

# Accounts Payable Automation for Long-Term Care Providers

Understanding the Value of Accounts Payables Automation in Long-Term Acute Care Hospitals and Skilled Nursing Facilities

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- » The Current State of Accounts Payables (AP) Management Among Long-Term Acute Care Hospitals (LTACHs) and Skilled Nursing Facilities (SNFs)
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## Introduction

Hospital chains and medical facility groups (e.g. skilled nursing facilities) face a number of distinct challenges when it comes to Accounts Payable (AP) and payment processes, making management of these processes relatively more complicated than for other types of organizations.

Unlike other industries where there are often only a few big players within a geographical area, in healthcare there are many hospitals, long-term care institutions, skilled nursing centers, and other facilities that can fall within any given area. These institutions typically have a large, diverse supplier base that can be spread out across multiple territories, regions, or states. As an added layer of complexity, not all transactions involve purchases, as some facilities require rental medical equipment. Additionally, healthcare organizations must manage a tremendous amount of data, ensure that data's security and visibility. They must also accommodate frequently changing pricing structures.

Healthcare institutions also face increasing pressure to keep pace with regulatory updates, reporting requirements, and shifting policy landscapes. Failure to comply with regulations can disrupt back-office operations and create additional work for AP staff. Variations in statewide/county standards (e.g. taxation, data storage) for compliance policies must also be taken into account.

As in many other industries, hospitals and medical facilities must keep up with the latest technologies, namely treatment and device advancements, and ensure consistent therapeutic outcomes—all while keeping costs down. For most hospitals, the second-largest expense category, after labor, is the supply chain. Therefore, it is in the best interest of both hospitals and their patients to operate efficiently and strategically in order to minimize expenditures and allocate resources to where they are most needed.

The purpose of this whitepaper is to examine the pain points faced by hospital chains and skilled nursing facilities when it comes to AP management. The paper also explores how automation addresses many of the challenges encountered in this industry, and how to capture the success of such automation.

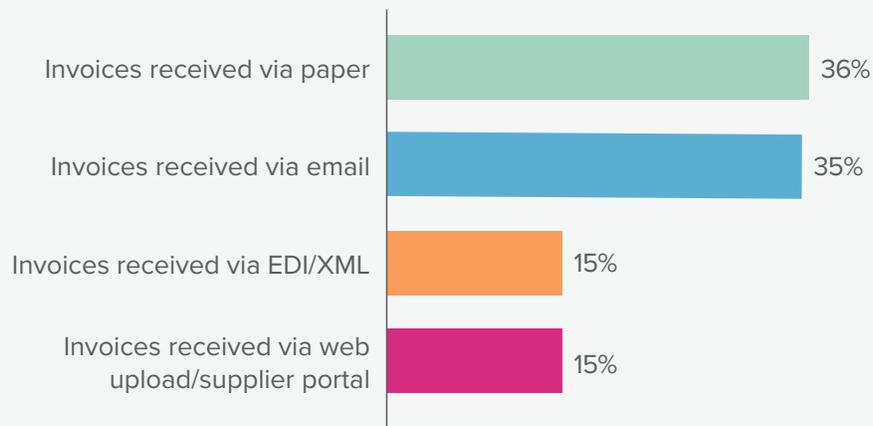


## Defining AP Processing Pains

To help identify AP pain points, PayStream Advisors surveyed over 300 back-office employees across several market segments and industries, including healthcare. The findings show that most healthcare organizations receive paper or email invoices, see Figure 1.

