# Optimizing the Procure-to-Pay Process Following the COVID-19 Pandemic

Supply chain leaders historically have faced challenges such as reducing expenses, on-time product delivery, managing inventory, providing standardized system services, and limited staff availability. COVID-19 has added an obstacle for the healthcare supply chain to acquire products that primarily are manufactured overseas. For example, pre-pandemic, there were typically five hundred products on allocation; today, this number exceeds ten thousand, with many of them sourced from China. With this new reality, supply chain leaders are shifting focus to evaluating the sourcing strategy, including domestic-based manufacturing and alternative sourcing options to ensure continuity of products in the United States.

These additional challenges have highlighted the need to streamline, optimize, and measure supply chain performance and reduce shortages and rework. It is critical for hospitals to reevaluate their internal workstreams and take measures to standardize their procure-to-pay processes through automation and metrics.

To optimize the supply chain in the COVID-19 environment, consider the following questions:

- Do you have standard work processes established across your organization?
- Have you fully automated orders via electronic data interchange (EDI)?
- Have you established performance metrics and expectations, and do you track them monthly?
- Do you monitor how your orders are submitted to suppliers?
- Do your buyers have little time to work on order exceptions and confirmations?
- Does Accounts Payable and Receiving spend a lot of time reconciling order exceptions with Purchasing?

Procurement staff often focus on transactional activities, such as placing orders, managing back orders, and resolving order exceptions; and often prioritizes placing orders over managing backorders and resolving order exceptions. The root cause of the exception frequently is not identified and fixed prior to invoice, thereby causing exceptions in the future, and generating rework for Purchasing, Receiving, and Accounts Payable.

Automating and improving the quality of the ordering process can allow staff to manage order exceptions and back orders proactively. This requires establishment of goals, standard processes, metrics, strong leadership, and weekly monitoring of results to ensure staff accountability.

# Procure to Pay Optimization in Action

A two-hospital healthcare system in the Midwest recently took this approach. The supply chain team assessed, identified, and implemented a strategy to enhance the procure-to-pay process through the hardwiring of best practices and leveraging technologies. Key focus areas included:

- Tightening up the supply chain foundational procure-to-pay processes, including file maintenance, automated ordering process, improved order exceptions, and reduced special orders
- Leveraging and optimizing the use of the leading technology information systems, including ERP systems and EDI exchange
- Developing analytics and monitoring data to track and sustain results

Streamlining the supply chain and optimizing the technology allowed the system's supply chain resources to focus on more strategic activities, including evidence-based value analysis, contract management, data cleansing, category sourcing, and dashboards/analytics.

## Procure-to-Pay Process Improvement

***Purchase Issue Method and Maximizing EDI***

The healthcare system was sending orders electronically, but the ordering process was not fully automated or regularly monitored, resulting in loss of staff productivity, data quality, and order visibility. The healthcare system identified improvement opportunities including:

- Maximize the available supplier connections
- Ensure available transaction sets (850,855,856,810) are being utilized:
    - ✓ 850 Purchase Order
    - ✓ 855 Purchase Order Acknowledgement
    - ✓ 856 Ship Notice/Manifest (integrate into ERP purchase order module)
    - ✓ 810 Invoice
- Develop standard operating procedures that are clearly defined and provide a consistent workload
- Establish performance metrics to monitor how orders are sent
- Monitor performance metrics to ensure results, and review progress individually

The healthcare system had expanded its electronic connections with suppliers over the years, but it had not realized the full value of these connections. Using the purchase-order history report, the healthcare system:

1. Identified and developed an implementation plan for suppliers that had electronic order capability
2. Reviewed supplier connections and ensured available transaction sets were activated
3. Identified and determined which orders had been changed to a manual method by the purchasing staff
4. Tracked manual entry orders (specials) and reviewed with staff, requisitioners, and clinicians
5. Identified suppliers/orders that could bypass the purchasing department, referred to as a "no-touch" purchase order (PO)

The healthcare system implemented a process in which a no-touch order was placed by a requestor and routed electronically to the supplier, which created efficiencies for the procurement staff. Working with supply chain leadership, "no-touch" POs increased by more than 100 percent, from 30 percent to 62 percent of total POs.

