

Payables Automation for Healthcare

Exploring the Challenges, Goals, and Improvement Potential of Today's Healthcare Organizations

Q1 2018 | Featuring insights on...

- » The Current State of Accounts Payables (AP) and Payments Management Among Healthcare Organizations
- » AP and Payments Automation Adoption Trends Among Healthcare Organizations
- » Features and Services Available With Healthcare-Focused Payables Automation Software

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Introduction

The healthcare industry is changing in many ways, from the way services are paid for to where treatment is delivered. Healthcare organizations are still adjusting their services to align with the shift from volume-based care (fee for service) to a value-based reimbursement structure (fee for value)—a change that requires flexibility from all areas of an organization's back-office operations. In order for healthcare organizations to operate successfully in an ever-evolving space, their finance processes must be streamlined, efficient, and capable of keeping pace with changing market conditions, including changes in regulatory updates, reporting requirements, and policies, as compliance is a major concern in the industry.

The shifting healthcare landscape places stress on many areas of an organization. As these organizations are under pressure to keep costs down while still providing a high level of service, Accounts Payable (AP) departments are expected to do their part to rein in costs and boost efficiency. These teams must keep up with supplier payments despite their own thinning margins, as well as maintain strong supplier relationships to ensure the stability of their supply chain. They must also maintain compliance with regulations, as deviations from the requirements will lead to delays in payment processing.

One way of reducing costs in the back office is to implement payables automation software, which includes AP and electronic payments (ePayments) solutions. These tools offer support for a variety of electronic payment methods, including Automated Clearing House (ACH) and various types of commercial cards. They also give companies flexibility in their payments approach, allowing them to meet their suppliers' payment and cash flow needs as well as their own. In all, payables automation solutions can help healthcare organizations manage AP, payments, and compliance with minimal additional effort.

Unfortunately, the healthcare industry still has a long way to go when it comes to payables automation. For example, while healthcare has the third highest adoption rate of electronic payments among all industries, this rate has stagnated somewhat over the last few years, as almost 50 percent of healthcare organizations today are still using checks to make the majority of their supplier payments. PayStream observed a surge in electronic payments adoption among healthcare organizations in 2008, when many hospitals and large medical groups adopted ePayments tools like virtual cards to convert large amounts of

spend. However, smaller healthcare organizations and those with high amounts of direct spend have had much more difficulty converting to electronic payments. This can be attributed largely to resistance from their direct goods suppliers to accept card payments or the lack of resources and internal support for a full conversion to ePayments. Slow adoption in the healthcare industry is also a result of the many unique complexities around suppliers, data, and regulatory compliance, and changing current processes with automation can seem like a daunting task.

Another cause of low adoption is a lack of understanding among healthcare organizations on modern payables technology. PayStream believes the many organizations in the industry perceive these AP and ePayments tools to be expensive, disruptive, and not worth the investment. In truth, implementing automated payment solutions helps healthcare organizations reduce costs, better engage with and support their suppliers, and reduce errors that could be detrimental to compliance efforts.

This whitepaper is intended for healthcare organizations and suppliers seeking to improve their back-office processes with an advanced electronic payables solution. It reviews the parallel benefits from payables solutions, highlighting the features and services healthcare organizations and supplier businesses should seek in a solution when transforming their payment processes.