FIGURE 1

### Invoice Receipt Methods

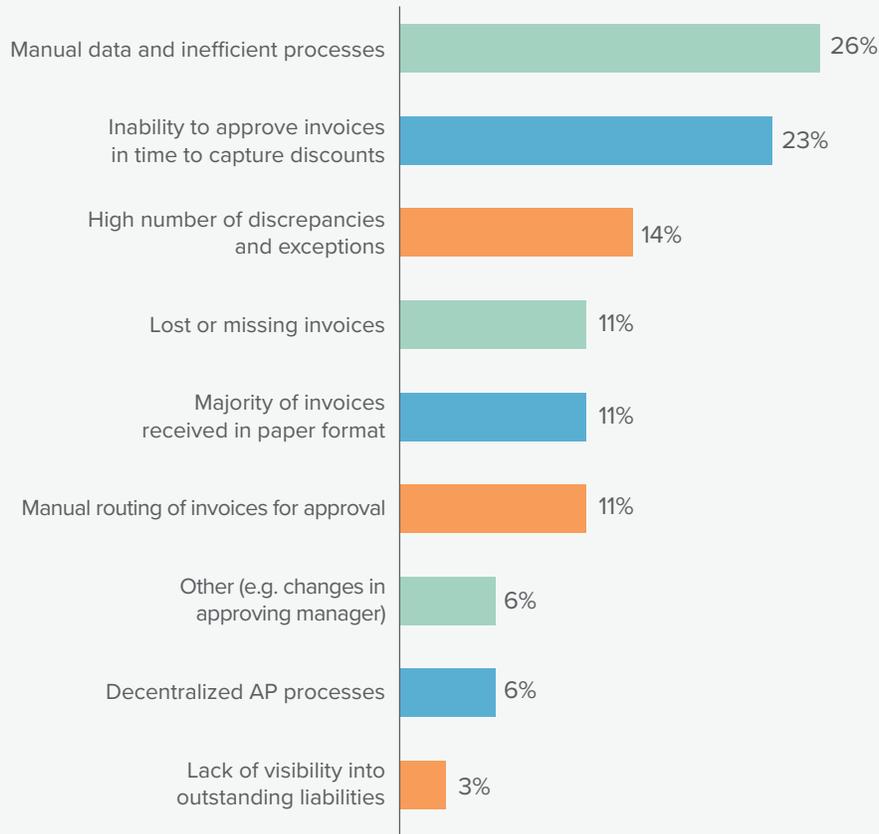


#### Healthcare Organizations Most Often Receive Paper Invoices

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

Manually managing back-office processes can present a host of challenges for an organization, particularly centering around an overall loss of speed and efficiency. Correspondingly, PayStream’s research shows that manual data entry and the inability to approve invoices in time to capture early payment discounts are among the top pain points in healthcare organizations’ workflow processes, see Figure 2.



**FIGURE 2**
**Top Pain Points Experienced in Workflow Process**

**Manual Processes Are the Greatest Pain Points in Healthcare Organizations' Workflow Process**

*“What are the top three biggest pain points you experience in your workflow process? (Select up to 3)”*

These issues, among others, are amplified by unique procurement characteristics in a healthcare environment. For instance, in hospitals and medical facilities, after-hours and weekend orders can build up when AP staff are not in the office. The delay in processing these orders can lead to late supplier payments, missed discounts, and weakened supplier relationships. There is also a lot of time and risk of inaccurate data involved with manually entering invoices.

An additional challenge arises from the fact that under a manual process, new orders and medical equipment pickup requests are frequently received in person or via phone calls, meaning that there is no documentation of the purchasing terms. In addition, when adjustments must be made to contracts or pricing, locating and adjusting invoices and related documentation is a resource- and time- consuming task. These issues are further exacerbated by a lack of



document standardization, which can lead to variations in terminology between organizations and suppliers.

Hospitals and medical facilities often face challenges associated with complicated approval processes, particularly when there is little communication between staff who paying suppliers and those who are managing and using the equipment that is being purchased or rented. Approvers may be unable to see the status of existing equipment, for example, and can have difficulties differentiating between high-cost, off-contract items and contract spending on invoices.

Large supplier bases and supply chains complicate back-office processes for many hospitals and medical facilities. In the absence of an automated AP management system, organizations may struggle to adequately manage supplier data, contract information, and payment cycles. Conversely, managing contracts with many different vendors makes it challenging for suppliers to determine equipment availability. To this extent, adequate inventory tracking (including documentation and time stamping) can be difficult when traditional asset management software is used by organizations requiring medical equipment rentals, and may result in significant costs in lost equipment each year.

Hospitals and medical facilities face increased expenses from off-contract vendors when they do not have enough visibility into procurement activities to determine whether preferred suppliers are being used. Manual back-office processes can also make it difficult to support flexible pricing options in contracts, and the setup and maintenance of special customer pricing when there is no centralized repository of contracts can be time-consuming and error-prone.

Meeting compliance and regulatory standards, including HIPAA rules, can be a significant pain point for an organization relying on manual AP processes. Sensitive patient information must be carefully managed. Auditing practices can be a challenge given that medical facilities must maintain a detailed record of all parties that have had access to patient information, and facilities relying on manual processes may not have an adequate, traceable paper trail. This lack of traceability also makes it difficult to catch important anomalies in transactions that might be indicative of fraud or identity theft. Beyond the financial consequences of HIPAA and other regulatory violations, organizations will likely face challenges associated with regaining the trust of business partners—and where applicable, patients—to handle their information.



