

Case Study: Automating Healthcare Supplier Payments

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Overview

- Today's healthcare supplier payments landscape
- Case Study: Thomas Jefferson University
- Q & A

A sea change in healthcare

- Regulatory compliance
- Pressure to contain costs, improve outcomes
- Demands of aging population
- Technological transformations

Turn cash flow into competitive advantage

- Improve efficiency
- Trim costs
- Weather sudden storms
- Seize opportunities
- Mitigate ICD-10 impact

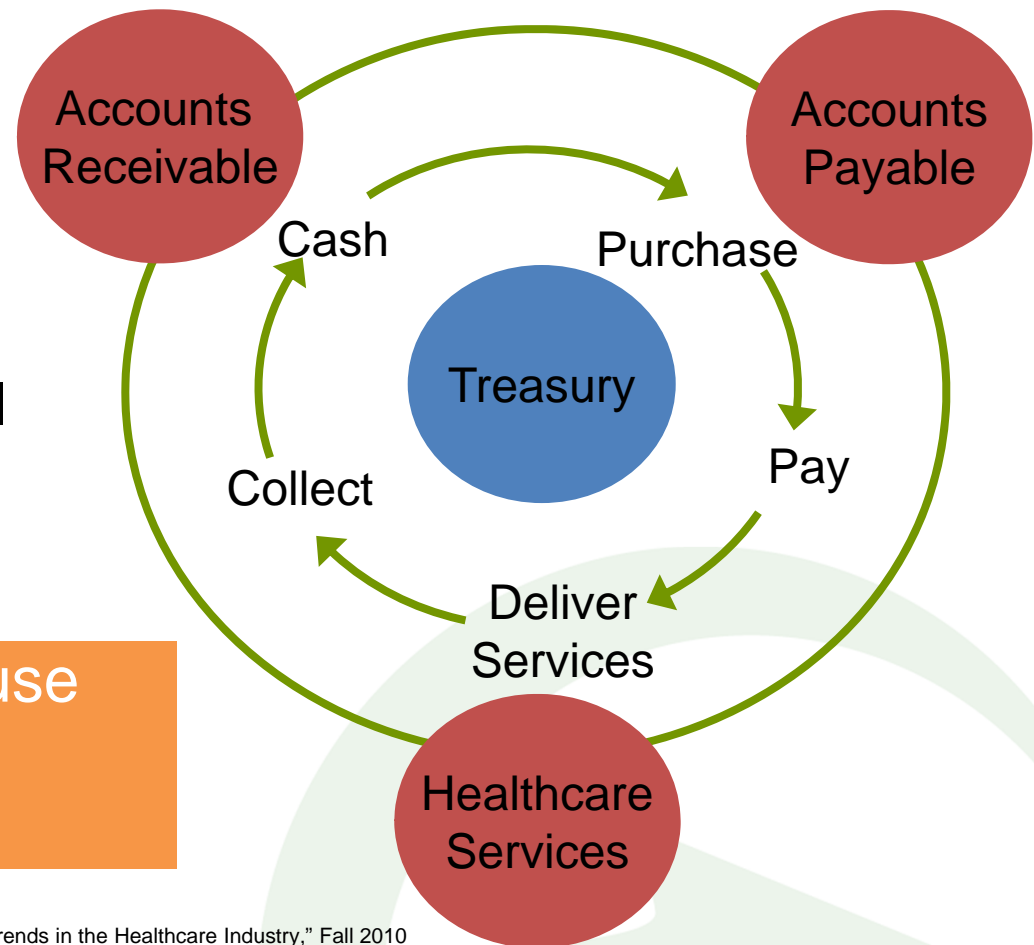
Better manage risk with predictable cash flow and forecasted financial performance

Source: Association for Finance Professionals, "2012 AFP Risk Survey, Report of Survey Results."

