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Accounts Payable
Creating Competitive Advantage

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Overview:

Most people view the Accounts Payable (AP) department as a function within the Procure to Pay process that is necessary but unlikely to create a competitive advantage. However, a company can transform the traditional AP cost center into a cost savings driver. It can do this by employing a simple strategy that consists of analytical tools, robust processes, and a team approach to drive outstanding results. This paper outlines how we forged this transformation at Baptist Health.

What is a Competitive Advantage?

Competitive advantage refers to the ability gained through attributes and resources to perform at a higher level than others in the same industry or market.[1] The AP department within a healthcare provider may gain a competitive advantage in many ways by running operations more efficiently, delivering more goods and services at a lower cost, and becoming more appealing to healthcare providers and patients. Historically, healthcare providers have managed their AP departments at a "neutral competitive advantage," meaning as a function that neither detracts nor contributes to the organization's overall performance. Healthcare organizations expect their AP departments to meet transactional standards, such as avoiding credit holds for non-payment, ensuring prompt completion of expense reimbursements, utilizing payment discounts, or increasing the number of transactions processed per employee. These are all necessary to keep the operation running but do not add value to the organization itself. AP departments are an untapped resource where fostering a culture that drives continuous improvement through people, processes, and information management can significantly impact performance. This paper outlines how these three elements (people, process, and information management) generate a continuous improvement culture and create a competitive advantage.

People - Connecting with a Purpose

At Baptist Health, we are fortunate to have great people and leaders on the AP team who always take pride in their work. With over 90,000 transactions per month, more than 23,000 employees, and 5,600 vendors, our team knew that delivering a competitive advantage would require the proper organizational alignment, a clear vision, and an actionable, engaging culture.

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[1] Christensen and Fahey 1984, Kay 1994, Porter 1980 cited by Chacarbaghi and Lynch 1999, p. 45

We knew our most important task was to create an actionable culture characterized by ownership, innovation, collaboration, and open communication. The AP team's transactional culture emphasized completing tasks rather than thinking strategically. To change this, we had to shift the culture. We had to create a sense of ownership and empowerment for every member of the AP team, and we had to move away from a task assignment model to a self-directed workload management model. The team reworked processes and reporting to provide every employee the detailed information they needed to know precisely what actions they should take that day. Now, team members no longer have to wait for assignments or follow-up from supervisors to prompt action. The culture instills a sense of urgency by providing fresh data daily. Team members and their managers can see and track their progress and identify exceptions that need to be handled. Managers can focus their attention on exceptions and clearing obstacles for their employees instead of managing day-to-day task assignments.
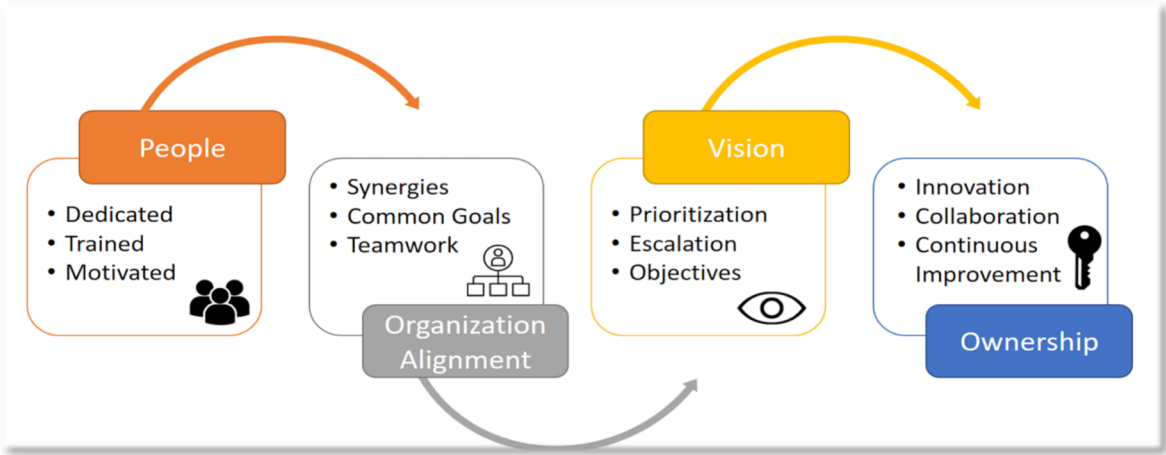
Innovation, collaboration, and open communication were key elements in creating a competitive advantage in the traditionally administrative department. For instance, the entire Supply Chain and Accounts Payable team participates in a weekly virtual meeting called the "huddle." The huddle reinforces the connection between the team members and the mission of Baptist Health, the leadership of the Procure to Pay departments, and the individuals within the various departments. While the huddles – which consist of over 100 participants from every function within the Procure to Pay departments - do follow an agenda and timeline, they are not like most meetings in a corporate environment. The huddles are very interactive and reflect a culture of autonomy and ownership. Huddle participants encourage innovation, welcome all ideas, and support open dialogue. The huddles leverage the diversity of roles and perspectives and are a powerful tool for solving problems quickly and developing a stronger sense of ownership for the organization instead of focusing on the employee's specific job.