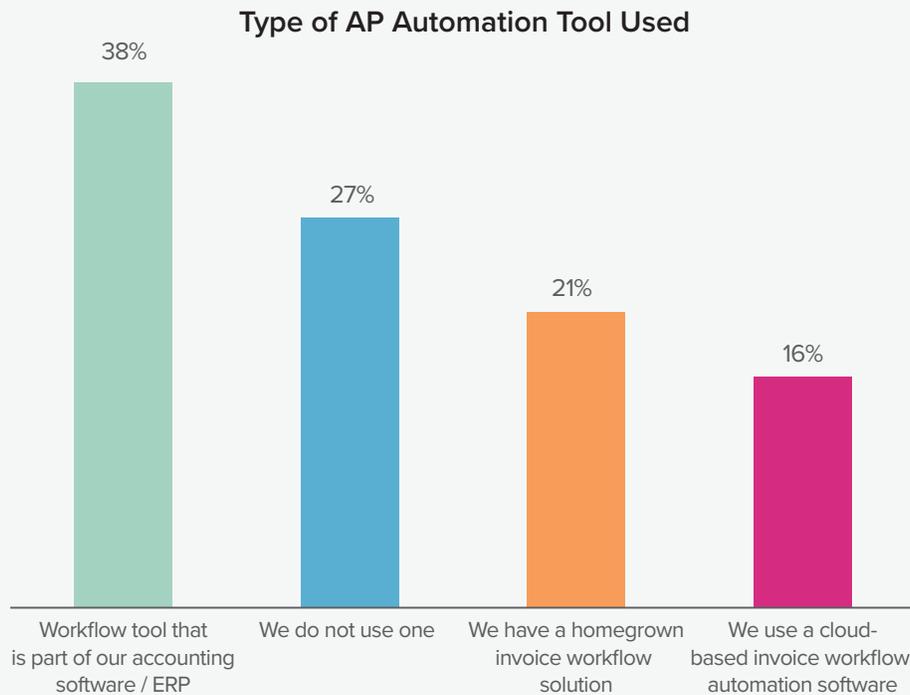
For some goods and services, hospitals and medical facilities must consistently replenish their inventory. This means POs are sent and invoices are received on a consistent basis at very high volumes. Under manual processes, this means creating and moving around a lot of paper and leaving the organization at risk of data inaccuracy, incorrect orders, missed or late payments, and non-compliance with regulatory reporting requirements.



## The True Cost of AP

PayStream’s research indicates that the healthcare industry is gradually adopting automated back-office processes. At the moment, however, over one-quarter of surveyed healthcare organizations have no automation tool in place to help streamline back-office processes, see Figure 3.

**FIGURE 3**



### Most Healthcare Organizations Use an ERP-Based Automation Tool or No Tool at All

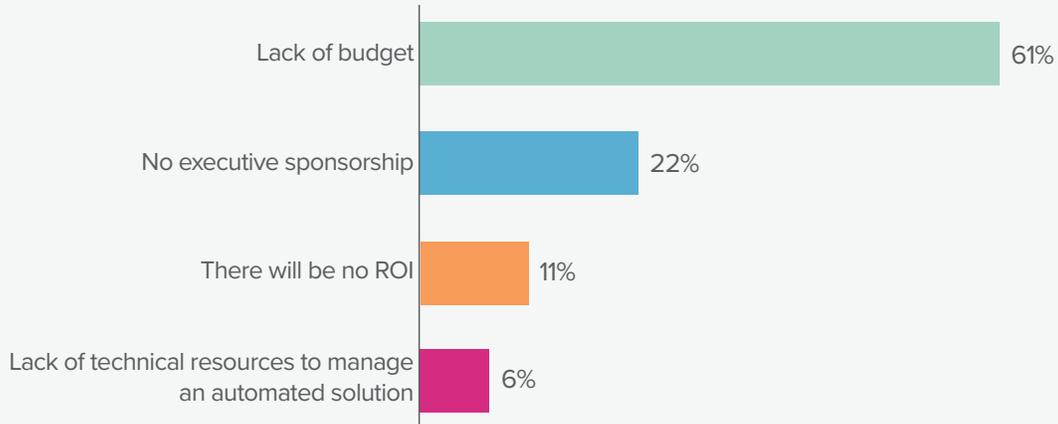
*“What type of AP automation tool do you use?”*

There are a number of reasons that may explain why a healthcare organization has yet to adopt an automated solution. PayStream’s research on potential barriers to automation shows that approximately the majority of surveyed organizations believe a lack of budget is the greatest barrier to automation, followed by a lack of executive sponsorship, see Figure 4.