Automating accounts receivables has improved financial health

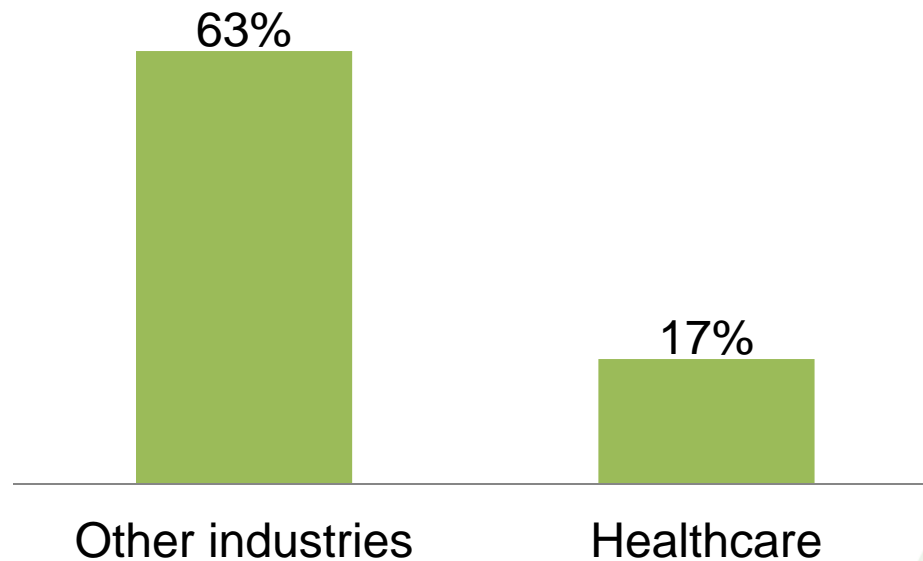
- Improves cash flow
- Optimizes working capital
- Lowers medical bad debt
- Shortens revenue cycle

67 percent of providers use automated posting technology



Source: The Association for Workforce Process Improvement (TAWPI), "Payment Trends in the Healthcare Industry," Fall 2010

Healthcare late in automating accounts payable

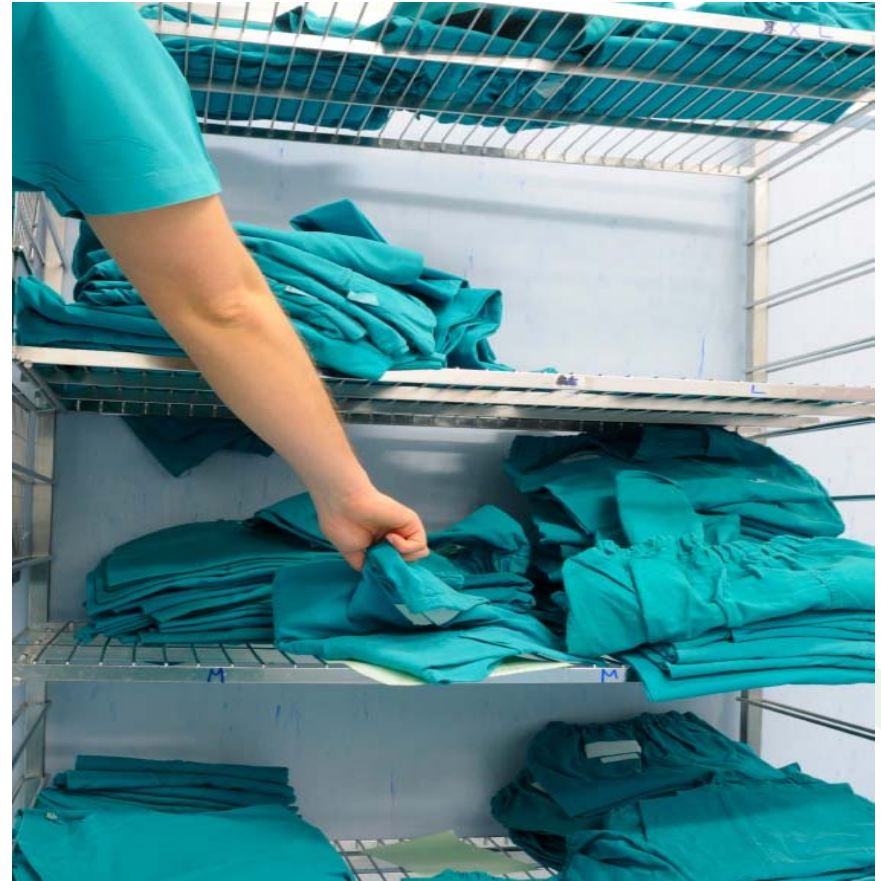


Paper strains resources and limits cash flow

Source: PayStream Advisors, "Healthcare ePayables: Turning AP into a Paper Free Environment," Q2 2012.

