SCOTTSDALE INSTITUTE

INFORMATION EDGE

Enterprise Resource Planning: Why ERP may be in your future

Executive Summary

Enterprise Resource Planning (ERP) is one of the fastest-growing trends in the healthcare industry. ERP solutions enable organizations to redesign their processes by integrating major areas of business such as finance, distribution, human resources and purchasing. ERP data can target problems related to the utilization of resources—either human resources or materials. An ERP system, coupled with appropriate new business processes, can yield phenomenal returns on investment, including a unified corporate culture, improved resource management, increased operational effectiveness, reduced costs and enhanced customer service. In its truest sense, ERP is the discipline of integrating the organization's business into a coherent and well-managed whole.

Traditional ERP software vendors have focused on the manufacturing industry, building modular software linking financial systems with systems for the shop floor. Now these products are being adapted for healthcare, an industry with which the vendors are less familiar. As a result, the term ERP is being misunderstood in healthcare, particularly in the case of integrated delivery networks (IDNs), because traditional ERP vendors are trying to transfer pre-packaged ERP solutions to healthcare from manufacturing and other industries. In truth, the only applicable software these ERP products provide to healthcare are for financial (excluding billing and A/R), human resources and material management. By adopting these systems as a total solution, we could be creating even more technology islands.

Healthcare providers should put ERP into perspective by understanding that these commercially available solutions support only about half of the eight major resource-managing processes required by today's IDNs—and none of the most resource-intensive processes such as care delivery. A true healthcare ERP solution means having financial systems well integrated with clinical systems: a distant goal for many healthcare organizations! We must do a good job of operations analysis and redesign first, followed by integration of ERP systems. If done correctly, ERP becomes a natural extension of good business practices.

▲

Is ERP in your future?

Enterprise Resource Planning, or ERP, software is multi-module application software that provides a crucial foundation to help organizations simplify, integrate and manage critical business functions in the areas of materials management, human resources and financials. ERP solutions are the fastest growing segment in the healthcare IT industry. The driving forces for ERP business solutions in healthcare include:

- Gaining a competitive advantage by improving
  - –Organizational performance
  - –Costs
  - –Service quality
  - –Efficiency
- Meeting legislative requirements
- Mergers and acquisitions
- Streamlining tasks
- Creating consolidated, centralized reporting
- Removing dependency on MIS for reporting and processing

Specific benefits of ERP in healthcare include those in the following categories:
- Overall—Company-wide consolidation of key management information, real time processing, faster and more accurate reporting.
- Human Resources Management Systems (Payroll, Benefits)—Streamlined hiring process, integration with Payroll and Benefits, increased workflow and employee self-service.
- Materials Management (Inventory, Purchasing)—Centralized vendor and item master, reduced inventory, supply chain management.
- Finance (GL, AP, budgets)—Consolidated chart of accounts, facilitated financial analysis (trends), enhanced budgeting capabilities.
- Information Technology—Data management/warehousing solutions, positioning for growth and mergers/acquisitions, reduced dependency for reporting...greater opportunity for productivity, open systems and architectures.

First questions

To even consider an ERP strategy, a healthcare delivery organization should ask itself several questions related to how it views resource planning and management from an enterprise-wide perspective, and the priority of these issues relative to other challenges. Some questions include:
- To what degree is the organization experiencing problems related to the cost, quality or timely delivery of supplies?
- To what degree is the organization experiencing problems related to the cost, retention, or matching of human resources to demand?
- To what degree does management have access to the information required to make informed decisions regarding cost and resource planning and management?
- Has the organization implemented any type of enterprise-wide solutions? If so, what stage of implementation are we in and what results are we seeing?

ERP software is multi-module application software that provides a crucial foundation to help organizations simplify, integrate and manage critical business functions in the areas of materials management, human resources and financials.

For more information on ERP contact Bill Weber of FCG at bweber@fcg.com or via voicemail at 800-471-8831.

Who should be involved?
- CEO, COO, CFO, CIO and the Vice President of Human Resources or the Vice President responsible for Materials Management.

Stepping stones to ERP
Outside assistance is often needed to plan and implement ERP solutions. Such services typically revolve around the following steps or phases:
- The first step involves an organizational assessment to determine business priorities and benefits of an ERP approach. This phase requires senior-level leadership to conduct interviews, review pertinent data elements and manage the assessment process.
- Implementation of ERP solutions includes system installation and, equally if not more important, business-process redesign. Implementation can vary from a single solution for finance, materials or human resources to an integrated implementation of multiple elements. Resources required and timing vary depending on the size of the project and the level of executive involvement.
- A third phase—post-ERP implementation work—includes an implementation audit, configuration optimization, interfacing to other information systems, technical support, additional process design to optimize the system support, interim outsourcing opportunities and support for adding other system modules. System modules added in phase III may include decision support, reporting capabilities and position management.

