



Expert Implementation Ensures Enterprise Resource Optimization

Catholic Healthcare West
Case Study



Business Process and System Standardization Contributes to Multi-Million Dollar Savings

ORGANIZATION PROFILE

San Francisco-based Catholic Healthcare West (CHW) is the nation's eighth largest hospital system and the largest not-for-profit healthcare provider in California. With annual revenue of \$6.9 billion, it serves communities in Arizona, Nevada, and most of California. CHW employs 45,000 people and operates 40 acute care hospitals with more than 8,000 licensed acute-care beds. The CHW network also includes 20 home care agencies, four physician organizations, and numerous clinics and outpatient facilities. Founded in 1986 by two Mercy-sponsored organizations, CHW has continued to grow through consolidation of other Catholic-sponsored local hospital systems and non-Catholic entities. CHW is committed to delivering compassionate, high-quality, affordable healthcare services with special attention to the poor and underserved. In 2004, CHW provided \$567 million in charity care and unsponsored community benefit.

CHALLENGES AND OPPORTUNITIES

Business Challenges:

After experiencing significant operational losses in 1999 and 2000, CHW initiated financial turnaround efforts in 2001. As part of this effort, CHW underwent significant management and governance changes during 2001 and 2002 to improve its financial accountability and streamline its administrative functions. CHW needed to streamline and unify core business processes so it could more effectively deploy staff to focus on providing high-quality

patient care. But by 2001, CHW's IT environment included more than 800 systems with little standardization for key business or clinical processes due to the organization's growth through mergers. CHW executives realized that the health system must consolidate and standardize these systems within a central IT support organization before it could achieve its long-term business goals. These goals included dramatic reductions to CHW administrative costs, especially in the supply chain, creation of a central information repository, standardization of business processes across CHW, real-time visibility into CHW's operational performance, and, ultimately, furthering CHW's "Patient First" philosophy.

Disparate Systems Hinder Timely Decision-Making

CHW wanted to replace its fragmented operating model with standardized business processes and integrated IT systems to optimize performance across its hospital network. Yet, roughly 80 percent of CHW's 800 legacy business systems were between 10 and 15 years old. Not only did these disparate products require redundant data entry and databases, but they also made it nearly impossible for CHW executives to access reliable, consolidated information across all of CHW's facilities.

The lack of standard systems, with standardized data in a single database, resulted in the need for manual, time-consuming processes to consolidate financial results, generate system-wide analysis, and provide CHW executives with detailed operational

data at the facility level. CHW also had incomplete data on purchased services spending and rebate management—both due to inconsistent vendor reporting and price management.

Past ERP Project Influences New Implementation

While CHW management sought an Enterprise Resource Planning (ERP) solution to address these issues, it was not CHW's first attempt at implementing a company-wide business system. In 1995, CHW decided to create a shared business service center at its Phoenix location and built a data center and large building complex to house the facility. CHW chose SAP as its software vendor and a third-party consulting firm to manage the implementation. CHW began the implementation in 1997 and, while seven hospitals were live by December 1999, CHW halted the project due to excessive cost, lack of hospital-executive support, and functionality issues.

After conducting a project evaluation in early 2001, CHW decided to seek a new ERP solution with significant local facility input and a consensus-building approach. CHW sought an integrated software system that would help it achieve its business goals at a lower total cost of ownership. It also wanted a solution that provided flexibility to grow with CHW's changing needs and size along with reporting and analytical tools to facilitate state-of-the-art benchmarking and comparative data in a more timely and reliable manner. In January 2002, after completing a comprehensive vendor review process, CHW chose to replace its SAP and other legacy business systems with Lawson® Financials, Human Resources, and Supply Chain Management for Healthcare suites.

“From past experience, I knew this project needed to be internally driven with facility input and executive sponsorship for it to succeed,” says Rick Canning, Vice President, Administrative Systems, Catholic Healthcare West. “We chose Lawson based on its strong reporting tools and the integration across its applications, which can scale to health systems’ size and complexity. Lawson also had deep healthcare expertise and extensive experience working with hospitals.”

