Responding to Healthcare's Most Urgent Business Issues

Banner Health
Case Study

Merger, Growth and Cost Challenges Lead Multi-state Organization to Lawson®

ORGANIZATION PROFILE

Phoenix-based Banner Health is one of the largest nonprofit healthcare organizations in the United Sates, formed in 1999 following the merger of Samaritan Health System and Lutheran Health System. Banner operates 20 hospitals and medical centers in seven western states and employs approximately 25,000 individuals.

In addition to basic medical and emergency services, Banner Health offers a variety of specialized services, including heart care, cancer treatment, high-order multiple births, organ transplants, bone marrow transplants, rehabilitation services and behavioral health services. Banner is also a leader in research targeted at some of the most serious medical conditions, such as spinal cord injuries and Alzheimer's disease.

The organization has assets of $3.1 billion and annual revenues of $2.6 billion. In its most recent fiscal year, Banner Health provided $89.2 million in charitable care and community service.

CHALLENGES AND OPPORTUNITIES

For virtually every healthcare provider in the country, it's a familiar and vexing juxtaposition. Operating costs continue an upward, often precipitous, climb while payers — insurers, employers, government agencies and consumers — struggle to keep pace with the economics of quality healthcare.

Banner Health is certainly no stranger to this quandary. Moreover, the organization has had to grapple with two additional factors which threaten to magnify the disparity between revenues and costs:

- The logistical challenges of combining two major health systems into a single, efficiently run entity, eliminating duplicate functions and activities which put a significant drain on financial resources
- Accommodating rapid and substantial population growth, particularly in the Phoenix market, where 100,000 new residents are added every year

Without thoughtful planning and execution, either of these circumstances could seriously undermine Banner's ability to operate effectively and meet financial performance targets.

On one hand, the formation of a unified Banner Health organization meant connecting an assortment of clinical and business management technologies. Although many of these applications were considered "best of breed," Banner management quickly realized the difficulties that lay ahead. "The burden of connecting all these systems was overwhelming us," states Dennis Dahlen, Vice President of Finance.

Assuming this hurdle could be cleared, Banner Health needed to confront the ongoing issue of organizational expansion to meet the needs of a mushrooming Phoenix-area population.

"A lot of our energy has been devoted to our growth plan," explains Dahlen. "We're probably going to bring a new hospital online every other year for the next six to seven years."

The organization's growth, he notes, was augmented by the recent acquisition of a chain of surgery centers in which Banner had been a minority partner.

In considering technology options to support the management of key operational resources (finances, supplies and employees), Banner Health decision makers understood the need for system scalability: being able to roll out applications to new facilities as quickly and painlessly as possible.

As the decision process moved ahead, specific objectives for each functional area were identified; they included:

- Cutting total supply chain costs by $5.1 million annually
- Reducing the time and effort needed for monthly general ledger closing and preparation of consolidated financial reports
- Minimizing the need for information technology (IT) resources to maintain connections from "feeder" applications (e.g. payroll, accounts payable and purchasing) into the general ledger
- Providing self-service capabilities to employees and managers, reducing the burden of routine administrative tasks on Human Resources Department staff

"We realized we had an opportunity to consolidate our financial reporting and the underlying general ledger system. The obvious choice was Lawson®."

Dennis Dahlen
Vice President of Finance,
Banner Health

REALIZED VALUE, SUPPORTED BY LAWSON®

'In Retrospect, It's Been a Tremendous Success'

Initially, Banner Health focused on the needs of its Material Management team and the goal of $5.1 million in supply spend savings. Reaching this target required the right supporting technology: a single, centralized set of supply chain applications. A thorough evaluation process ultimately led the organization to choose Lawson Supply Chain Management.

Banner Health®

Realized Value Proof Points

Supported by Lawson applications, Banner Health has realized a number of measurable outcomes, including:

Supply Chain Management

- Reduced supply chain costs by 3.5%, or $16,297,597, during 2004
- Decreased the ratio of supply chain expense as a percentage of net patient revenue by almost 1% during 2004, from 18.3% to 17.5%
- Limited supply cost increases to less than 6% from 2002 to 2003, on a per-adjusted admission basis
- Boosted the percentage of supply expenditures made on contract from 94% to 97%
- Increased the number of purchase orders processed via EDI by 20%
- Trimmed purchase order turnaround time by one day