Accounts payable is new focus for cost reduction

Supplies equal a third of healthcare budgets



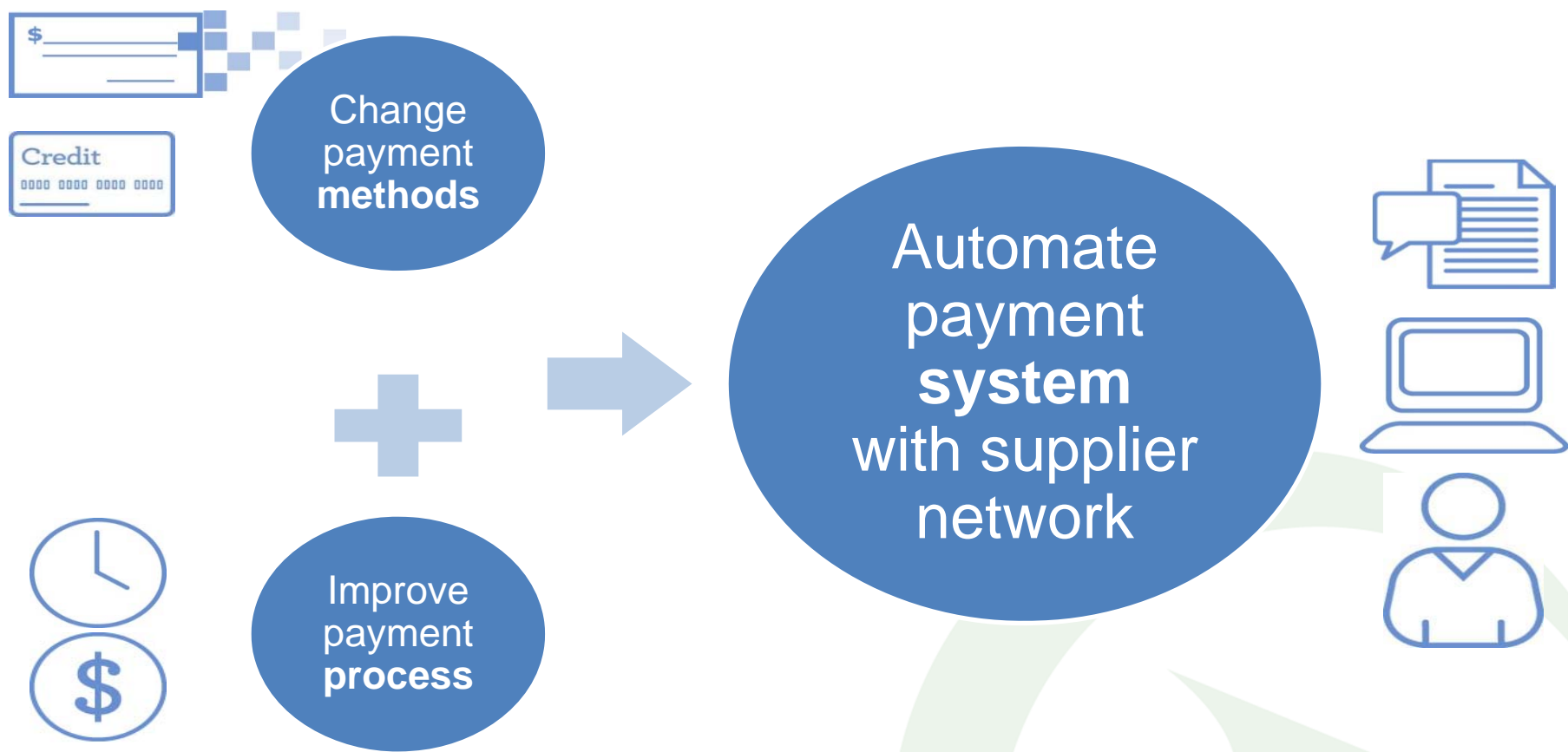
Source: Association for Healthcare Resources and Materials Management, as quoted by Jeremy Thompson in Ezine Articles, "Healthcare Supply Chain Management Is a New Focus for Cost Reduction," June 20, 2012.

Significant savings per transaction

Transaction type	Cost per transaction
Manual paper process with check payment	\$59
Manual paper process with electronic payment	\$27
Automated process with electronic invoice and payment	\$16
Savings opportunity	\$32-\$43 per transaction

Source: Visa, "Accounts Payable Automation Overview," 2012.