Realized Value Proof Points

While still in the process of implementing Lawson Financials, Human Resources, and Supply Chain Management for Healthcare suites, CHW has already documented several early results, including:

- Reduced its annual IT support costs by \$1.3 million with a goal to save \$2.4 million per year once it completes its company-wide rollout.
- Saved \$150,000 on hardware costs since 2002 with a goal to save \$300,000 in annual hardware fees.
- Reduced its annual paper costs by \$1 million via online distribution of financial and other key reports. CHW has a goal of saving \$10 million over 10 years by drastically reducing paper usage.



Enterprise Resource Optimization, IT Outsourcing Set Stage for Success

Due to its size, CHW chose a multi-phased approach for implementing the integrated Lawson® applications across its hospital network. It formed a project team called the Consolidated Financial Application System (CFAS) organization, which included more than 75 dedicated staff from CHW, Lawson, and IT services provider Perot Systems. CHW also hired approximately 40 employees with ERP project experience specifically to support this five-year implementation between 2002 and 2007. Canning serves as the CFAS organization's executive sponsor.

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But before beginning the implementation, CHW made several other changes designed to ensure the ERP project's success. First, it adopted an Enterprise Resource Optimization (ERO) strategy — best practices in finance, supply chain, and human resources — to help it gain greater control over operational costs and enhance service to clinicians and patients. Second, CHW outsourced all of its IT functions to IT services provider Perot Systems so it could focus internal resources on the business side of the project. According to Canning, outsourcing CHW's IT functions was a critical step in enabling the healthcare organization to

implement the new applications organization-wide within its desired timeframe.

CHW also wanted to partner with its applications vendor rather than a consulting firm on this implementation to facilitate ongoing knowledge transfer during rollout. By making local sites an integral part of the entire implementation, CHW would ensure that end users at each hospital felt comfortable taking ownership of the system after the initial installation. As a result, CHW chose Lawson Professional Services to provide assistance during its deployment of the new business applications, including technology support, consulting, training, and project management. According to Canning, CHW believed no one could help it successfully implement Lawson better than Lawson.

“As experts in implementing our own software, we offer the highest-value, least-risk services option for our clients. They can rest assured that we focus on the low total cost of ownership that clients expect from Lawson,” says Brad Callahan, executive vice president, Lawson Professional Services.

Standards Committees Build Consensus

CHW also established four standards committees — composed of approximately 15 representatives from various facilities, the corporate office, and CFAS team members — for each of the project's four functional areas: finance, materials, HR, and payroll. The CFAS team charged these committees with evaluating CHW's existing business processes and creating standard processes and standard data elements for the entire organization. For example, the finance standards committee determined how all CHW facilities would account for certain kinds of financial deductions, format general ledger reports, and handle grant accounting. Each new or suggested enhancement to a business process had to clear the committees' approval before CHW adopted it company-wide. Because the standards committees included cross-departmental staff, they

secured buy-in at the local facility level throughout the organization. Canning acted as liaison between these committees along with his four functional business directors, which continue to meet monthly.

CHW also supported the Standards Committees and CFAS team with a Project Management Office (PMO). Specifically, the PMO managed all of CHW's IT resources and supported the CFAS team's development of an implementation methodology with standardized project plans, documentation, interfaces, and conversion. The PMO also maintained a central database for issues tracking and status reporting for each implementation site.

Pilot Project, Multi-Phased Approach Earns Employee Support

With its project organization and implementation plans in place, CHW began its four-phased rollout with a pilot project at seven hospitals in the Sacramento metropolitan area. The successful completion of this pilot in December 2003 won early support among Sacramento end-users as well as other employees organization-wide. CHW then embarked on the first of three additional implementation phases in February 2004. By April 2005, CHW had implemented Lawson at an additional 10 facilities. Phase One included Arizona's St. Joseph's Hospital and Medical Center, CHW's largest hospital with 535 licensed beds and almost 350,000 annual patient visits and admissions.