The State of Payables Automation in Healthcare

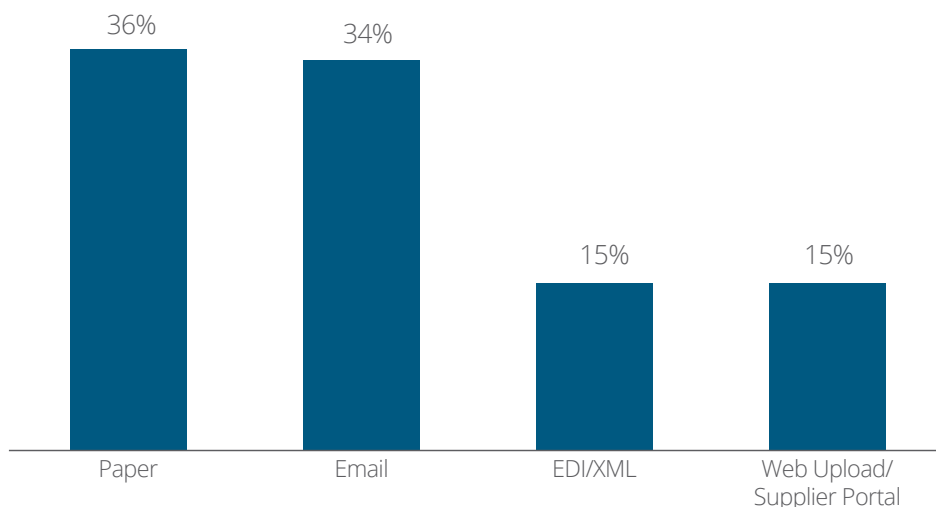
In order to understand the current state of payables processes, PayStream Advisors' recently surveyed hundreds of North American payables practitioners and C-suite executives, examining payables management trends across a variety of industries, including healthcare. Research shows that healthcare organizations receive nearly three quarters of invoices in paper format or email, and less than a quarter of organizations receive invoices via EDI/XML or web upload/supplier portal, see Figure 1.

Figure 1

Most Healthcare Organizations Are Receiving Invoices in Paper and Email Formats

"What percentage of your invoices are received via paper, email, EDI/XML, or web upload / supplier portal?"

METHOD OF INVOICE RECEIPT (FROM SUPPLIER TO HEALTHCARE ORGANIZATION)



Research shows that healthcare organizations rely heavily on manual-based invoice processes, or on systems that are hard to configure and/or outdated, such as the invoice solutions that come built in with their enterprise resource planning (ERP) systems, see Figure 2. The figure shows that healthcare organizations are behind other industries in terms of cloud-based AP process automation, and that compared to the average organization, they are more likely to use an ERP-based solution or manual processes than other invoice management tools.

TYPE OF AP AUTOMATION TOOL USED

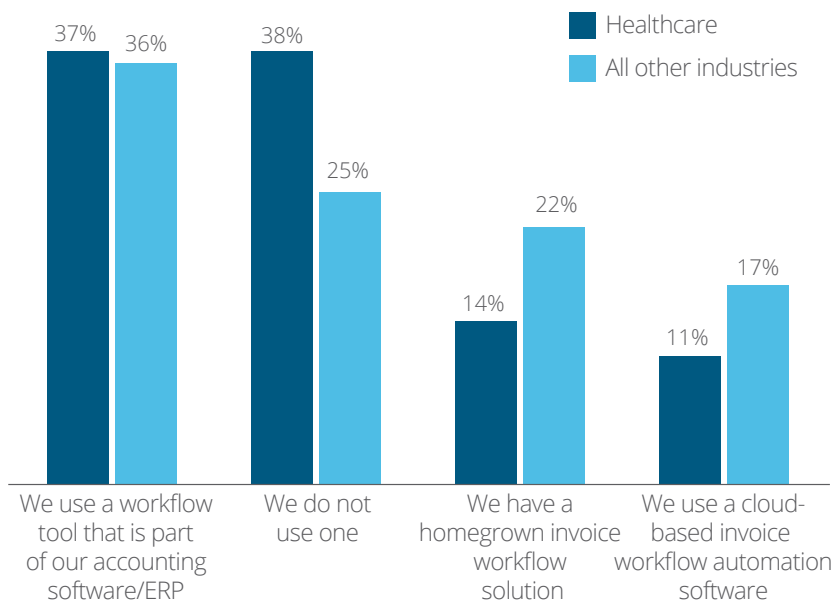
Figure 2

Most Healthcare Organizations Use a Workflow Tool Built Into Their Accounting System

"What type of AP automation tool do you use?"

&

"Please select the standard industry description that benefits your organization."



When it comes to payments management, research shows that checks are used most often to make payments, followed by ACH, see Figure 3. The figure also shows that healthcare is far behind other industries in terms of adopting more progressive methods of payments like electronic commercial cards.

