



Responding to Healthcare's Most Urgent Business Issues

Allina Hospitals & Clinics
Case Study



Bottom-Line Benefits of Supply Chain Optimization

PROVIDER PROFILE

Allina Hospitals & Clinics is one of the leading healthcare organizations in the upper Midwest. Based in Minneapolis, the integrated delivery network comprises 11 hospitals and 42 clinics in Minnesota and Wisconsin and also owns emergency medical transportation, behavioral health services and home care/hospice services.

This non-profit healthcare delivery organization has an approximate 29 percent market share in the Minneapolis/ St. Paul metropolitan area and more than 22,000 employees. Patients come from across the state, as well as from neighboring states, to access Allina hospital services, including cardiac care, eye care, cancer treatments and rehabilitation services.

The organization's hospitals are consistently rated as among the best in the nation in annual surveys. In 2003, for the second year in a row, Abbott Northwestern and Mercy hospitals were named in U.S. News & World Report's "America's Best Hospitals." Abbott was cited as one of the country's best in seven specialty areas, including cardiac care. Mercy Hospital ranks as one of the top hospitals for respiratory care.

Allina Health System also was named as one of the nation's "100 Most Wired" hospitals and healthcare systems by Hospitals & Health Networks, the journal of the American Hospital Association. This prestigious award is based on an organization's use of Internet technologies to connect with patients, physicians and nurses, payors, health plans and employees

CHALLENGES AND OPPORTUNITIES

Allina's successes are more impressive considering the backdrop in which they were achieved — a healthcare industry struggling with many business challenges. Leaders in the industry face enormous pressures to improve quality of care, access to care and their bottom line in an environment of declining reimbursements, increasing demand for services, costly labor shortages and climbing expenses.

Decentralized, costly purchasing practices

As hospital expenses continue to rise in an era of declining reimbursements, healthcare organizations must look elsewhere to control costs and remain competitive. Several years ago, Allina saw significant cost-savings opportunities in its highly fragmented materials management operations. The organization wanted to gain better control of supply costs across its many facilities. To do that, it needed a common platform to standardize products, improve payment controls and pricing, and enhance decision support.

Diverse procurement and supply chain systems were scattered across the organization. A minimum of five separate legacy systems covered the major hospitals, but not the 42 clinics or smaller hospitals. Allina also lacked comprehensive and standardized data from across its facilities and had no technical platform to generate centralized procurement activity system-wide. Without the ability to maintain the integrity of the data in those legacy systems, inaccurate information in the master files resulted in inaccurate transactions and payments to suppliers.

"Over the years, we encountered situations where we were often billed different prices for the same product, even though we had a contract guaranteeing us the same price for all locations," explains Scott Grove, director of Information Technology for Resource Management at Allina Hospitals & Clinics. But without payment controls and the technical ability to implement centralized contract pricing on purchase orders, Allina had no control to ensure it paid the correct contract price at all facilities — from the biggest hospital to the smallest clinic. "From a business standpoint, we were at a significant disadvantage when it came to controlling supply costs."

REALIZED VALUE PROOF POINTS

Since implementing its Lawson system, Allina Hospitals & Clinics has documented a number of specific benefits, including:

- Reduced the ratio of hospital supplies expense as a percentage of net patient revenue in 2000 from 13.2 percent to 12.8 percent. According to Allina, this saved an estimated \$4.5 million in 2000 and has provided similar value in recent years.
- Standardized products and contract pricing across its facilities.
- Enabled Allina clinics to achieve the same contract pricing available to Allina hospitals for the first time.
- Reduced the ratio of clinics' supplies expense as a percentage of net patient revenue from 5 percent in 2000 to 3.5 percent in 2003.
- Managed a distributor change for its clinics in 2002 more easily by providing clinic-level purchasing activity data, which resulted in nearly all appropriate purchases being placed with the new distributor by mid-2003.
- Increased the percentage of food, drug and supplies expenditures made on a contract from 50 percent for all of 2002 to 63 percent in November 2003. (Allina's goal is 70%, which would result in an estimated annual savings of \$2 million based on \$100,000 in savings for every 1 percent increase in contract purchases.)
- Maintained staffing levels despite experiencing business growth of \$500 million in revenues.
- Increased electronic purchasing to nearly 99 percent of all purchase orders.