**FIGURE 4**

### Barriers to AP Automation



#### Most Healthcare Organizations Believe a Lack of Budget is Their Greatest Barrier to AP Automation

*“What do you perceive to be the greatest barrier to adopting a cloud-based AP automation solution in your organization?”*

However, when considering a solution’s costs, some healthcare organizations do not consider or understand the return on investment (ROI) possible from automation. In addition, organizations that believe the current state is working do not always consider the cost of maintaining the status quo. In order to adequately determine whether or not an organization should adopt a solution, decision-makers must consider all the potential costs of the current state. For example, manual processes demand a significant amount of human capital in order to properly manage AP processes, including the time required to receive, verify, organize, search for, and pay high volumes of paper invoices. Depending on the structure of an organization’s AP department, they may also incur additional spend as a result of a decentralized billing.



## Potential Savings and Benefits

In addition to the current state, healthcare organizations must consider all the potential savings of a future, automated state. The following items outline some of the monetary and process improvements possible with AP automation in healthcare, both in terms of hard and soft savings.

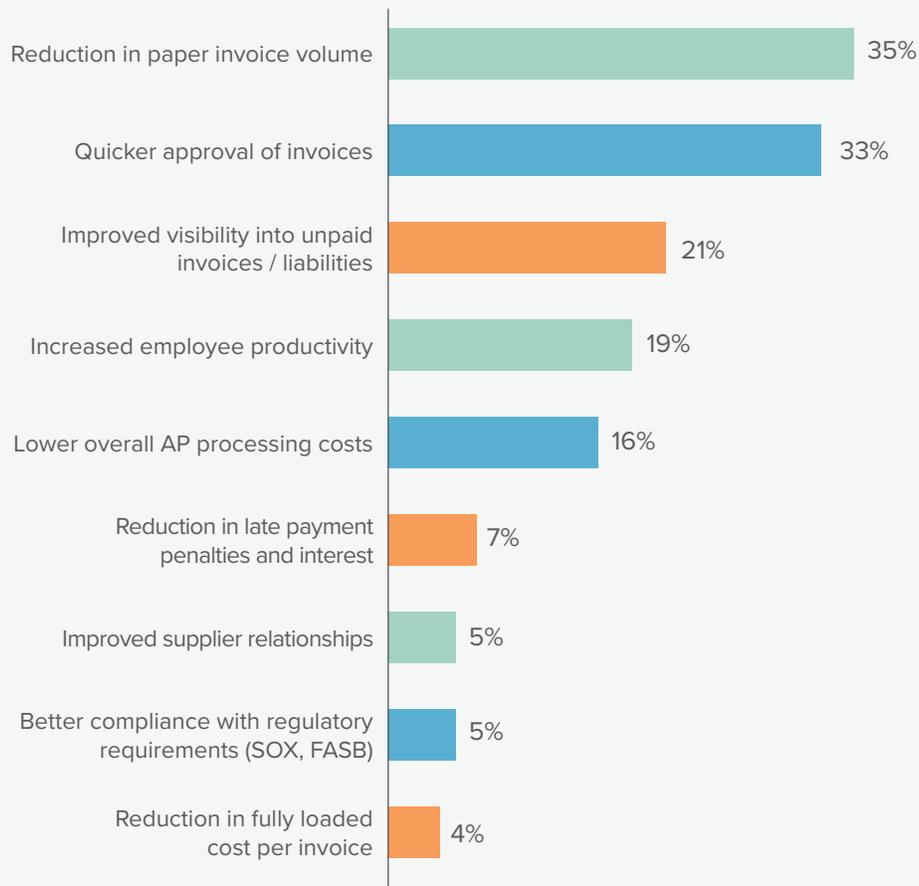
### Labor Costs

Research shows that two-thirds of AP staff spend between 1 and 8 hours each week resolving AP issues. It is not unreasonable to predict that these hours may be even greater in healthcare organizations where AP staff manage large, diverse supplier bases. Rather than spending time resolving issues that arise from manual process breakdowns, such as tracking down missing paper invoices, automation allows AP staff to assume more strategic roles. For instance, automation enables AP staff to manage exceptions in a timely manner, which can be particularly critical in healthcare organizations and medical facilities where supply chain efficiency can have a great impact on patient outcomes.