## Development of Standard Operating Procedures

Clean data, order automation, and exception management are vital components to an effective and efficient supply chain. The healthcare system identified wide variation in order processing and how exceptions were managed. The organization established standard work processes and instituted monitoring and reviewing of key performance indicators with Purchasing, Accounts Payable, and Receiving.

### *Establishing and Maintaining Clean Data*

Supply chain staff at US health systems often spend significant time on data cleansing, managing product contract information, and order exceptions. This time can be reduced substantially by improving the quality of the health system's item master/contract file. This not only reduces labor hours, but also improves contract management and enhances analytics and reporting visibility, which is essential to the value-analysis process. By taking steps to automate and proactively manage data, organizations will reduce transactional discrepancies, order exceptions, and rework. Most important, they will help highlight opportunities in areas including contracting and utilization.

The health system's supply chain organization went through a systematic effort to clean the item master and contract files to reduce rework. The healthcare system identified that to further improve the process, it needed to reduce orders placed outside the item file, known as specials. These orders often were entered manually by the requestor and contained incomplete and inaccurate information, which created manual work for purchasing and limited the organization's ability to identify and contract for these items. The supply chain team reviewed the purchase order history and identified the special items by manufacturer to determine whether they were available under an existing Group Purchasing or Local contract, or if there was an opportunity to negotiate a new agreement. Once these items were placed under contract and added to the item file, the system notified requestors of this update to ensure the orders were placed electronically and accurately. Monthly monitoring and reviewing of these orders with the staff is critical to optimize the purchasing and sourcing process. Taking these steps, the hospital system reduced the percentage of special lines from 6.6 percent to 4.9 percent.

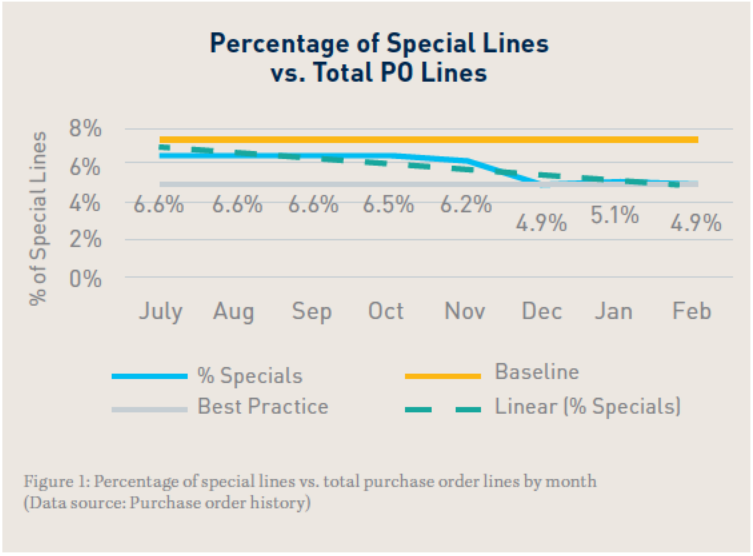


Figure 1: Percentage of special lines vs. total purchase order lines by month
(Data source: Purchase order history)

### *Order Exception Process*

The exception management process in most organizations typically is reactive and a low priority compared to processing orders. When the healthcare system assessed its procurement department, it found that order discrepancies typically were addressed after the invoice, and there was wide variation on how the work was being accomplished. The healthcare system established a standard order-exception workflow for electronic and manual orders and reviewed with the buyers to ensure the workflow was used consistently, daily, and prior to invoice. The combination of electronic automation efforts and proactive order exception resolution reduced the manual effort by 27 percent.