3 ways to gain accounts payable efficiencies



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Speed earns early-pay discounts

Transaction type	Healthcare provider	Supplier
Traditional paper check	48-65 DPO	48-65 DSO
Payables automation timeline	31-80 DPO	14-23 DSO
Potential improvement	17-32 DPO	32-42 DSO

Source: Visa, "Accounts Payable Automation Overview," 2012.

Better utilize labor



Labor represents 2/3 the cost of running financial processes

Source: American Productivity and Quality Center (APQC.org), "The Benefits of Streamlining Financial Management Processes," January 2011.

The downsides of paper payment



Source: Visa, "Accounts Payable Automation Overview," 2012.

Twice as costly as
electronic payments

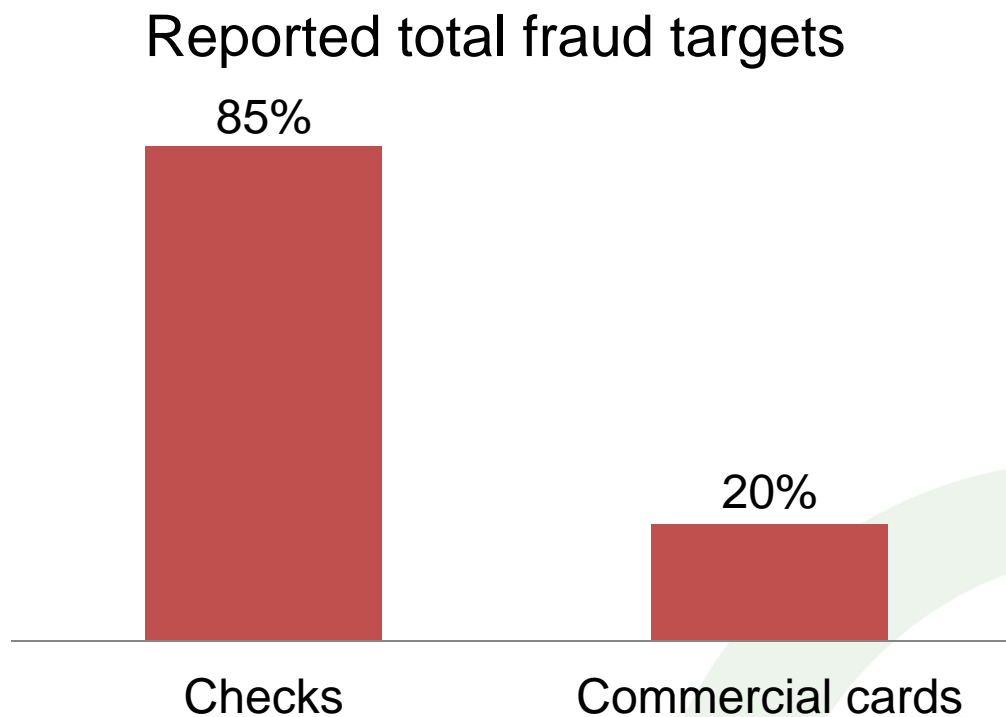
Paper systems are difficult to manage



Source: PayStream Advisors, "Healthcare Electronic Payments Survey 2010."

Invoice discrepancies are the #1 cause of late payments and missed discounts

Highest fraud risk



Source: Association for Finance Professionals, "2012 AFP Payments Fraud and Control Survey."

The liability of manual systems

- Produce poor data
- Are hard to integrate with ERP
- Burden IT to maintain dual systems