### Mailroom Processing

Some organizations rely on mailroom processing to handle paper invoices sent by suppliers. PayStream survey results show the top improvements healthcare organizations experience after automating AP processes are a reduction in paper invoice volume and quicker approval of invoices, see Figure 5. By eliminating paper invoices, AP automation helps organizations with a designated mailroom reduce the resources allocated to processing mail, saving a great annual service expenditure.



**FIGURE 5**
**Greatest Improvement Since Implementing an AP Solution**

**Reduced Paper Invoices and Increased Approval Speed are the Greatest Improvements Cited by Healthcare Organizations Upon AP Automation**

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

### Data Entry Labor and Equipment

Many organizations with high volumes of paper invoices must perform a great deal of manual data entry to input and process those invoices. The data entry process also requires the use of scanners, which can be very expensive at the industrial level. This is usually handled either by AP clerks or a separate department dedicated to AP data entry. In the latter case, professionals are typically fully allocated to AP and do not work across departments. This means that when data entry is eliminated, organizations are able to reallocate that labor strategically.



## Document Storage and Security

A significant concern for hospitals and medical facilities involves data storage and recovery abilities. In contrast to older solutions or paper-based AP processes, today's cloud-based solutions have much better data backup systems and recovery capabilities, and are in a better position to withstand a security breach, physical damage, or another unforeseen event. Many AP solutions allow organizations to store their invoices and other business documents in an electronic archive, eliminating the need for physical storage. Depending on the size of the company and the volume of retained documents, this could free up considerable extra office space—it may even prevent or postpone a move for a growing company.

From a data security and privacy standpoint, paper invoices are far more likely to get lost or misplaced, or haphazardly placed on a desk with a patient's full name in view, unlike software solutions that require user authentication for access. Due to the digitization of data, however, cybersecurity is a top concern for many CFOs. In addition to compromising invaluable data, breaches of cybersecurity can result in a lack of trust between a company and their clients. To help mitigate the risk of a cybersecurity breach, organizations should educate employees in areas including password management, protection against viruses/malware, and mobile data security. Moreover, organizations should ensure that an adequate incident response plan is in place.

## Compliance and Regulatory Standards

AP in hospitals and medical facilities requires a great deal of precision in order to keep patient health information HIPAA-compliant and secure, avoid fines, and ultimately keep costs down. An AP solution offers numerous advantages, including improved visibility into agreements with contracted and off-contract vendors, the ability to automatically track user activity histories with date and time details, greater control over information flows, and ensuring the confidentiality, integrity and availability of sensitive data. Further, having appropriate safeguards in place, such as end-to-end encryption for each contract and vendor, guarantees data is secure while being transmitted and retained.



## Outsourcing

Some organizations turn to outsourcing as a means to manage their AP processes, though this may not be a preferred arrangement for healthcare organizations that feel they lose control over processes in doing so. AP technology can eliminate many of the manual activities that organizations outsource using technologies like electronic invoicing, online data capture tools, machine learning, and automatic approval workflows. The savings possible with automated AP mean outsourcing may no longer be the cheapest option. Automating AP processes lowers the overall cost and can enable healthcare organizations to return AP processes to internal teams.

## Working Capital

Automating AP processes also empowers organizations to establish analytic and strategic initiatives, including working capital optimization. With AP automation, processes are streamlined and invoice lifecycles are shortened, meaning that organizations have a much greater ability to capture early payment discounts. The monetary savings depend on the number of invoices an organization receives and the percentage of those invoices that are eligible for discounts. PayStream has found that most companies are offered discounts on 20 percent of invoices (or 20 percent of spend).

## Supplier Management

Organizations that automate their AP processes can reap the benefits of improved supplier management that results from greater visibility and quicker access to required information. Organizations are in a better position to respond to supplier queries or changes in contract terms when using an automated system. Not only does this benefit the organization in terms of greater customer service, it helps suppliers better manage their own supply chain.



## Month/Quarter/Year-End Close Processes

Report generation can involve a significant amount of time and resources when adequate processes are not in place to capture the necessary data throughout the reporting period. This unavoidable, time-consuming process can be simplified and made far more efficient with an AP solution. With the automatic reconciliation and auditing capabilities provided by many AP solutions, accounting professionals gain much more visibility into the closing process. This reduces stress for the accounting department and could eliminate the need to hire outside help during these busier times. The solutions provide data on spending patterns, contracted item maintenance, analysis, and reporting features, allowing AP and key decision-makers to see available products and costs when comparing products. An automated AP solution also allows for greater ease in tracking KPIs via real-time analytics and reporting.