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Redesign aims for greater efficiencies

Allina’s pre-existing materials management systems varied widely throughout the organization. Their installation was imperfect and each had been implemented with varying degrees of completeness. As a result, each individual facility possessed its own technology culture. Adding to the complexity, its many clinics were acquired through multiple purchases of several independent clinics, making it a difficult cultural environment to accept standardized policies and practices.

Since deploying the Lawson solution, the organization has gained a common platform to centralize contracts, streamline purchasing processes, standardize products and improve decision support capabilities — all of which greatly enhanced its ability to control supply costs and experience bottom-line benefits in several key areas.

In 1998, Allina began a major materials management redesign project. The organization had relatively good materials management practices established across the system, but the inherent inefficiencies in these practices were proving to be too costly as a long-term solution. In looking to design a more efficient system, a major decision was made to implement a facility-wide enterprise resource planning (ERP) system. This drive for a truly integrated system coincided with Y2K pressures placed on its non-compliant materials management systems. “At the time, our procurement and payment data was not automatically integrated with our accounting system,” says Grove. “So, we then decided that, along with a new materials management system, we also would bring in a new financial system.” That’s when the selection process began.



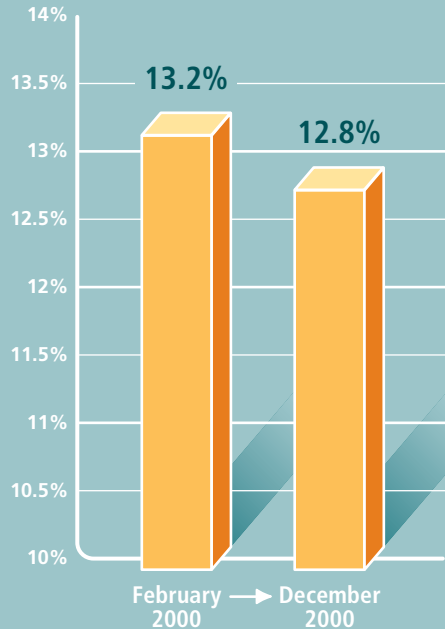
REALIZED VALUE THROUGH ENTERPRISE RESOURCE OPTIMIZATION

Common platform is key to business success

After a formal evaluation and selection process, Allina chose to implement Lawson's solutions for healthcare to support an enterprise resource optimization strategy. "We chose Lawson Supply Chain Management and Financials applications for their system features, application integration, pricing and reputation," says Grove. Lawson's system features offered Allina a platform to control purchasing and payment activities throughout its organization. The application integration with Lawson General Ledger helps provide seamless integration between transaction processing and accounting, enabling Allina managers to measure their operations in a more consistent manner throughout the enterprise. "And Lawson had an established track record of helping other healthcare organizations identify significant cost reduction opportunities by exploiting the features of its applications, and we wanted to experience similar benefits."

Ratio of Hospital Supplies Expense to Net Patient Service

Allina reported this percentage drop represented savings of an estimated \$4.5 million in 2000 and has become a sustained annual cost savings.



Payment controls and contract administration

Allina first experienced significant cost savings and increased efficiencies in its supply chain with its new payment controls and contract administration. "Supply costs consume an excessive share of an organization's revenues," says Eric Morgan, Lawson's executive vice president of Healthcare. "Through improved buying practices and controls, which our products support, healthcare providers can reduce supply costs and improve their bottom lines."

Due to the complexity of Group Purchasing Organization (GPO) tier pricing, it is often difficult to establish the correct price for various items. This complexity leads to inadvertent billing and payment errors in some cases.

After deploying the Lawson accounts payable and contract pricing applications, a three-person Contract Administration team ensures that the correct GPO, or non-GPO (Allina negotiated), contract price is loaded into the pricing module. This then helps to ensure that the correct price appears on all Allina purchase orders no matter where the order originates. So when Allina began loading its GPO and non-GPO contracts into the Lawson system in February 2000, it saw its ratio of hospital supplies expense to net patient service revenue drop from 13.2 percent to 12.8 percent. A seemingly insignificant percentage, but on revenues of \$1.3 billion dollars in 2000, the annualized cost savings estimate is approximately \$4.5 million. This cost reduction appears to have carried forward and become a sustained annual cost savings to the organization.

