Afterthought No Longer:

A Move to the Cloud Is Making ERP a Top Strategic Priority for Hospitals and Health Systems

An Impact Advisors White Paper

Background

The typical scope of healthcare enterprise resource planning (ERP) systems is *wide,* covering human resources, finance, and supply chain, with functionality that ultimately has a significant day-to-day impact on many aspects of business operations (see Figure 1). In fact, supply chain costs *alone* can represent 25-35% of hospitals' expenses – second only to labor. However, over the years, ERP has not been nearly as high a strategic priority for hospitals and health systems as enterprise clinical and revenue cycle systems.

The historical trend of ERP being somewhat of an afterthought in health delivery is quickly changing due to evolving market pressures, shortcomings of on-premise legacy ERP solutions, and – perhaps most importantly – the fact that major ERP vendors in healthcare are embracing a transition to the cloud. There is now genuine momentum at hospitals and health systems to make ERP a top strategic priority and real demand for today's cloud ERP technology platforms, delivery experience and analytical tools. **Simply put, leading provider organizations are realizing, to remain competitive, ERP must be given the attention it deserves.**

Figure 1. ***Typical Scope of Healthcare ERP***

Human Resources	Finance	Supply Chain
Recruiting & Onboarding	General Ledger	Supplier Management
Core Human Resources	Treasury	Item Master
Talent & Performance	Budget Administration / Long-term Planning	Contract Management
Compensation	Capital Asset Management	Procurement
Absence Management	Project Management	Inventory Management
Benefits Administration	Cost Accounting	Value Analysis
Reporting & Regulatory	Accounts Payable	Electronic Data Interchange
Learning Management	Grant Management	
Human Resources Help Desk	Foundation / Philanthropy Management	**Other Applications** (Embedded or Integrated)
Staff Scheduling	**Technical**	Reporting / Dashboards / Business Intelligence / Analytics
Time & Attendance	Infrastructure / Security	Document Imaging
Payroll	Integration / Conversions	
	Implementation	
	Support	

The Need for Change

Market pressures are quickly evolving. Expense reduction – which was already a priority *before* the COVID-19 pandemic – is now even more paramount, with administrative expenses (human resources, supply chain, IT, etc.) being a focus. There is also a transition underway to a more virtual, remote, and *efficient* workforce, but basic employee and manager engagement is still not a primary focus for most health delivery organizations. Meanwhile, the fallout from ongoing M&A activity continues to take a toll on hospitals and health systems, as recently merged organizations struggle to align cultures, integrate IT systems, and standardize practices and policies.

Overall, technology that can support operational efficiency, an empowered workforce, streamlined processes, and standardization *across the enterprise* is at a premium. The ability to access *actionable*

data related to supplies, human capital, and financial management in real time from any device or location is a basic requirement for staying competitive. Although legacy on-premise ERP systems in health delivery have performed well enough over the years, the reality is they are no longer able to meet today's challenges; the emergence of new generation ERP solutions has now rendered them outdated.

Characteristics of New Generation ERP Solutions

What is driving demand for new generation ERP solutions in health delivery? First and foremost, **major ERP vendors in healthcare are committed to the cloud – and** *specifically* **a SaaS ("software as a service") licensing and delivery model**. This is particularly notable given the fact that health delivery has lagged other industries when it comes to adopting more secure, SaaS *at scale*. A healthcare ERP solution likely represents the first and most promising opportunity to move major systems to the cloud.

There are fundamental differences between SaaS and "remote hosting" (where the client still owns a unique instance of the software). **SaaS is a software licensing and delivery model in which software is acquired on a** *subscription basis* **and is** *centrally hosted*. In a SaaS model, there is typically <u>one</u> instance of the application that is used by all customers. Specific functionality may be enabled or disabled, but clients utilize the same software code.

Taking advantage of cloud solutions contributes new benefits, including elasticity on demand, consumption-based cost, and inherent disaster recovery ability (see Figure 2). Further, SaaS relieves the client from almost all architecture and engineering work. The SaaS software vendor builds these requirements into their market offering. Conversely, when you host software on premise, host in a third-party data center, or move your workload to some public cloud services, you are often on the hook for some engineering tasks.

There is no need for software to be installed locally in a SaaS model. Users simply access the ERP solution securely over the web – whether on their phone when traveling, on a tablet at home, or on a workstation in the hospital. Any software updates or upgrades are scheduled and delivered regularly and occur immediately, so every client is always on the latest version of the product.

Cloud-based SaaS solutions are also inherently scalable. For example, adding new users, or even a new site or facility after an M&A event, is technically straight-forward. To ensure timely transitions and full adoption, the primary focus when integrating new organizations must be a combination of training on the new process workflows, as well as a commitment to change management. This volume-based subscription approach *also* eliminates under-utilization and over-purchasing; hospitals and health systems simply pay for what they use.