Financials

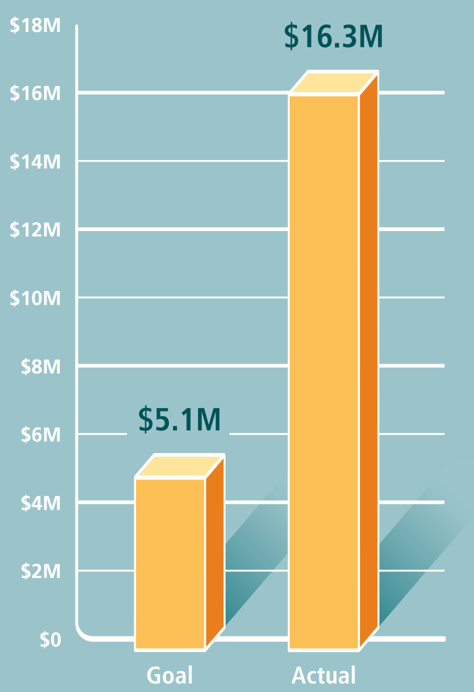
- Reduced 12 FTEs, saving $400,000 annually, by consolidating two corporate accounting teams into one
- Reduced four FTEs, saving $185,000 each year, by combining three accounts payable functions into one
- Save $2,000 to $5,000 each month by closing the books on the fifth business day, a five-day reduction
- Distribute the consolidated financial report on the eighth business day each month, versus the 25th previously
- Saved approximately $60,000 in 2004 by reducing payroll escheat (i.e., unclaimed property)
- Increased runs for accounts payable checks from twice a week to daily, creating faster turnaround for routine payments and improved the ability to respond to emergency needs

Realized Value Proof Points Continued

Human Resources/Payroll

- Eliminated one payroll office, saving four FTEs and $200,000 to $300,000 annually
- Increased direct deposit participation by 30%, reducing the cost of printing and mailing by at least $50,000 each year
- Decreased the number of pay cycles from four to two, saving an estimated $30,000 annually
- Reduced W-2 production time from an average of 31 days to 11 days, increasing responsiveness to employees
- Cut the pay cycle time by two days, resulting in additional time for audits, reducing staff overtime and improving the ability to meet Federal Reserve deposit timelines
- Projected: Eliminate 35% of manually processed personnel actions with the upcoming implementation of Lawson Employee and Manager Self-Service applications

2004 Total Supply Chain Spend Reduction



"Very quickly thereafter, we realized we had an opportunity to consolidate our financial reporting and the underlying general ledger system," says Dahlen. "The obvious choice was Lawson®. A year later, we came to the same conclusion about a centralized HR system. In retrospect, it's been a tremendous success."

Lawson® Supply Chain Management, Financials and Human Resources suites bring a number of advantages to Banner, starting with a "great set of tools that don't require a lot of customization." He cites integration, both Lawson to Lawson and Lawson to non-Lawson applications, as well as a single database ("one version of the truth"), as other crucial strengths.

Lawson's deep healthcare knowledge and experience give the company an edge in developing new products, Dahlen maintains. "For our application partner to understand us and our business challenges, that really helps. They can work with us to design new tools and enhance existing tools that support us as we meet our challenges."

Cost Savings Beyond Expectations

It didn't take long for Banner Health to validate the decision to choose Lawson.

During 2004, just two years after full rollout of Lawson Supply Chain Management, the organization achieved a 3.5% reduction, representing nearly $16.3 million, in total supply spend. This far surpassed the original $5.1 million cost-saving target.

By driving these costs out of the supply chain, Banner was able to reduce the ratio of supply expense as a percent of net patient revenue by almost a full 1% in 2004: from 18.3% to 17.5%. In addition, on a per-adjusted admission basis, supply cost increases were held to less than 6% from 2002 to 2003.

"Of course, these savings were the result of the hard work performed by our Material Management team," states Doug Bowen, Banner's Vice President, Material Management. "But Lawson Supply Chain Management was the main tool they used to get us there."

Bowen and Dahlen point to a number of Lawson-assisted initiatives which comprise these measurable, ongoing savings. They include:

- Boosting expenditures made on contract from 94% to 97%
- Negotiating more favorable terms, including volume discounts, with vendors
- Automating a full range of activities from purchase order generation through invoice payment
- Centralizing distribution for Banner's Arizona region into one warehouse
- Using extensive data mining to source lower-cost therapeutic substitutions for more expensive drugs

- Increasing the number of purchase orders processed via electronic data interchange (EDI) by 20%
- Paying vendors promptly and consistently obtaining early payment discounts

'The Real Payoff': Economies of Scale

Banner Health has relied on Lawson® applications to capture numerous cost reductions in other areas of the organization. Many of these savings can be traced to the centralization of core business functions, coupled with the elimination of redundant positions and activities.

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>
> **Dennis Dahlen**
> Vice President of Finance,
> Banner Health

For example, the consolidation of two corporate accounting teams into a single unit was the driving force behind a 33% staff reduction (12 full-time equivalents) and approximately $400,000 in annual savings.

The story is similar for Banner's Payroll Department. By eliminating one of its corporate payroll offices, the organization was able to cut four FTEs and approximately $200,000 in expenses.