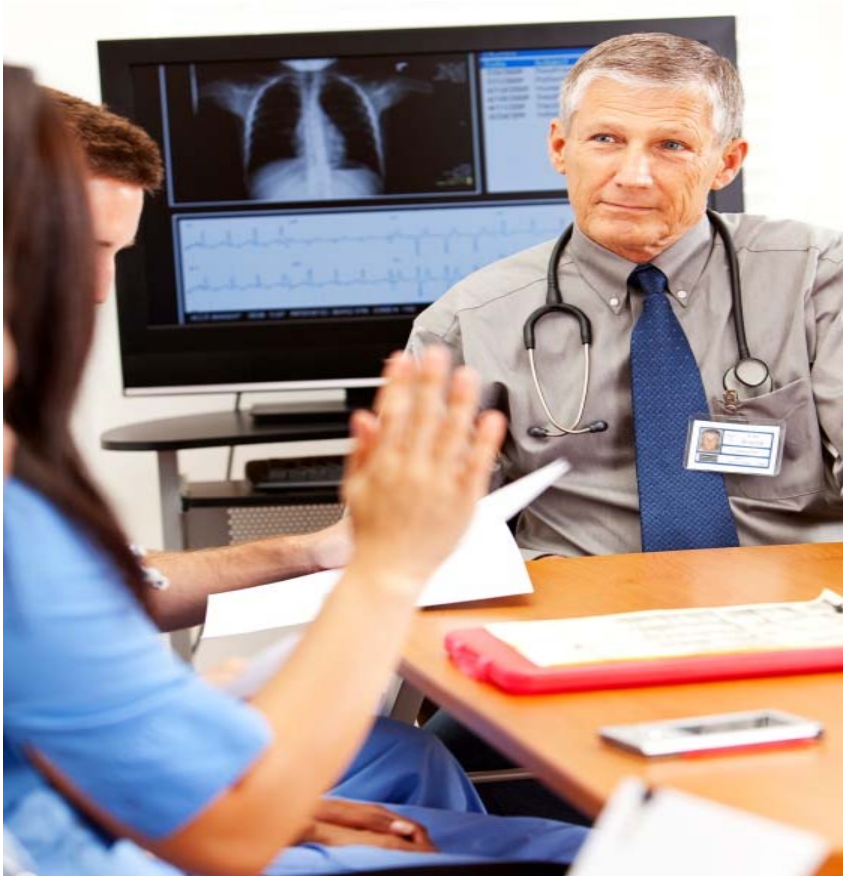


Perceived difficulty of supplier enrollment

More than 35 million merchants worldwide accept Visa or MasterCard



IT budget, resources hold back efforts

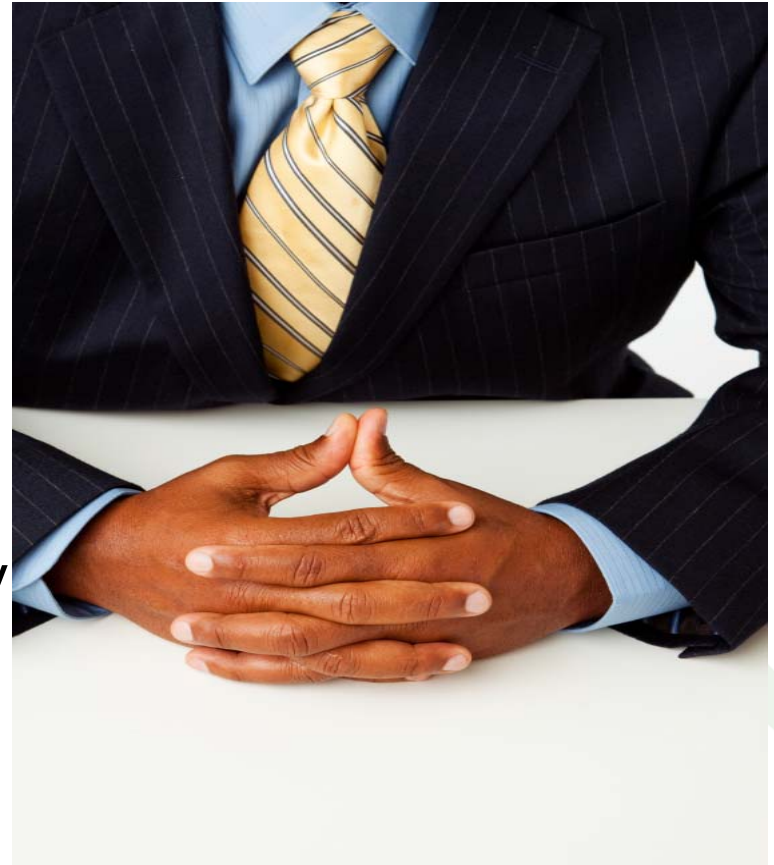


Source: PayStream Advisors, "Invoice Automation Survey 2010."