CHW begins each site implementation with two key site meetings. The first is a pre-orientation gathering with the site management to provide an overview of the Lawson project. The site team is provided with a questionnaire that they complete and send back to the implementation team to prepare for the full orientation meeting. The all-day full orientation meeting includes both CFAS team and site management, as well as the CFAS business leads and the site business leads. During this meeting, there is a review of the project timelines, super user overview training schedules, and project team role and responsibilities. The CFAS team members conducted breakout sessions on each application, addressed end-users' questions, and gathered more detailed information about the local site's specific business issues. The next event of the site implementation is the super user training. This included three to five days of overview training on each new application.

Realized Value Proof Points

- Reduced the number of requisition lines manually created by Sacramento-based buyers by 57 percent. Today, those seven facilities transmit 70 percent of all purchase orders via EDI.
- Increased on-contract orders from 60 percent to 92 percent in the first year after completing the Sacramento-area pilot project through increased use of online requisitioning.
- Reduced the number of non-contract supply orders made by CHW's Sacramento-area hospitals from 43 percent to 32 percent between March 2004 and March 2005.
- Saved \$1.5 million in supply costs to date by increasing compliance on CHW vendor contracts. CHW has a goal of saving \$4.3 million per year, on average, once Lawson is live across its entire network.





A Thorough Enterprise Resource Strategy Helped CHW Gain Greater Operational Cost Control and Enhanced Service to Clinicians and Patients

Approximately one month before each hospital site went live on the new system, the CFAS team conducts a Go Live decision meeting with the site's CFO and directors of materials, HR, IT, and payroll to ensure that the integration testing is complete, and to address next steps and resolve any issues. Approximately two weeks before the Go Live date, the CFAS team hosts a two-hour "Go Live Kit" meeting with the managers and directors of the facility. This meeting provides the audience with important information regarding the changes associated with the Lawson® implementation. This process of ongoing communication with local sites has enabled the CFAS team to win employee support at all levels within the organization and effectively address the unique change-management issues at each site.

Comprehensive Change Management Plan Eases Transition

CHW executives knew an IT project of this magnitude required a comprehensive change-management strategy. They also knew it was essential to integrate a communications plan into the overall project plan and use milestones as communication events. As a result, CHW created a new position to lead that effort and ensure centralized control and consistency of change-management messages. This strategy also allowed CHW to more effectively market the project to, and build support from, all levels of the organization.

Led by Carol Tyler, director of CFAS Communications and Change Management, CHW's change management efforts began with identification of the different audiences the project would impact — executives, end-users, the general employee population, and individual site managers — and their specific concerns and fears related to the rollout. Listening and responding to end-users helped CHW tailor communication messages, materials, and strategies to effectively address the specific change management requirements of each audience at each of its hospitals.

For example, the seven hospitals running SAP provided a particular communications challenge since they had a strong distaste for any major IT project based on their experience with the SAP implementation. To overcome that preconception, Tyler and the CFAS team had to establish a customized communications methodology aimed at instilling trust in the project team as well as comfort in the new applications and implementation plan. About two months before each site planned to go live on Lawson, Tyler and Canning would personally visit the hospital to discuss how the implementation would impact employees' daily lives, clarify what process changes would be made, address any questions or concerns, and involve the local CFO and site department managers in the site's change management plan. "We started with a standard communications plan and then customized it for each hospital," explains Tyler. For example, Tyler said CHW included more festive forms of communication

in one Nevada hospital's communications plan, such as project posters and a Go Live party for employees, to reflect that site's culture. At an Arizona hospital with a more conservative environment, CHW used more formal communications strategies, such as newsletters, all-staff meetings, and additional user demonstrations.

Key components of the standard CHW change management plan included project kick-off meetings, "Go Live" kits, newsletters, posters, emails, monthly program updates, intranet postings, department manager meetings, training sessions, project seminars, and "countdown" announcements. All communications materials had a standard "look and feel" and consistent project "brand." According to Tyler, this sharp focus on the change management aspect of the overall implementation was vital to its ongoing success. In addition to recognizing the importance of timing, recognition, and celebration throughout the project, Tyler cites maintaining communications after each implementation as essential.

"A key lesson we've learned is that each local site needs an ongoing support system to ensure employee comfort, foster trust, and ease the most difficult stages of the transition," says Tyler.