## Cost of Capital

Eligibility for loans, influenced by an organization's credit score, can affect what a company's roadmap looks like in terms of purchasing capital. For example, operating under a hypothetical credit rating improvement, how would a company's business plans change in the next 10 years? Automation can affect an organization's credit and eligibility for loans. While these benefits are harder to quantify than some other process improvements, organizations should still consider the effect a solution can have on their cost of capital when making an investment decision.



## Calculating ROI

When considering automation, healthcare organizations should carefully evaluate the costs of both current-state processes and future state potential. This will help stakeholders better understand where inefficiencies exist in current processes and identify which potential solutions best address these needs. In addition, analysis of current processes allows the company to establish a detailed roadmap for implementation, including the long-term benefits of the solution in both hard and soft costs.

Understanding the company’s current state is also required in order for the potential ROI of a solution to be accurately predicted, a metric that is fundamental to achieving executive buy-in. Senior management must understand the value that software brings to workflows as well as the ultimate impact on the company’s bottom line. There are several different ways in which the benefits of automation can be measured, see Table 1.

**TABLE 1**  
ROI Calculators

Payables Archetype Components	Overall
<b>Total Cost Per Invoice</b>	(Number of AP Clerks * Average Annual Salary) / Number of Annual Invoices (does not account for overhead or other soft costs)
<b>Perfect Payment Index Calculation</b>	% electronic * % paid on-time * % discount achieved
<b>First Year ROI (%)</b>	Annual Savings / Total Cost of Implementation
<b>Payback Period (Years)</b>	Total Cost of Ownership (Annual Subscription* Number of Years + Implementation Cost) / Annual Savings
<b>5-Year ROI</b>	(Annual Savings * 5) / (Total Cost of Ownership + 5 Year Maintenance Costs)

Some companies are at different levels of AP automation maturity. Automation maturity can be gauged using several different factors, including the speed at which organizations choose to automate (internal factor) and suppliers’ willingness to participate in activities like electronic invoicing (external factor). Table 2 shows the different thresholds organizations typically reach based on their automation maturity, illustrating that significant improvements in processing times follow technology implementation.



**TABLE 2**  
**Process AP Improvements by AP Maturity Level**

Metrics	Novice	Mainstream	Innovator
Average processing time from invoice receipt to approval	45 days	23 days	5 days
Average processing cost per invoice (combination of paper and electronic)	\$15.00	\$6.70	\$2.36
Percentage of invoices received electronically	3%	9%	32%
Percentage of invoice terms discounts captured	18%	40%	75%

The Novice maturity level includes companies that have almost entirely manual AP processes, followed by the Mainstream level that has some automation, and fully automated AP departments (Innovator level). According to industry-agnostic PayStream data, 30 to 40 percent of North American businesses making more than \$100M in revenue fall between Novice and Mainstream in terms of automation maturity.



## Conclusion

Without efficient AP processes, hospitals and medical facilities are vulnerable to a wide range of inefficiencies, lost savings, and potentially damaged supplier relationships. With AP automation, however, disparate sources of information can be consolidated and managed within a single system, enabling geographically distanced facilities to work together to streamline AP processes. Organizations that adopt automation have more efficient processes, reduced error rates, and greater visibility into spend and supplier behavior. Invoice and payment automation technologies can help hospitals and healthcare facilities transform their AP process into a source of competitive advantage, ultimately strengthening AP's strategic role in the organization.



## About the Sponsor

SentinelC3 has been a leader in cost management software that links healthcare chains with medical equipment suppliers for over 14 years. Its software alleviates many of the greatest payable pains for healthcare with a complex supplier base. SentinelC3 cuts costs using performance oversight to help LTACH/SNFs reach their strategic goals and objectives in supplier spending and capital expenditures. Sentinel's cloud-based software application offers maximum visibility, security, and savings to clients in the healthcare industry.



## About Level Research

Level Research, formerly PayStream Advisors, is a research and advisory firm that operates within the IT consulting company, Levvel. Level Research is focused on many areas of innovative technology, including business process automation, DevOps, emerging payment technologies, full-stack software development, mobile application development, cloud infrastructure, and content publishing automation. Level Research's team of experts provide targeted research content to address the changing technology and business process needs of competitive organizations across a range of verticals. In short, Level Research is dedicated to maximizing returns and minimizing risks associated with technology investment. Level Research's reports, white papers, webinars, and tools are available free of charge at [www.levvel.io](http://www.levvel.io)

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