Within Baptist Health, the Accounts Payable team reports to the Chief Supply Chain Officer, who is responsible for all aspects of the Procure to Pay cycle. As part of the overall supplier management strategy, the alignment between Supply Chain and Accounts Payable creates synergy for all vendor-related interactions. This organizational alignment addresses Procure to Pay roles holistically and provides an integrated and effective means to increase the throughput

and improve the quality of transactions that can be processed, from initial requisition through the payment to the vendor or requestor. This organizational alignment also enables us to optimize staffing levels between the two departments, provides cross-training opportunities, and creates a more fluid staffing model, allowing us to do more with the same number of resources.

Competing priorities can easily prevent high performance within AP. Department leaders needed to forge the vision that prioritized the main goals that could move the department from a transactional cost center to a department adding value beyond the traditional payment tasks. At Baptist Health, we used the following objectives to propel the department: 1) eliminate the transactional backlog, 2) use and expand automation for routine transactions, and 3) restructure processes for manual transactions to drive better supplier and department performance. After the team agreed upon these goals, team members could then look to the processes and information needed to meet their objectives.

Leveraging Technology for Process Optimization

To manage over 90,000 transactions per month, the AP team relies heavily on processes that increase efficiency and reduce manual intervention. We reviewed every touchpoint to see if we could eliminate, automate, or optimize steps.

AP receives far more invoices than any other type of request, making automation key to processing the high volume of transactions.   Baptist Health employed Robotic Process Automation (RPA) to emulate data entry of invoices. RPA uses the same workflow as a human, except a software robot ("bot") executes the task. The number of bots is limited only by technical constraints, making it a viable option for large volumes of transactions. In addition, bots can work 24 hours a day! The RPA bots are entering more than 88% of all invoices received. More than 70% of these invoices require no further handling and are never touched by an employee. By automating repetitive, standardized tasks like invoice entry, employees can concentrate on transactions that require more expertise to resolve and work that is ultimately more rewarding. Focusing on more meaningful work reinforces a more strategic mindset and fosters a culture of ownership and innovation.

In addition to automation, the AP team has built escalation processes to reduce the cycle time for issue resolution. The team has defined communication workflows for each type of issue, including the elapsed time for escalation and who should receive the escalation. Escalation requests are routed primarily to departmental leaders, buyers, contract administrators, and vendors. Escalation requests that are repetitive and standardized are currently on our roadmap for automation using a customer relationship management (CRM) tool.