"You start applying those small ratios to large volumes and the savings amount to millions of dollars," explains Grove. "Typically, contract exceptions are hard to detect. We couldn't enforce the correct contract prices on a piecemeal or manual basis, and that's where the Lawson system does the heavy lifting for us."

Intelligent reporting encourages proper purchasing in clinics

Perhaps the biggest benefit Lawson Supply Chain Management provides Allina is “big picture” reporting capability. Procurement specialists can track what items people use and how they order those items. This access to real-time information is especially valuable for enforcing standardized purchasing policies and practices across Allina’s 42 clinics.

When Allina deployed Lawson’s Web requisitioning application to its group of clinics, it also switched the clinics’ distributor to the distributor already used by its hospitals in order to obtain reduced distribution fees. Initially, the organization had very low compliance among its clinics. Many did not consistently use or buy standardized products or make purchases from the designated distributor.

Using the data extracted from the Lawson system, Allina’s supply managers analyzed the purchasing and procurement activity of each clinic in regular monthly reports. These reports helped them identify which clinics were buying from the new distributor as compared with the old distributor. With this tailored information, management was able to work with each of the clinics to review their individual purchasing activities and effect a distributor change. They moved product purchases to contracted and standardized items. And for the first time, the clinics achieved the same contract pricing available to Allina hospitals. According to Allina, during the implementation period in Allina’s clinics, the ratio of clinics’ supplies expense to net patient revenue went from 4 percent before the Lawson solution to 3.5 percent in the latter half of 2003.





Added value with automated payment processes

The Lawson Supply Chain Management solution automatically generates purchase orders from standard templates, batches them daily and creates an audit trail. End users only need to enter the item and quantity to submit a requisition. By eliminating unnecessary process steps, Allina has been able to greatly compress its requisition to fulfillment timeframe. Allina now clears orders three to four times a day to its suppliers. Requisitions generated on a specific day will automatically turn into a purchase order by the end of that same day. The ease of use has allowed the organization to push the purchasing down to an expanded number of end users. Allina now currently has 1,300 requisitioners using Lawson electronic requisitioning systems along with 80 buyers. And, the ability to more easily replenish supplies allows clinicians to spend more time with patients, helping to improve patient care.

Electronic invoicing also has increased significantly. Eighty percent of purchases occur electronically. The rest occur via electronic fax that the Lawson system automatically generates. And with automated bill paying, Allina's prime medical/surgical supplies distributors send bills electronically, so the invoice is automatically entered into the system. In the past, this was a manual process so paying an account used to require more than two full time equivalencies (FTE). Now it requires less than one FTE. The elimination of many manual processes has allowed staff to cut back on more lower level tasks and be redeployed to more higher value functions, such as decision support and customer support initiatives.

Decision support enforces contract purchases overall

One of Allina's major business objectives when implementing Lawson applications was to increase its food, drug and supply expenditures purchased on contracts to at least 70 percent. "We have an initiative within the organization to standardize product and to make sure we buy as much product as we can on a system wide contract," explains Grove.

