

# The Hackett Group Innovation Spotlight: HCR ManorCare

## HCR ManorCare Advances Digital Transformation of Healthcare with Invoice Automation in the Cloud

HCR ManorCare, a network of assisted living communities and skilled nursing locations with over 500 locations, has been automating its Accounts Payable (AP) process with Basware since 2009. Dave Danko, HCR ManorCare's AP Business Analyst, led this journey from an entirely manual and paper-based world to a streamlined and automated process.

HCR ManorCare's initial adoption of AP automation addressed fundamental problems of high costs and high error rates. Before using e-Invoicing, 32 clerks were involved in creating data machine tapes of batch work for processing invoices while three months' worth of invoices would pile up in boxes in AP department. Three days a week were spent keying in invoices, one day was set aside for document preparation, and another for filing. Beyond the high process costs, service quality often suffered, with duplicate payments, late payments and payment errors. Mr. Danko explained that initially there was quite a bit of executive resistance to the concept of e-invoicing, so time was spent introducing them to the market and the capabilities of available systems.

Flexibility and configurability were significant factors in choosing a solution provider. HCR ManorCare chose a solution they could configure to offer different exit points, automating information that previously had to be hand-keyed. The system had to handle the unique aspects of processing medical invoices (i.e., claims), where no two medical providers submit in the same format. Mr. Danko notes, "Taking only three months to design and six months to roll out to 2,000 users, Basware offered the flexibility needed to transform AP initially. The first project was deemed a success since it significantly reduced the amount of labor involved in the process while increasing quality and service."

Over time, however, HCR ManorCare recognized that its overall IT infrastructure was reaching capacity with on-premises solutions, where every time an update needed, there was a major disruption to the business. HCR ManorCare also needed to add a full terabyte of storage space monthly to support enterprise IT needs, while staffing, application and hardware maintenance costs were becoming overwhelming. Like many other organizations, HCR ManorCare's IT department viewed moving the company's AP process to Basware's cloud platform as an obvious choice. Cloud-based applications would eliminate database administration related to increasing storage requirements and allow for more frequent updates across their business applications.

With the transition to the cloud came a few tradeoffs: some customized functionality went away and issue resolution involved off-premises resources instead of a call to the internal IT department. While the user community of 2,000 took some time to adapt, like most companies, HCR ManorCare found that stakeholders adjusted to the new model and service levels remained high. Users now have an online university to learn the system and ongoing training is performed monthly.

Hackett Group research shows that onboarding suppliers to an e-invoicing solution can be one of the most significant barriers to AP process automation. HCR ManorCare addressed this challenge with a phased approach to persuade its fragmented supply base of 21,000 mostly local suppliers to accept a hybrid invoice receipt strategy. As a first step, vendors were shifted from mailing paper invoices to decentralized facilities to using a centralized Basware scan and capture center. That way, HCR ManorCare processors no longer needed to add an AP coding sheet to each invoice, since Basware autocoding did the work of matching AP coding to the vendor. The reduction in cycle time and improved on-time payments were a strong incentive for suppliers to get on board. At the start, about 20% of invoices were transmitted via EDI; with an onboarding campaign this number increased to 72% of invoices.

While The Hackett Group's data shows typical enablement rates of only 48% of suppliers, HCR ManorCare soon surpassed this number, and used OCR for the others. In parallel, HCR ManorCare reduced the overall volume of invoices with a better-quality process that eliminated duplicate invoices. This combination of fully automated invoice receipt along with scan and capture and centralization offered the right balance to move away from paper processing entirely. The use of PO flip for about 40% of invoices was also crucial – invoices created directly from a PO help to error-proof the electronic approval process.

Mr. Danko says, "Basware fundamentally changed AP's role. The AP organization, which shrank over time from 38 to 4 people, now focuses on exceptions. Account recovery audits were finding nearly \$2 million per year in errors in duplicate invoices and overpayments – recoveries have been reduced to occasional exceptions. Today, most invoices are processed on the same day they are received." Audit selections are now automated so fraud and error reduction can concentrate on select criteria or random samples. The level of control and reduction in process costs are incontestable. An additional, potentially more valuable benefit has been improved visibility into spend and the foundation for a more sophisticated digital strategy.

HCR ManorCare has no plans to stop working on improvements now that it has a more automated process and better data visibility. Next up is consideration of a supplier portal and online vendor management system. Financial supply chain tools like dynamic discounting are being considered, and Pcards have been rolled out for low-dollar items. On the purchasing side, HCR ManorCare is looking to link Basware's solution with its own industry-specific marketplace to capture more orders with PO flip. **HCR ManorCare realizes digital transformation and longer-term excellence in business services depend on building a solid foundation of information, automation and connectivity throughout purchase-to-pay.**

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