- Low priority on back-office systems
- Limited IT resources
- Reluctance to change what works

Hard and soft costs of the status quo

- Missed supplier discounts
- Unfavorable payment terms
- Poor float time
- Inefficient payment cycles
- Compromised negotiating ability



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Case Study: Thomas Jefferson University



Jefferson™

Thomas Jefferson University

- Academic Healthcare Center in Philadelphia, PA
- Three Separate Entities (+14,000 employees)
 - Thomas Jefferson University
 - Jefferson Medical College
 - Jefferson School of Health Professions
 - Jefferson School of Biomedical and Graduate Studies
 - Jefferson School of Nursing
 - Jefferson School of Pharmacy
 - Jefferson School of Population Health
 - Thomas Jefferson University Hospitals, Inc
 - Jefferson University Physicians

Our Structure

- Accounts Payable and Treasury are University departments providing services to all three entities
- Separate and distinct business priorities
- Shared vendors
- One ERP (Oracle-PeopleSoft)
 - Purchasing, E-Procurement, Contracts, Inventory, Accounts Payable, Asset Management, GL, E-Settlements
- Central Supply Chain Management
 - Works best for Hospital operations
- +\$300M Supply Spend

Challenges

- Corporate Services is always last in line during our budget process
- No ACH capabilities prior to our ERP implementation in July 2011
- In-house check processing outside of our “core” business
- Too much time spent on check issues
 - Printing, mailing, tracking, stop pays, voids, reissues, bank reconciliation, escheats

What Can We Do?

- Continue to identify opportunities for efficiency
- Shift staff to more analytical roles
- Push out Self Service as far as possible
- Train staff to utilize system functionality
- Build benchmarks and measure performance
- Manage the budget
- Automate as much as possible

OK, We Did All That. Now What?

- Enhance our vendor relationships
 - Identify our Core Vendors
 - Know the Business
- We control the means of payment
 - What opportunities exist?
 - Prompt pay discounts
 - Early pay discounts
 - ACH should be the norm
 - Least expensive for all
 - How about ways to gain rebate?

What Products are out there?

- Procurement Card program has been in place for over 8 years
 - Mostly “outside of the system” transactions
 - Intent was to unclog the Procurement process by diverting small dollar transactions to the P-card
 - Detail not captured in ERP
 - Separate system for approval and reconciliation purposes
 - Rebate awarded on annual spend
- Single Use Card
 - Alternative to check and ACH payments
 - Detail captured in ERP
 - Rebate opportunity on annual spend

The Process

- Select the Partner
 - Many banks offering similar products
 - Enhance the total relationship
 - What can we take advantage of that is currently in place?
 - Know my fee structure and target areas for reduction
 - What kind of ‘Network’ does my partner introduce?
 - How much work does my staff need to do?
 - Does the analysis lead to REAL results?
 - Integrate with the ERP and business processes

Getting Started

- Provide our vendor file for a program match analysis
- Identify those vendors already enrolled in the program
- Identify other vendors to potentially enroll in the program
 - Who does this?
- Develop a communication plan
- Work with Wells Fargo on-boarding team to streamline the process
- Design internal procedures to manage the program
 - Vendor file tweaks
 - Contract Management review and approval

Moving Along

- Potential spend volume with participating vendors estimated to be \$80-100M
- Two programs (May 2012)
 - Commercial Card (Single Use-higher rebate based on spending tiers) \$4.3M with 3 Vendors
 - Supplier Payment Solutions (Negotiated fixed rebate per transaction) \$ 7.6M with 8 vendors
- Slow start due to new ERP and resource constraints
- Already measurable reduction in check payments and fees
- Vendors have access to see the detail thus reducing need for contact

What's Next?

- Currently enrolling additional 90+ vendors in either of the programs
- Have identified 200+ vendors for next phase communications
- Able to expedite our stand alone ACH enrollment for non-participating vendors
- Now part of contract negotiation as Jefferson's preferred form of payment
- AP staff are more aware of the unique vendor payment requirements
- Forced us to clean up our Invoice Exception Process

Lessons Learned?

- Must work hand in hand with our Contract Management Team
- Need to truly understand the vendor relationships
- It's not always the best solution
 - Cash Flow Analysis
 - Case by case, even if vendor is enrolled
- Assign an “owner” to the process
- Design reports to track exceptions and how they impact the rebate potential
- Require clear and concise reporting from your partner to aid in program analysis and rebate calculation

Lessons Learned?(continued)

- Don't waste time on low volume vendors with special requirements
 - Transaction thresholds
 - Only certain types of transactions
 - Only certain divisions within the organization
- Commit the resources
- Utilize your partner's resources as much as possible-and then some!
- Don't rest on laurels. Pursue, pursue, pursue!!

Questions?

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