METHOD OF PAYMENT RECEIPT

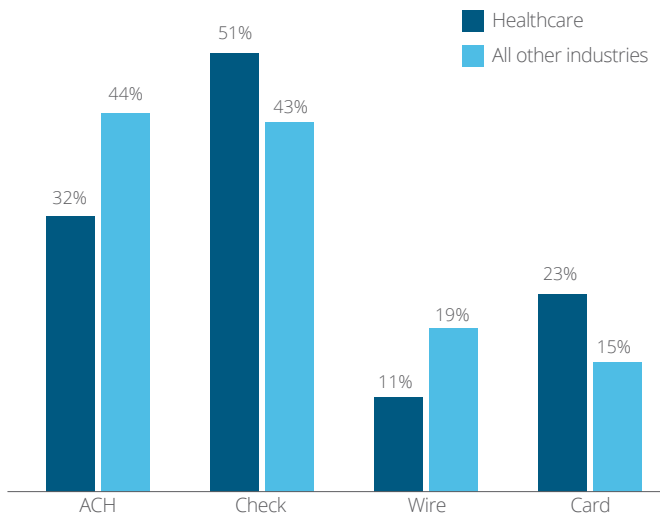


Figure 3

Most Healthcare Organizations Make Payments in Check and ACH

"What percentages of your supplier-related payments are processed using wire, check, ACH, and commercial cards?"

&

"Please select the standard industry description that benefits your organization."

Checks are a highly inefficient method for making supplier payments in terms of time, cost, and effort, and healthcare organizations' continued usage of checks reflects a more traditional mindset in the industry. For example, because holding on to cash longer is in the best interest of the payee, companies have traditionally used checks, the lengthiest form of payment, to extend their days payable outstanding (DPO). This means check payments are widely accepted and expected by suppliers, and many healthcare organizations likely use checks with that knowledge and the aforementioned strategy in mind. However, in choosing checks over more strategic payment technologies, healthcare organizations miss out on methods that are better for optimizing their cash flow—and are more beneficial to suppliers.

Overall, manual-based invoice and payment management leads to several issues for payables processes related to delays in approval for payment. The combined impact of manual processes and slow payments can result in potential lost savings from missed early payment discounts, and the risk of jeopardizing trading partner relationships. High volumes of paper invoices typically force AP teams to manually key invoice data into their accounting systems, which

can lead to input errors, invoice and purchase order (PO) matching difficulty, and a risk of non-compliance with reporting regulations. Additionally, high volumes of paper checks can lead to significant processing costs, payment processing errors, and a risk of fraudulent or improperly authorized payments. In all, paper invoices and checks cannot offer the speed and security provided by more efficient payment methods.

Despite the inefficiencies of today's most commonly used payment tools, many healthcare organizations resist changing their existing AP processes—that is, until it is unavoidable due to external market forces. For example, many suppliers are reducing their acceptance of some commercial card types in order to minimize interchange fees. This leaves healthcare organizations with costly internal process changes and a loss of rebate capture, causing some to lean on invoice management automation in an effort to reduce costs in other areas of the back office.

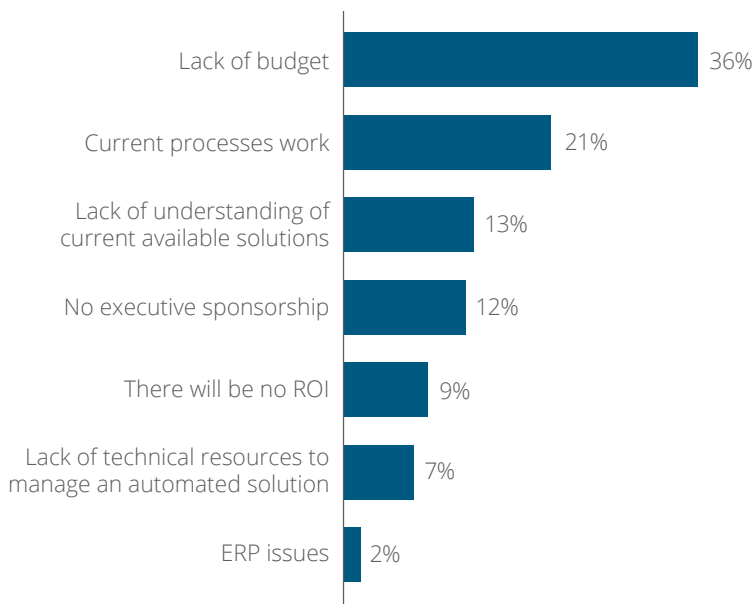
Among those who still resist adoption, the desire to reduce costs does not seem to overrule financial restrictions. Figure 4 shows some of the top barriers to AP automation adoption among healthcare organizations; a lack of budget is the top reason these organizations hesitate to automate.