As CHW continues to implement the integrated system at its 23 remaining hospitals, it now has a comprehensive, proven process for delivering ongoing communications and support from project planning through go live and up to three months beyond. This ensures local teams have the support they need. It also allows the CFAS team to quickly address any new training needs or other issues that arise as each site transitions into owning its own data and processes.

Working with Lawson Professional Services has been extremely productive in allowing CHW to develop its own implementation team once the pilot was completed. The Lawson consultants had healthcare industry experience, were able to provide system options for how CHW should establish its standards for the Lawson system, and transferred knowledge and experience to CHW staff. Canning indicated he would not have been able to accomplish this with a third-party consulting vendor.

According to Canning, CHW believed no one could help it successfully implement Lawson better than Lawson.

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REALIZED VALUE, SUPPORTED BY LAWSON®

As a result of implementing an integrated ERP solution, CHW expects to achieve a 144 percent return on its investment over the next 10 years. This will translate into projected operational savings of nearly \$94 million over 10 years. Although CHW continues to roll out the new system to its remaining 23 facilities, the integrated applications already are helping the health system address each of its primary business challenges:

- **Reduce administrative costs.** With 17 of its 40 sites currently using Lawson®, CHW has seen several significant cost savings across its operations. First, it reports that it has reduced its annual IT support costs by \$1.3 million with a goal to save \$2.4 million per year on IT support costs once it completes its company-wide rollout. And within this cost reduction, CHW reports savings of \$150,000 to date on hardware with a goal to save \$300,000 in annual hardware costs. Second, CHW has significantly reduced its paper consumption by distributing financial and other key reports online using the Lawson broadcasting tool. This has already saved the health system a reported \$1 million per year toward its goal of saving \$10 million on reduced paper costs over 10 years. CHW also reports saving \$1.5 million in supply costs since going live at its Sacramento pilot sites by using the system to increase compliance ordering against CHW vendor contracts. CHW aims to save an average of \$4.3 million per year on supply and purchased services costs, once its entire network is live on Lawson.

- **Create a central information repository.** CHW has consolidated over a hundred separate financial systems into one integrated solution running on a single database. The centralized system now provides CHW executives with fast access to a single source of reliable, consistent data that improves decision-making. For example, the centralized database provides easy access to information at a summarized high level and a detailed transaction level across all the key components of CHW's business. It also is beginning to provide CHW with greater insight into organization-wide performance metrics, such as for contract compliance, HR turnover, and other key operating indicators. This not only contributes to CHW's bottom line, but also helps CHW redirect resources toward delivery of enhanced patient care.

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- **Enable real-time visibility into operational performance.** CHW improved its ability to create timely reports on its financial, supply chain, and human resources performance. And, the integrated system's reporting and analytical tools allow for benchmarking and comparative data in a more timely and reliable manner. The new solution also meets CHW's consolidated tax and regulatory reporting needs that resulted from consolidation of operations into a limited number of corporate entities.

■ **Standardize business processes.** The integrated system provided a catalyst for increased standardization of business processes and procedures across CHW, such as automated online requisitioning, grant accounting, and financial reporting. CHW Standards Committees play a key role in setting standards that made sense for all facilities. They have also created process change “champions” among their members who continue to drive change at their local sites. As CHW brings more sites onto Lawson, it plans to look for additional ways to improve or redesign existing business processes across all of its core functional areas.

■ **Drive a “Patient First” philosophy.** By helping transform the way CHW operates, the new solution has promoted standardization of administrative processes and centralization of core business functions in line with the CHW “Patient First” philosophy. Streamlined operations now enable CHW to redirect limited resources toward patient-facing initiatives, such as medication safety and standardized patient care collaboratives. CHW also sought a vendor that would grow with its changing needs and size over time — and Lawson meets that goal as well.

Supply Chain Reaps Early Results

CHW’s supply chain management executives have already realized several tangible benefits based on the system-wide implementation. For example, CHW has documented the number of non-contract supply orders made by CHW’s Sacramento-area hospitals decreased from 43 percent to 32 percent between March 2004 and March 2005. In the same time period, those facilities also reduced the number of requisition lines manually created by Sacramento-based buyers by 57 percent. Today, those seven hospitals transmit 70 percent of all purchase orders via EDI.