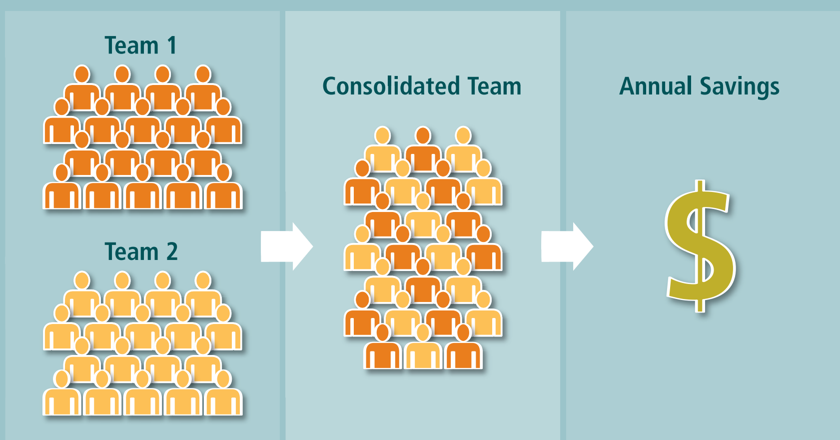
"The real payoff is when we add a new hospital or other operating unit, we don't have to add an accountant or HR professional. We have the systems in place to handle the additional volume of work," says Dahlen. "As a percentage of revenue," he adds, "our costs for financial, human resources and supply chain management are decreasing fairly dramatically, because we have an infrastructure we can flex up. The economies of scale are pretty significant."

As users have become efficient with Lawson applications, Dahlen continues, Banner Health has been able to devote more resources to the transformation of its clinical systems.

"Lawson provides us with a solid operational foundation. Our financial, HR and supply chain systems are stable and working well. This allows us to redirect resources to the clinical realm, so we can do what's necessary to differentiate ourselves in the marketplace and provide an even higher level of quality care."

Consolidating to Save Money

The consolidation of two corporate accounting teams into a single unit was the driving force behind a 33% staff reduction (12 full-time equivalents) and approximately $400,000 in annual savings.



More Time for Patient-Focused Initiatives

Since the enterprise-wide deployment of Lawson® applications at Banner Health, it isn't just dollars that are freed up for patient-centric programs. In fact, saving *time* and redirecting employees to more strategic work are as important to the organization as the ability to trim expenses.

For instance, Banner's focus on market leadership depends not only on investments in new technology, but on human effort to "redesign the process of providing care to patients," according to Dahlen.

"Consolidating our core HR, supply chain and financial systems with one vendor makes them much easier to support and maintain."

Dennis Dahlen
Vice President of Finance,
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He points to the role of IT staff in launching and managing clinical systems as an excellent case in point. Most computer technologies demand some IT involvement. However, because of the comfort level with Lawson, along with the consistent integration across multiple suites of Lawson applications, Banner's IT professionals can allocate more of their time and energy to clinical systems.

"Consolidating our core HR, supply chain and financial systems with one vendor makes them much easier to support and maintain — far easier than managing interactions among dozens of smaller, disparate applications."

Hours Freed Up for Key Business Functions

Time empowerment is also a recurring theme within the functional areas where Lawson applications are deployed.

In Central Accounting, for example, meeting the deadline for annual audit sign-off previously required staff to routinely work past 7 p.m. and every weekend. During the audit cycle in 2005, by contrast, team members never worked past 6 p.m., except during the five-day closing period, and only one Saturday. Dahlen attributes this to the ease of extracting Lawson data for audit work papers, including data that previously resided in separate feeder systems.

Likewise, Banner's Human Resources and Payroll teams are spending less time on manual activities. Historically, Banner used two separate systems for HR management and payroll. Now, with an integrated Lawson HR/Payroll system, the organization has simplified processing, decreased duplicate employee records and eliminated redundant tasks.

Technology to Support Long-term Sustainable Growth

Here's an everyday example of how Lawson® has made a difference: By cutting the pay cycle time by two days, Payroll staff are able to perform more audit work; staff overtime has also been reduced.

The organization will soon begin implementation of Lawson Employee and Manager Self-Service. This web-based technology is expected to drive a 35% reduction in manually processed personnel actions — permitting HR staff to devote more time to analysis and strategic planning, particularly in the areas of recruiting and retention.

SUMMARY

There's no question that Banner Health has had to contend with some extraordinary challenges, starting with the merger that created the organization and continuing with the incessant, rapid growth in the Phoenix metropolitan area.

At the same time, the Banner story is remarkably similar to those of other healthcare organizations attempting to reconcile the disparity between hard-fought revenues and continually climbing operational costs.

"Technologies such as Lawson applications enable us to drive efficiencies across the organization and become more cost competitive. The majority of the money we spend needs to be on the clinical side, and Lawson gives us the opportunity to do that, through the centralization, standardization and integration of our business systems. Our goal is to spend a lower amount every year on these systems.

"Lawson also allows us to divert scarce resources toward growth and the development of new facilities. The economy of scale we get with Lawson is a key factor in being able to provide support services once these facilities are up and running."

"With Lawson's help, I believe we can confidently move forward with strategies that will maintain our market leadership for many years to come."

Dennis Dahlen
Vice President of Finance,
Banner Health

In short, Dahlen views Lawson as an essential partner in addressing the issues of growth and future funding. "It's going to be difficult to maintain a health system that's sustainable over the long term without revolutionary change. With Lawson's help, I believe we can confidently move forward with strategies that will maintain our market leadership for many years to come."

CONTACT LAWSON®

For more information about Lawson® products and services for healthcare, visit **www.lawson.com**, or call 800-477-1357 or 651-767-7000 (U.S. and Canada); outside North America, call +44 (0) 1344 360273.

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