Figure 4

Most Healthcare Organizations Resist Adoption Due to a Lack of Budget

"What percentages of your supplier-related payments are processed using wire, check, ACH, and commercial cards?"

HEALTHCARE ORGANIZATIONS' TOP AP AUTOMATION BARRIERS



Budget concerns can be related to the second top barrier—the belief that current processes work. Healthcare organizations and their decision makers often believe that the burdens of time, costs, and IT involvement during the implementation of a new payment solution would be too disruptive to existing processes. For companies that are automating from a fully manual system, the scale of investment and scope of changes to existing processes can seem overwhelming, particularly given the complex approval workflow requirements in healthcare. For many years, there were limited alternatives to manual processes, and therefore back-office upgrades were generally not considered by decision makers when setting budget priorities.

Today, there are many more supplier payment options available for healthcare organizations. These newer, more advanced tools are built to eliminate some of healthcare's long-held concerns around disruption and budget, as the solutions come at more affordable price points and with fewer implementation requirements than in years past. Strategic payment solutions bring ease-of-use and streamlined processing to the complex environment of healthcare payables, as solution providers take on much of the burden of payment processing, supplier data management, and tracking of compliance requirements. The flexibility of these payment options also provides a buffer against changes in industry practice, giving healthcare organizations the ability to navigate these changes with less disruption to their financial processes and stability.

Best-in-class solutions offer flexibility to meet company needs, ease of implementation, and a visually appealing and intuitive user experience. They also balance the needs of the unique relationship between healthcare providers and suppliers. The following section highlights the value of AP and ePayments for healthcare organizations and their suppliers.

The Benefits of Payables Automation for Healthcare

Research shows that many of the advantages associated with automated payables processes align with healthcare organizations' top objectives for their payment practices. Across all survey respondents, reducing costs and paper volume were indicated as the top payment-related goals, see Figure 5. In fact, healthcare organizations rank these two goals higher than many other industries.

Figure 5

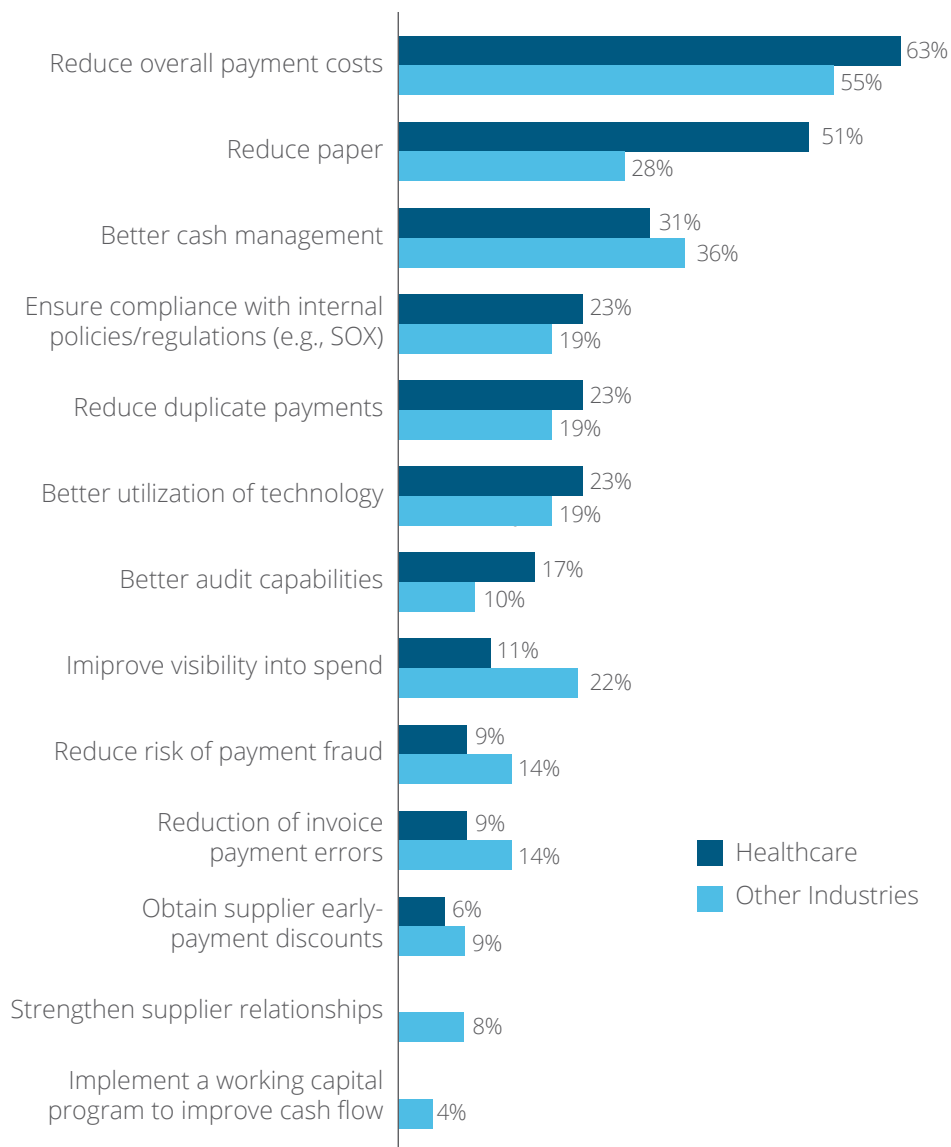
Reducing Overall Payment Costs Is the Top Payment-Related Goal Across All Industries

