delivery of excellent patient care while equipping contract managers to negotiate the best possible prices with a more strictly defined universe of vendors.



REALIZED VALUE, SUPPORTED BY LAWSON

Measurable, Ongoing Savings — and More

In 2001 three hospitals in the Advocate Health Care system were using Lawson Supply Chain Management. Today, all facilities and every department are using the system and buying from a consolidated set of vendors and products, thanks to the foundational work performed by the system councils.

The results have been measurable — and impressive.

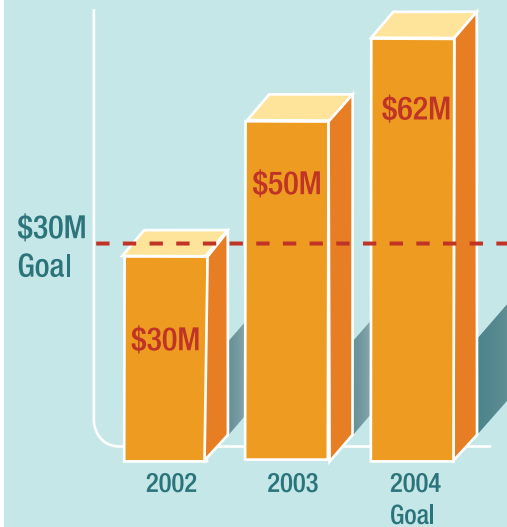
Advocate achieved its target of \$30 million in direct supply chain cost savings by the end of 2002, primarily through negotiating better vendor terms, coupled with organization-wide end-user contract compliance. And that was just a taste of things to come.

“By the end of 2003 we had saved a total of more than \$50 million,” states Bruss. “And we’ve targeted another \$12 million for 2004. With Lawson providing our technological infrastructure, these savings targets will continue into the future.”

He points to two ratios, supply cost per adjusted discharge and supply cost compared to net revenue, as evidence that these cost reductions do really make a difference. Both ratios are well below the national average: 14% and 21% lower, respectively.

“It’s a fact of life,” he adds, “that healthcare supply chain costs are going to continue to rise. But for us, they’re not increasing as rapidly as in the rest of the industry.”

Ongoing Supplies
Supply Chain met its initial goal of \$30M in savings and reached \$50M by the end of 2003.



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From a variety of perspectives, both financial and operational, Advocate has succeeded in pursuing its “one system, one way of doing business” initiative. Among the significant outcomes cited by managers and executives:

- An accelerated ordering process, in which user-generated electronic requisitions automatically trigger purchase orders for transmission to vendors or Advocate’s store rooms
- Strict budgetary compliance through built-in purchase limits and approval workflows
- Consistent capture of vendor discounts; once a discount is established at the vendor level, the system automatically pays each invoice within those terms
- Improved support for patient care, attributed in large part to frequent product trials, increased end-user compliance with contract buying and better communication between the Purchasing Department and clinicians regarding product availability
- A shift in the Purchasing Department away from repetitive manual tasks, such as creating purchase orders, toward more strategic responsibilities, such as researching vendors and proactively identifying product substitutions
- The ability of the Purchasing Department to accommodate organizational growth and higher purchasing volumes without corresponding increases in staff



A Million-Dollar Success Story

Behind every positive statistic, of course, are many individual success stories. In realizing its cost reductions, Advocate Health Care is no exception. A prime example: saving approximately \$1 million annually through a centralized, in-house form-printing service.

“Previously, we relied mainly on external suppliers for our forms printing,” says Bruss. “The problem was, we had to buy in such high quantities that we were stuck with large inventories, much of which would eventually become outdated. On top of that, we were paying dearly for these forms.”

Through a cost-benefit analysis, and by determining that there was capacity to meet the needs of the entire organization, Advocate decided to move the form-printing function in house. The form-ordering process, incorporated into Lawson Requisitions, became a simple task. In just a few quick steps, users select what they need from an online catalog.

“They can specify forms in small quantities, so there’s no large inventory to maintain and very little waste,” comments Bruss. “Production costs are charged to the ordering sites, but they don’t pay a mark-up, and the service they receive is as good as or better than the service they used to receive.”

Besides providing an easy, centralized requisitioning template for users, he adds, the Lawson Supply Chain solution gives Advocate’s printing services a mechanism for charge backs as well as a means for tracking inventories of forms.





NEW OPPORTUNITIES TO OPTIMIZE

As cost-containment pressures — and the demand for operational excellence — continue to intensify, Advocate Health Care is embarking on innovative new supply chain initiatives with the support of Lawson ERO solutions.

For instance, Advocate has successfully transitioned from extensive dependence on group purchasing organizations (GPOs) to handling much of its own contracting — a direct result of the “one system, one way of doing business” paradigm and the increased negotiating leverage it has spawned. Now the organization is exploring the very real possibility of creating its own GPO, which could potentially serve other healthcare organizations in the Chicago area.

Other initiatives under consideration include:

- A centralized internal distribution model which would consolidate inventory into one facility, eliminating the inefficiencies and costs of receiving, maintaining and distributing inventory at multiple sites
- An arrival tracking system that would automate the handling of incoming shipments, instilling certainty and accountability into the process, while saving time and money

ERO for Human Resources and Financial Management

ERO for Human Resources and financial management consistent with the goal of unifying its systems and business practices, Advocate plans to extend Lawson technology to core functions beyond supply chain. Currently, the organization is preparing for implementations of Lawson Human Resources and Financials solutions.

Early in 2004, the organization completed a project charter for the implementation of Lawson General Ledger and Asset Management, sometime during the year. At the same time, Advocate is moving ahead with plans to implement Lawson Human Resources, including Payroll. Also, with the installation of Lawson Portal, the organization will provide self-service functionality, allowing employees to handle their own benefits enrollment and maintenance of personal information.



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SUMMARY

Advocate Health Care's experience with centralizing and standardizing its purchasing processes bears ample witness to an inescapable truth: It takes more than a technological fix to effectively respond to a business issue of this magnitude.

As Advocate's leadership understood from the beginning, the response must also involve:

- Fundamental changes in processes and infrastructure

- Employee participation in and ownership of those changes

- Reliable business intelligence to steer change in the right direction

At the same time, Advocate invested considerable time and energy in the selection of the right business solutions and the vendor behind them. What the organization found in Lawson, according to Doheny, is a company that is thoroughly knowledgeable about the healthcare industry's challenges.

"Every industry has its own idiosyncrasies and its own way of operating," he says. "It's good to have a company that speaks our language, that understands why we do business the way we do and that has built their products with functionality to address our specific issues."

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