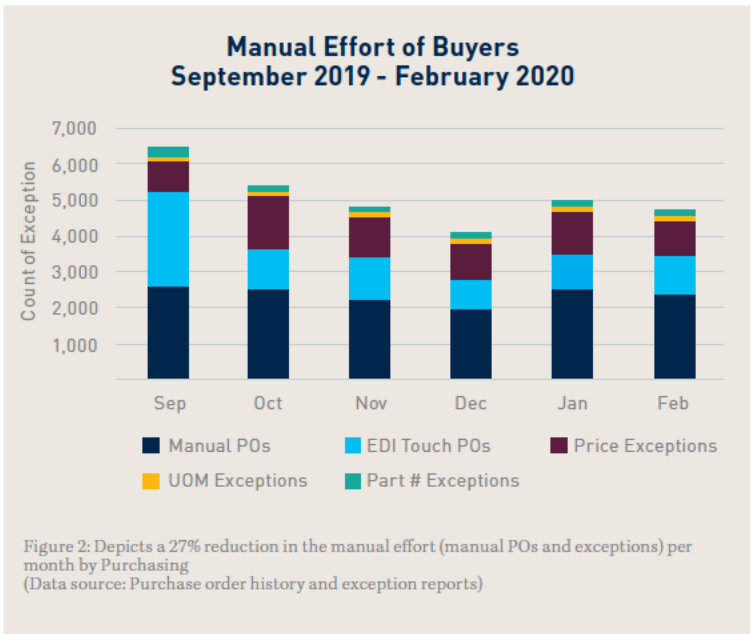


Figure 2: Depicts a 27% reduction in the manual effort (manual POs and exceptions) per month by Purchasing
(Data source: Purchase order history and exception reports)

## Reporting

Developing analytics and monitoring data is imperative to track and sustain supply chain optimization. It is important to identify and regularly monitor critical metrics that are tied to operational goals. In the below example, the healthcare system processed an average of eight thousand POs per year per buyer, with 20 percent to 30 percent EDI no-touch capability. After optimizing the procure-to-pay process and setting up monthly monitoring, no-touch purchase orders increased more than 100 percent, to 62 percent of total POs. This allowed the buyers to process more than fifteen thousand POs per year, which enhanced staff productivity and freed time for value-added activities, such as sourcing and product standardization.

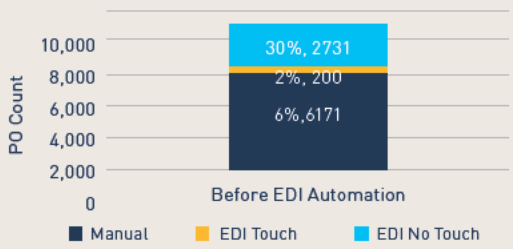


Figure 3: Total purchase orders per month before EDI automation (Data source: Purchase order reports)

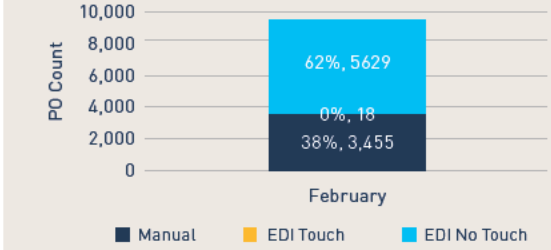


Figure 4: Total purchase orders per month after EDI automation (30% increase (Data source: Purchase order reports)

## Results

It is important not only to connect suppliers via EDI, but also to ensure the staff has a clear understanding of their role in this standard process. By optimizing the procure-to-pay process and hardwiring best practices, the health system realized benefits including:

- Reduced price, unit of measure, and part number exceptions, creating a proactive approach and ensuring the item master remains orderly, accurate, and aligned with the supplier data
- Reduced back orders through proactive sourcing and substitution
- Created instant visibility into order confirmations and product status within the ERP system
- Eliminated variation of process and enhanced efficiencies, which freed up staff time to work on value-added activities such as order confirmations, sourcing, and back-order management
- Enhanced visibility and timely resolution of order exceptions through improved collaboration and accountability between Accounts Payable and Procurement
- Increased electronic orders and reduced number of order exceptions; the healthcare system improved its quarterly performance ranking by over 100 percent into the top fifty best-performing hospitals

*The data/metrics contained in the above case study have been modified and are used for educational purposes only.*

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