"What are your organization's top payment-related goals? (Select up to three)"

&

"Please select the standard industry description that benefits your organization."

TOP PAYMENT-RELATED GOALS



Healthcare's goal of reducing costs aligns with the pressure that healthcare organizations are under to operate on very thin margins, while the goal of reducing paper in their payment processing aligns with the relative lack of AP and payments automation in healthcare (as seen in Figures 2 and 3). Survey results also show that healthcare organizations are more likely to list improving compliance and audit capabilities as among their top goals than other industries. This is reflective of the high degree of regulatory requirements in the industry, and the importance of achieving visibility and control in the payables process to support compliance.

One of the most valuable aspects of AP and ePayments software for the healthcare industry is the way in which solutions benefit both the healthcare organizations and their suppliers. From the healthcare organization's perspective, automating and streamlining the payments process allows companies to match, approve, and pay invoices in a shorter transaction cycle. The shorter cycle times provide suppliers with faster payments, improved cash flow, and stronger supply chains. Increased visibility from automation lends a strategic approach to payment that stands to benefit both parties.

Understanding the mutual benefits of a payables automation solution for healthcare organizations and suppliers can be helpful as many of the leading barriers to adoption (implementation disruption, rapid return on investment, complicated training, etc.) are held by both parties. The following before and after scenarios summarize the benefits of automation for healthcare organizations and their suppliers, respectively.

Healthcare Organizations

Before

In the absence of payables automation, healthcare organizations are susceptible to a host of pain points, most of which can be tied to the inefficiencies and error-prone nature of manual payments processing. For example, without an ePayables automation solution in place, employees must manually manage a transaction through all stages of the invoice-to-payment lifecycle, leading to lengthy processing times and high processing costs. Manual processes also remain susceptible to human error and oversight.

PayStream's research shows that duplicate payments, missed discounts, and high processing costs are the most prevalent challenges faced by payment management teams in healthcare, see Figure 6.