THE PATH FORWARD

CHW’s approach to this implementation was clearly the foundation for its success. Visible leadership and effective project management through one consolidated project plan and issues log helped CHW drastically mitigate the risks often associated with large-scale IT implementations and system-wide business process changes. In addition, effective communications and change management throughout the project continues to contribute to its long-term success.

“This is a key project in our efforts to transform CHW from a holding company to an operating company,” says Canning. “Being realistic while also building and maintaining enthusiasm about the project has enabled the CFAS team to build a strong foundation for this corporate initiative.”

According to Tyler, a sharp focus on the change management aspect of the overall implementation was vital to its ongoing success.

CHW views Lawson® as a long-term partner, delivering leading-edge technology that addresses CHW's business requirements and enhancement requests. CHW plans to complete Phases II and III of its organization-wide rollout by the end of 2006. As CHW completes its rollout, future project initiatives will focus on advanced reporting and self-service capabilities. Specifically, this will enable CHW to create dashboards to report operational and financial information and use automated notifications for exception reporting. CHW currently is conducting internal focus and user groups related to the advanced reporting application and planning a pilot program for the self-service applications. During its pilot project and Phase I, the CFAS team perfected its data conversion and interface methodologies. It also developed a track record of being well-prepared and knowing exactly what needs to happen to complete a local site implementation on time with minimal disruption. "At one meeting we hosted with a site's directors and managers two weeks before that hospital went live, the CFO stood up and said he was so comfortable with the project that he viewed it as a 'non-event,'" says Tyler.

Other success factors for CHW's organization-wide ERP rollout include senior management support with C-level executives, a visible and trusted project sponsor in Canning, a clear project vision and direction, employee participation in the change at all levels, the right people with the right skills on the project team, excellent project management, and a streamlined project team structure that required minimal reporting and overhead.

"Lawson's implementation process model and strong professional services support also have been key factors in the success of our ongoing deployment, with everyone committed to a single project plan and communications strategy," adds Canning.

CHW plans to apply the lessons it learned during the first two phases of its ERP implementation to future installations. For example, making local hospital CFOs and department heads accountable for their part of their hospital's installation helped drive the success of CHW's completed implementations. The CFAS project team also insists each local site appropriately staff the implementation by back-filling local positions. If the local site does not provide the right staffing levels, the CFAS team threatens to halt the implementation. At a typical 250-bed hospital, CHW requires the site to supply five full-time equivalents (FTEs) for the length of the project, which usually takes nine months. Along with local management, these "super users" offload routine tasks to other employees so they can concentrate on learning the integrated system and take ownership of their site's data.

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Carol Tyler

Director of CFAS Communications and
Change Management
Catholic Healthcare West



Streamlined Operations Enable a Redirection Toward Patient-Facing Initiatives and Support of a “Patient First” Philosophy

Other key lessons the CFAS team has learned include:

- Aligning organizational and project initiatives.
- Selecting a software vendor partner with both installation experience and industry expertise that fits with CHW’s business needs.
- Using CHW resources as the primary installation resources.
- Securing project support from all levels of the organization.
- Reducing project risk by delaying centralization of personnel and processes until the system is installed.
- Structuring management of the system with certain centralized functions combined with decentralized processing areas.

CHW also learned that a well-administered project plan was essential for maintaining strict adherence to project scope and effective management of all aspects of such a large installation.

“The CFAS organization has earned a good reputation in our company, which has built confidence among the project team and local end-users,” says Canning. “Our successes to date are helping us stay on track with our implementation timeline so we can fulfill our ultimate mission: delivering the highest-quality patient care.”

CONTACT LAWSON — For more information about Lawson Enterprise Resource Optimization or other Healthcare solutions, visit **www.lawson.com** or call 1-800-477-1357 or 651-767-7000 (U.S. and Canada); outside North America, call +44 (0) 1344 360273.

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