Given the greater, robust capabilities of today's cloud-based solutions, the value proposition for hospitals and health systems to revisit ERP is persuasive. However, transitioning to a cloud ERP solution is not without challenges. Replacing *any* enterprise system is a significant undertaking that goes far beyond the technology itself, and ERP is certainly no exception – particularly given that the functionality directly impacts so many hospital and health system employees on a day-to-day basis. In fact, although a recent KLAS survey of providers who have adopted a cloud-based ERP solution found reported *benefits* such as "reduced capital investment," consistent upgrades," and "improved efficiency," **two of the most widely cited** *challenges* **to transitioning to a cloud ERP solution were "poorly led implementations" and "difficult operational change management with internal staff."**[1]
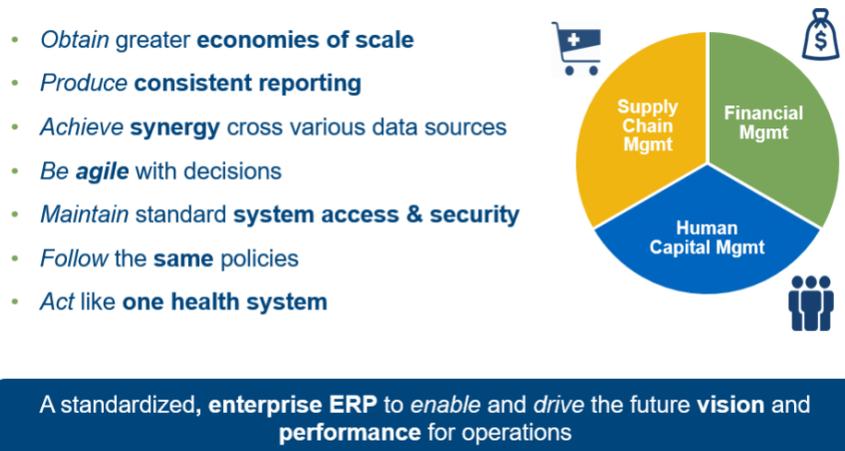
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[1] https://klasresearch.com/resources/blogs/2019/04/18/erp-moving-to-the-cloud

Figure 2. **Transitioning to the Cloud (SaaS)**

Features	Challenges
+ More secure + Easier to scale + Greater mobility + Untethered from workstation + Provides disaster recovery + Continuous innovation / always current + Eliminates major upgrades	− No customization (although specific functionality can be turned on / off by the client) − Greater dependency on vendor performance and development − Continuous updates may challenge lean staffed organizations; new releases or modules may necessitate external assistance

Impact Advisors' Point of View

- **Legacy on-premise ERP solutions are putting hospitals and health systems at a competitive disadvantage.** Legacy ERP systems reflect historical practices and fragmented workflows across the organization and pose challenges when trying to readily and quickly aggregate and report on information. The reality is that these outdated, on-premise applications remain a barrier to becoming a truly integrated and standardized health system, and serve as a major handicap when planning and executing M&As.

- **The transition to SaaS and the cloud is a game changer for ERP in health delivery, and now is the time for providers to capitalize.** Many of the characteristics that differentiate today's ERP solutions from legacy offerings are directly attributable to the shift to a SaaS model. Simply put, today's cloud-based ERP solutions can support efficiency, standardization, employee engagement, and collaboration on a fundamentally different level across the enterprise, compared to their outdated on-premise legacy counterparts (see Figure 3). New market pressures are affording little flexibility to wait. The time to consider and act on your first major cloud-delivered solution is now.

- **Success goes far beyond just the technology.** This is a significant endeavor. Successful implementation and adoption of new generation ERP solutions will require a focused change management effort and a priority on benefit identification and realization.

Figure 3. **Healthcare's Opportunity with ERP**

- *Obtain* greater **economies of scale**
- *Produce* **consistent reporting**
- *Achieve* **synergy** cross various data sources
- *Be* **agile** with decisions
- *Maintain* standard **system access & security**
- *Follow* the **same** policies
- *Act* like **one health system**

Supply Chain Mgmt · Financial Mgmt · Human Capital Mgmt

A standardized, **enterprise ERP** to *enable* and *drive* the future **vision** and **performance** for operations

About Impact Advisors

Impact Advisors is a nationally recognized healthcare consulting firm focused on growth, sustainability, and performance improvement to drive clinical, operational, and financial results for our clients. Our experienced team of associates has a powerful and proven combination of clinical, revenue, operations, consulting and IT experience. The firm has earned many prestigious industry and workplace awards, including Best in KLAS® for 13 consecutive years and Modern Healthcare's Best Places to Work in Healthcare for 10 consecutive years.

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