CHALLENGES IN HEALTHCARE ORGANIZATIONS' PAYMENT MANAGEMENT PROCESSES

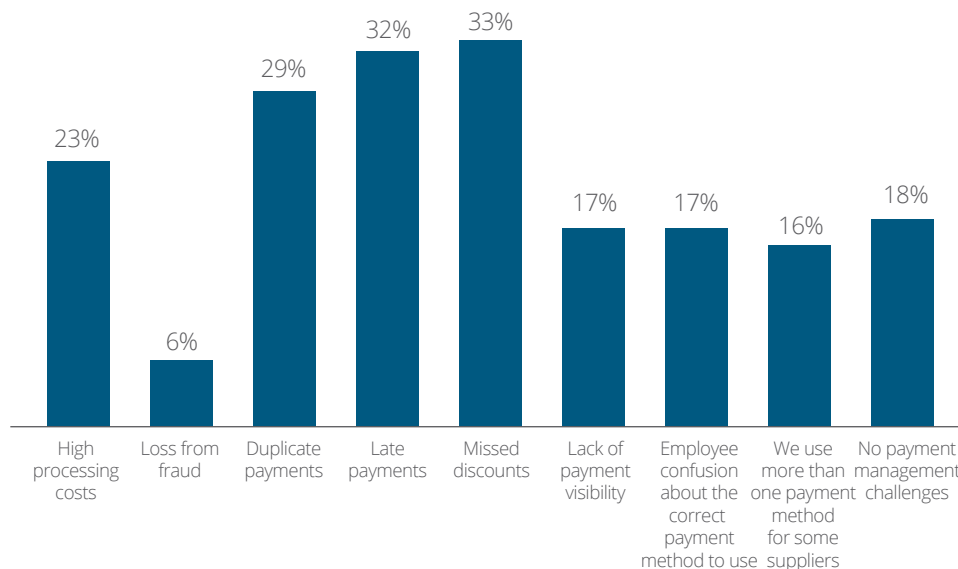


Figure 6

Most Organizations Report Missed Discounts, Late Payments, and Duplicate Payments as Their Top Payments Management Challenges

"What are the biggest challenges your organization faces in the payment management process? (Select up to three)"

The challenges of using manual AP processes impact organizations far beyond the practical struggles faced by back-office employees—manual processes affect leadership's ability to make decisions with strategic foresight and can impact the overall financial health of the organization. Manual processes impair the ability to see emerging trends in spending and make confident, data-driven decisions. This can negatively impact the financial goals for a healthcare organization already operating on slim margins.

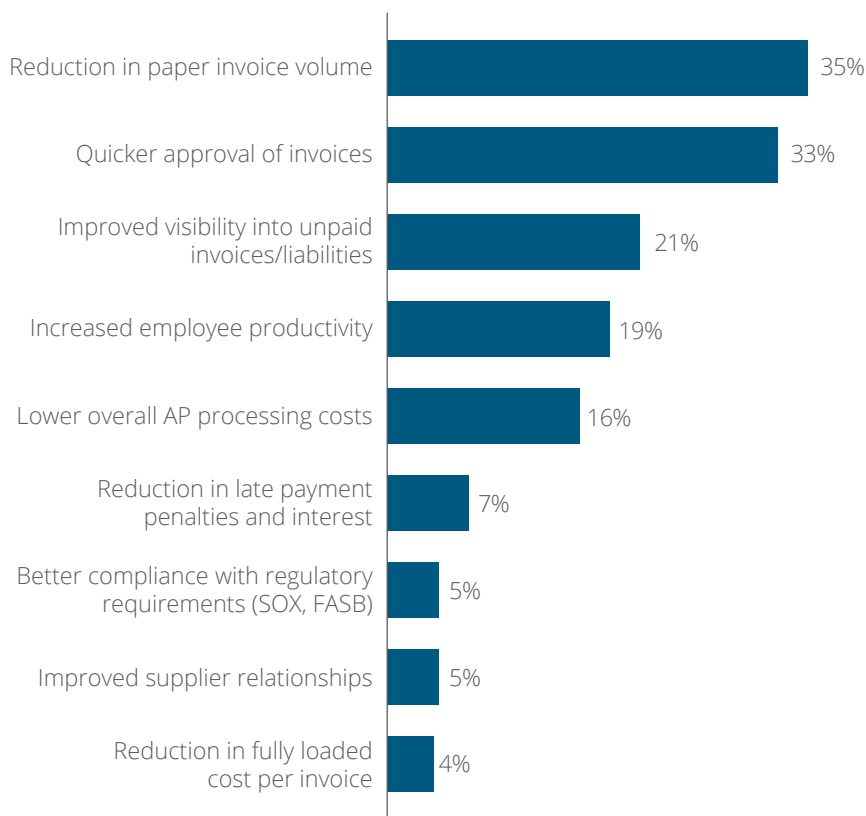
After

The implementation of a robust payables automation solution alleviates many of the pain points experienced by healthcare organizations that are still relying on manual processes—approval processes accelerate, payments are timely, and staff spend less time on low-value tasks. With greater control over and visibility into the payments process, key decision makers can establish a cash-flow strategy, arriving at decisions and forecasting their consequences using their own data. Additionally, payables automation increases adherence with compliance processes while also facilitating auditing practices.