The AP and Supply Chain teams consider process optimization a continuous cycle. During the huddles, the team discusses exceptions requiring attention. Exceptions are typically the results of a broken or poorly executed process. All participants in the huddle are encouraged to bring forth ideas and insights into how to resolve the issue and understand the potential impact on other departments and, ultimately, patient care. In addition to the huddles, the AP and Supply Chain teams conduct a bi-weekly quality meeting that ensures current processes are practical and efficient and are helping the team achieve their goals. We consider open communication and continuous improvement the cornerstones of these collaborative sessions.
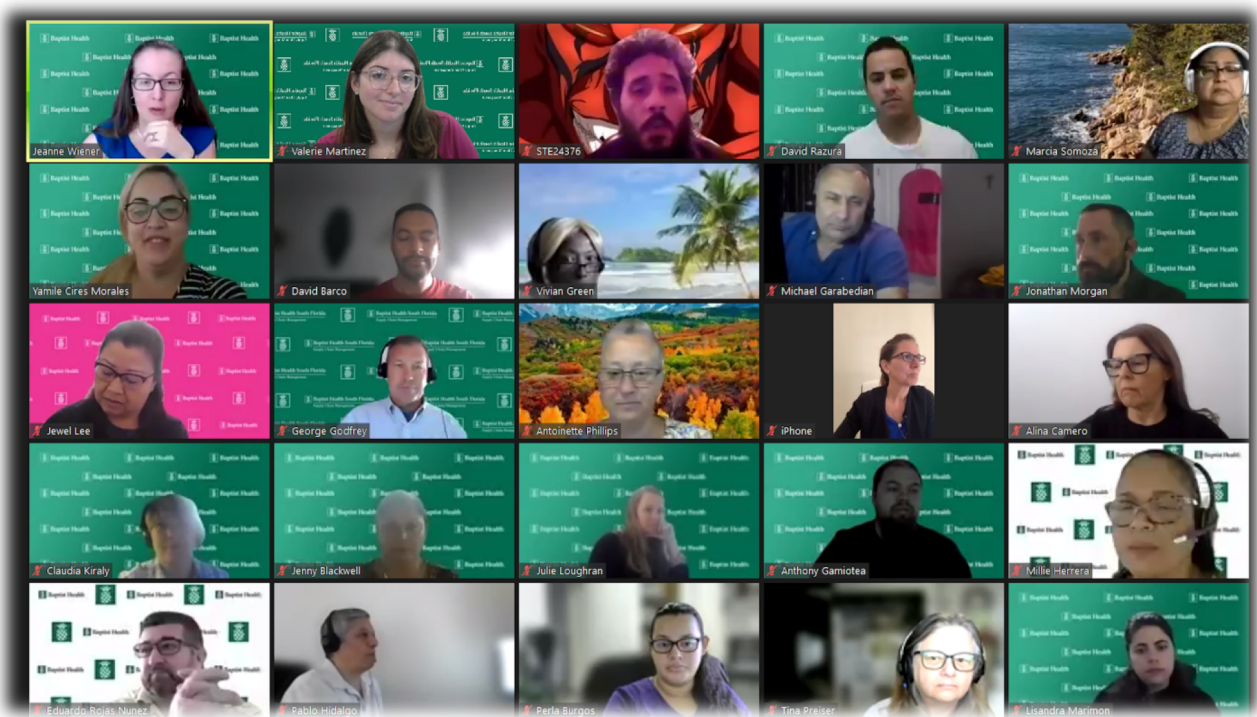
Invoice match exceptions are an example of a process that was previously broken. Invoice match exceptions can occur for many reasons, and the responsibility to resolve the exception was not always easily identified. The Supply Chain and AP teams collaborated to review the current process for settling invoice match exceptions and then completely reworked it. First, they automated the reporting of invoice match exceptions so that everyone was working from the same data source. Next, they defined the different types of invoice match exceptions and assigned clear ownership for each type. Then, the team prioritized the invoice match exceptions to identify the most significant targets and prevent duplication of efforts. As the team began to reduce the number of match exceptions, they continued to refine the types of exceptions from four to fourteen categories and defined a recommended course of action for each one. By leveraging technology, we can resolve duplicate and recycled invoices on the same day they occur. The results of these process changes have been remarkable: match exceptions exceeded 17,000 at one point, and now they are hovering around 1,000, representing a reduction in match exceptions from 24% to 1.4%, a 1700% improvement in the exception rate.

Information – Workload Management Reporting

For organizations and departments to transform, people must understand objective measurements of progress. At Baptist Health, we did this by creating Tableau dashboards that reported the most basic metrics, such as the number of pending transactions by type and the age of each type of transaction. Having this data ensured that any change in process would yield the desired results by measuring against a baseline.

Before the development of the Tableau reports, AP managers could only understand backlog status and team member performance by compiling reports from disparate data sources. The problem was that by the time the managers had assembled the information, the data may have changed, reducing the validity of the reports. Team members were often working from stale records and spending time working on issues that may have already been addressed, wasting valuable time and resources. So not only has the AP team automated processes, but they have also automated the generation of the information they need to manage workload.

The team developed workload management reports in Tableau to enable each team member to see what they need to work on daily and the size and age of any backlog they may need to escalate. Managers no longer need to pull together reports and can now manage exceptions and assist team members with escalations. The workbooks are organized by pending work by work type and provide a great visual representation of items taking too long to resolve.

Before the transformation, vendor credit holds would occur periodically.   AP expended a lot of time and labor performing basic problem resolution and only accepted requests via email, making it even more challenging to resolve time-sensitive matters. The operational impact could have become severe very quickly if vendors stopped shipping supplies due to a credit hold. As part of the AP transformation, the team now looks to find and resolve problems before impacting the operation.   Credit holds due to AP errors have been nearly eliminated and only occur when the vendor fails to send an invoice or include vital information on the invoice. AP now has many avenues for communication with internal and external parties. Streamlining this process has ensured we have the right products delivered at the right time to the right location at the right price to help achieve the highest levels of patient care for which Baptist Health is known.

The next area of focus will be automating vendor communications. Instead of every individual managing a "To Do" list of pending communication responses, an automated tool will evaluate transactions that require interaction with the vendor and route either Statements of Action, such as "We have rejected this invoice" or Calls to Action, like "Please send proof of delivery."