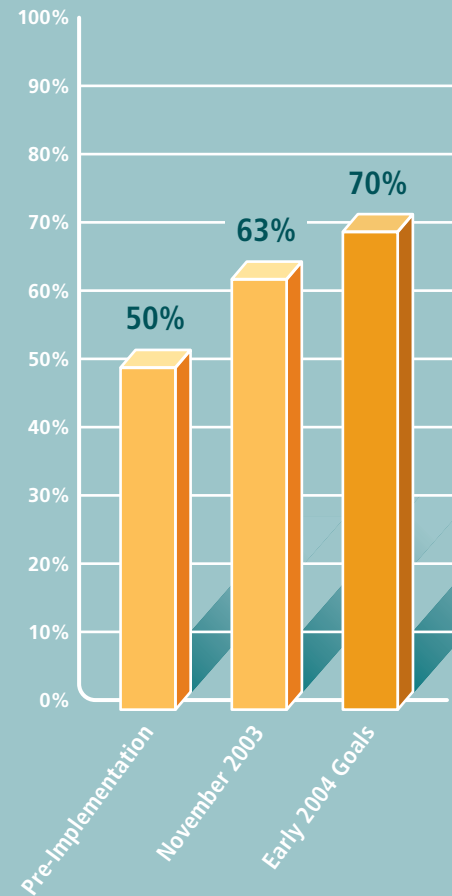
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In 2002, only 50 percent of purchasing activity was made on contracts. Using decision support software tools, Allina has analyzed purchasing data by hospital and buyer with timely, detailed reports on purchasing patterns. This has identified several specific opportunities at the hospital, buyer and item level to move more purchases to contracted items.

Lawson has enabled Allina's contract specialists to quantify "books of business" or actual purchase volumes on particular products. Prior to Lawson, it was difficult for them to quantify committed product purchase volumes. Now with tailored reports on item usage and price variances, Allina has the ability to evaluate and validate pricing and volume to better manage buying power and negotiate better vendor contracts. By November 2003, the contract purchase percentage improved from 50 percent to 63 percent. Allina expects to reach its goal of 70 percent in early 2004, yielding an expected \$2 million in annual savings. For every 1 percent increase in contract purchases, Allina estimates it can drive \$100,000 in cost savings.

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Application integration with Lawson Financials

The integration and collaboration between Allina’s procurement processes and Lawson Financials have delivered huge benefits in terms of improved efficiencies and financial management. “Healthcare decision makers are always asking themselves, ‘Where can we cut costs without compromising the quality of patient care?’” says Morgan. “Lawson gives financial managers a single source of data across the enterprise, which helps them make better-informed cost management decisions.”

The complete integration with Allina’s materials management systems and Lawson General Ledger means all of the organization’s materials transactions and payment purchases are automatically reflected in its GL system, eliminating the need for manual data entry. Historically, Allina’s financial managers had to use manual journal entry interfaces and often lost detailed transactional information. Now they can compare business units at a very detailed level so they know which individual is buying what even at the smallest business unit. “We never dreamed of having that kind of information before,” says Grove. “Before we had very little decision support because there was no reservoir of information to access. Now we do much more data mining and analysis of our information to generate new cost savings opportunities.”

This decision support data is helping Allina achieve another one of its bottom-line goals — maintaining its supplies expense increase every year to a preset amount of 5 percent. The health system has been able to identify opportunities for standardization and new strategies to improve its procurement practices. Grove maintains, “We believe the integrated data and improved access to cost information has been critical to controlling our supplies expense.”





SUMMARY

In today's healthcare environment, it is no longer acceptable just to be efficient. Efficiency alone does not guarantee quality care. With increasing patient safety initiatives and limited budgets, hospitals must also be more effective. With the help of Lawson applications, Allina is optimizing the use of scarce resources to more efficiently and effectively deliver high-quality patient care.

In fact, since Allina deployed its Lawson system, the organization has realized a significant return on its investment thanks to enterprise-wide integration, standardization and business process automation. These benefits gained from the Lawson system also have helped Allina maintain staffing levels over the past several years despite experiencing business growth of \$500 million in revenues. "We can do a lot of specific, proactive things to reach our business objectives and the only reason we're able to do that is we're mining the transactional data in the system," says Grove. "And that's a huge competitive advantage for us."

And, the tremendous value of enterprise-wide integration, standardization and real-time business intelligence goes beyond improvements to the cost side of the business. The bottom-line benefit is ultimately on the clinical side with improved patient care. The Lawson applications help enable those who don't have direct contact with patients, such as IS staff, to quickly and accurately respond to those who do. Responding to caregivers requests for patient data, reports and other critical information helps to ensure that patients remain the focus while IT keeps the business side of Allina running efficiently and effectively.

"Keeping costs down helps us make healthcare more affordable, therefore more accessible, to those who need it — our patients," says Grove.

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