Figure 7 shows the actual benefits companies have achieved after adopting one aspect of a payables automation solution—namely, an invoice/AP management automation tool. The top benefits include reduction in paper volume, quicker invoice approvals, and improved visibility into liabilities and unpaid invoices. It is important to note here that the AP management solution may have solved more problems than the question covers, but the responses are based on the benefits that were most important to each respondent. For example, within the results of this question, the data showed that middle management (e.g., managers, junior partners, etc.) placed high value on the benefit of paper reduction, which reflects their close involvement with the pains that come from high paper volume in their AP departments. Upper management respondents (e.g. C-suite, associates, etc.) were most likely to list quicker approval of invoices as their top benefit, reflecting their concern with reducing late payments and capturing more early payment discounts, ultimately improving an organization’s bottom line. In all, AP management software has the ability to solve many problems for many different roles and areas of the payables process.

Figure 7

HEALTHCARE ORGANIZATIONS’ BENEFITS ACHIEVED AFTER AUTOMATION



Most Organizations Report Paper Volume Reduction and Quicker Invoice Approvals as Their Top Benefits from AP Automation

“What are the greatest improvements you have seen since implementing an invoice management solution? (Select up to 3)”

Healthcare Suppliers

Before

Healthcare suppliers bear a significant burden when they manually carry out back-office processes. Common pain points experienced by suppliers include waiting on overdue receivables, time-consuming accounts receivable (AR) follow-ups, rerouting incorrectly allocated payments, and paying excessive card fees. Moreover, suppliers need to accommodate the various—and often inefficient—processes of their customers, exacerbating the challenges stemming from manual processes.

After

The benefits that suppliers receive from automation are plenty. After using ePayments tools to gain better visibility into payments, suppliers are in a better position to manage outstanding contracts, make accurate financial forecasts, and reallocate human capital to work on value-added tasks. Proactive involvement of the payables solution provider in supplier payments processing and resolution also helps optimize payments. In addition, the payables solution provider can also oversee payment-related details such as 820 payment order/remittance advice files.

Preparing for AP Automation in Healthcare

Payables solution providers are aware of the unique pressures healthcare organizations face, and have built payables tools to help companies overcome these challenges. It is important that companies prepare for automation by evaluating their current state and educating themselves on how to identify leading payables automation solutions.

Initial steps towards automation will depend on several different factors, including overall receptivity to automation. A first step for many healthcare organizations is determining how efficiently they manage their current invoice-to-pay cycle. Performing a current state analysis helps organizations identify existing issues and benchmark themselves against industry standards. At this stage, it is also important to determine requirements, taking into account budget, user needs, resource allocation during and after installation, training, support, and service level agreements. Ultimately, evaluating the current state will enable organizations to select a more suitable automation tool.

Due to the complexity in the entire Procure-to-Pay/Order-to-Cash process, identifying solution providers that have extensive experience in automating healthcare financial processes should be a top priority. Best-in-class solutions provide a holistic and proactive approach to payables automation, and share many common characteristics, outlined below.

Flexible Payment Options

To circumvent issues relating to manual processes, some healthcare organizations have turned to simple payment automation solutions, such as ACH payments and bank-provided p-card programs. Compared to checks, these relatively inexpensive tools generally involve straightforward implementation and will yield moderate improvements in payment visibility and some additional revenue through rebate programs — when suppliers accept card payment.

However, best-in-class payments solutions go beyond simple automation and provide value-added features that address the unique challenges of healthcare. For example, these tools save back-office teams time with pre-established terms and discounts, and offer flexibility through a variety of payment options that are all sent

through the same straightforward process. This process involves configurable approval workflows and easy reconciliation for all payment types, including ACH, commercial cards, electronic print checks, and international payments. Best-in-class AP and ePayments solution providers work with the healthcare organization to fine tune this flow to any complex supplier and/or payment environments.

Virtual cards, a specific type of commercial credit card, have been a popular means of payment between buyers and suppliers over the last decade. These cards involve one-time use, auto-generated credit card numbers that the AP department sends to the supplier. Virtual cards offer a range of advantages when compared to paper checks, including the receipt of rewards or rebates through their use (e.g., by using virtual cards, buyers can leverage rebates for suppliers who are part of a given network). This payment method is also notable for its security capabilities, since it constrains the purchase to a given amount and is not susceptible to being physically lost or stolen, unlike paper checks.