The communication queue will represent all outstanding matters pending with the vendors and automatically remove any issues as they are resolved. The supplier scorecard could include the number of open communications by vendor to more clearly display the number of problems caused by each vendor. Automating communications is another way to relieve employees of mundane tasks allowing them to focus on more strategic work and add another source of qualitative information relative to vendor performance.

Competitive Advantage Realized

Our AP team has significantly improved performance through a combination of Tableau reporting, process optimization, automation, and defined escalation and communication processes. The AP team is now adding value in entirely new ways.
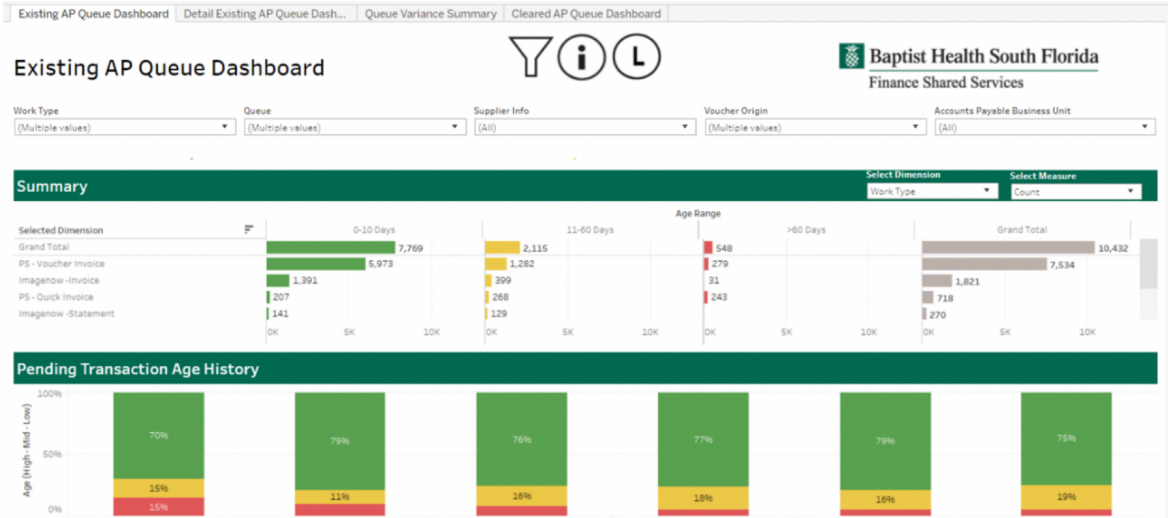
When we started the transformation, the workload was overwhelming, and the backlog continued to grow. Six months ago, there were 8,500 vendor statements in the queue for review, and now there are only 344. After developing new ways to connect, collaborate, innovate and create new processes and workload management tools, we have dramatically reduced the backlog from 695 unresolved issues to 83. The team can now pivot and address new problems in real-time.

The improvement in AP operations has yielded opportunities to negotiate more favorable pricing and payment terms since vendors no longer have to spend their time and resources requesting payment for past-due invoices. Enhanced reporting helps the Baptist Health team identify those vendors who erroneously send duplicate or inaccurate invoices, which can then be quantitatively measured as part of the vendor performance. As AP performance improves, we can negotiate more creative payment terms that drive cost savings (through discounts for quick payment) or enhanced cash flow (for longer terms where the vendor does not offer a discount.) The average

invoice processing time is now six days, which is well within the timeframe needed to redeem any discounts offered for early payment within ten days. Other innovative provisions could include periodic reviews and variable payment terms based upon quality invoicing scores.

Conclusion

Healthcare providers that treat their AP departments as transactional cost centers have an opportunity to transform them to create a competitive advantage. First and foremost, leaders need to foster a culture that drives continuous improvement through people, processes, and information management. They need to align the organization appropriately and develop a clear vision with and for the team. They must shift the culture to one that is actionable and engaging and that supports ownership, innovation, collaboration, and open communication. AP departments must continuously monitor processes to determine if they can be eliminated, automated, or optimized. They need to create escalation processes that involve the proper levels of management in clearing obstacles. And they need to automate the daily conversion of data into meaningful reporting that allows the team to work on issues instead of having to identify the problems within a sea of data. In doing this, departments enable self-directed workload management.

When an AP department focuses on people, processes, and information management, it creates a competitive advantage by improving operational efficiency, providing more goods and services at a lower cost, and becoming more appealing to healthcare providers and patients. In short, by having an AP department that delivers quality work with quality people, processes, and technology, Baptist Health can achieve higher quality outcomes.

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