ERP Case Study: Mercy Health Services
As an instructive example of an IDN's initial ERP assessment, we offer the experience of Detroit-based Mercy Health Services (MHS), who shares the following information about their process:

Vendor Analysis: Based on MHS' preliminary evaluation criteria, PeopleSoft and Lawson made the vendor short list. Analysis of PeopleSoft and Lawson using cost, implementation experience, customer satisfaction and healthcare experience indicated comparability between the two vendor systems. Key factors to consider for further evaluation of the vendor systems are integration with other existing Mercy systems, especially considering MHS' merger with Holy Cross. In addition, it was important to weight functionality between PeopleSoft, historically strong in HR, and Lawson, historically strong in Finance and Materials Management. Further definition of these key factors will be necessary to facilitate the final decision for an ERP system.

Outsourcing Advantages and Disadvantages: Outsourcing allows MHS to share implementation cost and cost of ownership risks with an external partner. Potential benefits for outsourcing cited by vendors include lower cost of ownership and higher service levels. For the two outsourcing options available to MHS, contracted services and application hosting, vendors have significant experience with contract services staff

ERP solutions enable organizations to redesign their processes by integrating major areas of business such as finance, distribution, human resources and purchasing.

ERP data can target problems related to the utilization of resources-either human resources or materials.

outsourcing, which involves providing staff who work onsite as if they are employees of MHS. Application hosting, in which an outside vendor maintains software on a centralized server and "rents" access to it, carries higher risks because of limited vendor experience in healthcare, lack of a track record in supporting healthcare organizations the size of MHS and because of the service's novelty.

An ERP system, coupled with appropriate new business processes, can yield phenomenal returns on investment, including a unified corporate culture, improved resource management, increased operational effectiveness reduced costs and enhanced customer service.

Project Timeline: MHS' stated goal of an 18-month implementation timeline for an ERP solution was deemed possible, but aggressive. To meet the 18-month goal, MHS designed a phased approach, completing one region at a time. That way, the first completed region could act as pilot site for the other two. In order to ensure optimization of system functionalities and coordination of the system with the process redesign, MHS also planned the business-process redesign to run in parallel with the system implementation.

Project Cost: Initial project cost estimates ranged from $19 million to $29 million depending on the vendor and availability of internal resources to support implementation. The MHS ERP implementation was considered a medium-to-high complexity implementation given the number of sites, the legacy systems affected and the timeline for implementation. MHS budgeted $25.5 million plus a 15% contingency fee, and opted for an integrated business process redesign and system installation implementation. The $25.5 million figure assumed synergies realized by an integrated roll-out of the system with the redesign of business processes.

Benefits: There are tangible and intangible benefits to the implementation of an ERP system. Sample intangible benefits include, but are not limited to, increased access to information and services, improved data quality and increased customer satisfaction. Tangible benefits should include reductions in transaction time, improved process throughput, increased automation of tasks, reductions in transaction errors and related operational efficiencies.

In summary, implementation of an ERP solution within a reasonable cost will be possible provided that MHS confines the scope of implementation to a basic installation, redesigns business processes concurrently with the system installation, phases implementation over three regions and makes available internal staff for the implementation. However, there are multiple issues that MHS is still working through, including the priorities for a system selection, which will impact the final deployment plans and costs. The following issues are high priorities over the initial three months of the project:

- Development of common vision and goals for an ERP solution,
- Prioritization of final system selection criteria (cost, functionality, ease of implementation, application integration, etc.) that addresses the needs of MIS, HR, Finance and Materials Management,
- Recommendation for vendor system,

- Impact of Holy Cross merger on system implementation and business process redesign,
- Agreement on shared services concept across the enterprise,
- Agreement on implementation starting point (region),
- Decision on Human Resources Outsourcing,
- Identification of scope of process changes,
- Amount of customization to software package,
- Recommendation for a decision making committee to provide project guidance and oversight,
- Decision on the level and type of external resources necessary to support implementation, and
- Identification and recruitment of internal resources.

For more detailed information on the MHS case study, including an extensive cost model, contact Bill Weber of FCG at bweber@fcg.com or via voicemail at 800-471-8831.

▲

Traditional ERP software vendors have focused on the manufacturing industry, building modular software linking financial systems with systems for the shop floor.

The term ERP is being misunderstood in healthcare, particularly in the case of integrated delivery networks (IDNs), because traditional ERP vendors are trying to transfer pre-packaged ERP solutions to healthcare from manufacturing and other industries.

Yes, the registration materials for our

Annual
Membership Conference
April 13-15, 2000

have been mailed out to everyone.

Send your registration in today!

For further information, call the

SI Membership Services Office at 612/545-5880 or

send an e-mail to Cynthia at cpratt@fcgnet.com