Healthcare Supplier Management

Today's advanced payables automation solutions go beyond basic banking products by combining the power of cloud technologies with strategic supplier payment services. A valuable aspect of this combination is that the payables automation solution provider handles most of the back-end supplier management and payment remittance, therefore requiring minimal involvement from the healthcare organization. Comprehensive supplier onboarding services are offered by some solution providers both at the beginning and throughout the relationship with the healthcare organization. During this process, the payables automation solution provider will use email, phone, and postal campaigns to reach out to and involve the healthcare organization's supplier base in the electronic payment system. Supplier services often also include continual supplier enablement, where a support center is available to handle all questions and payment issues. In some cases, payables automation solution providers assign a dedicated supplier enablement team to facilitate buy-in and onboarding.

Reduced Processing Costs and Increased Rebate Capture

Payables automation reduces AP costs and generates revenue through increased rebate capture, process automation, and management services. The payables automation solution provider assumes responsibility for back-end processes, allowing AP professionals to focus on more value-added and strategic activity. In addition, because of the flexible options and proactive services they offer, many strategic payables automation providers guarantee the success of every single payment. Essentially, the AP department starts to transition from being a cost center to a leading revenue generator for healthcare organizations, capable of providing insights through detailed reporting functionalities.

Efficient, Non-Disruptive Implementation

Some healthcare organizations hesitate to adopt payables automation solutions because of the implementation time required for installation, IT, and training, which they fear could cause delays in their payables activity. This apprehension is misguided, however, as most payables automation solution providers offer hosted, plug-and-play solutions with non-disruptive implementation. This includes quick internal and external stakeholder onboarding with intuitive technology that requires little training, and progressive supplier registration services. Cloud-based technology greatly reduces any internal IT involvement during implementation and removes the healthcare organization's dependence upon internal IT for long-term system maintenance. In addition, many solutions offer simple integration with common ERP systems, requiring little downtime to connect the payables automation solution with a company's current systems.

Conclusion

Paper-based back-office processes are unsustainable in healthcare as the industry undergoes continuous change, including shrinking margins and market uncertainty. Moreover, the inefficiencies associated with a lack of automation are misaligned with the broader mission of healthcare system objectives—that is, the provision of value-based, cost-efficient patient care. With a shifting regulatory landscape, disruption via mergers and acquisitions, and market fluctuations, a payables automation solution that addresses the needs of both healthcare organizations and suppliers is the buffer against these outside forces. Automated payables offer a means to streamline AP processes, cut costs, and ensure that payments are made in a timely manner, benefitting healthcare organizations, their suppliers, and ultimately patient outcomes.

About the Sponsor

Since 2000, Colorado-based Global Healthcare Exchange, LLC (GHX) has been helping healthcare organizations streamline operations and drive out unnecessary costs by maximizing automation, efficiency, and accuracy in business processes. GHX has built the one of the largest communities of healthcare supply chain trading partners by connecting supply chain, finance, and clinical professionals with their suppliers and partners. GHX offers healthcare organizations an advanced cloud-based trading platform that delivers procurement, contract management, order lifecycle management, vendor credentialing and compliance, business intelligence, invoice and payment automation, and other supply chain-related tools and services.

In mid-2016, GHX acquired an automated payment solution to improve the way business is transacted between healthcare providers and suppliers. GHX ePay completes the payment side of GHX's solutions portfolio. By automating the labor-intensive process of manual payments and helping ensure timely, secure payment to vendors, GHX ePay maximizes operational efficiency and financial returns for both healthcare providers and their supplier customers.

For more information, visit www.ghx.com and [The Healthcare Hub](#).

About PayStream Advisors

PayStream Advisors is a research and advisory firm focused on business process automation in sourcing, supply chain management, procurement, accounts payable, payments, and expense management. PayStream's team of experts provide targeted research and consulting services to address the changing needs of finance and procurement professionals. In short, PayStream is dedicated to maximizing returns and minimizing risks associated with technology investment. PayStream's research reports, white papers, webinars, and tools are available free of charge at www.paystreamadvisors.com. PayStream Advisors is a division of Lewel, an IT consulting firm specializing in technology strategy, design, architecture, and DevOps.

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