# Driving Performance Through Automation

Finance executives at healthcare suppliers reveal their cash and working capital priorities, plans, and aspirations for 2017

Thought Leadership Studio

GHX

# Overview


In an era in which uncertainty and volatility are widely recognized as business norms, the U.S. healthcare sector has been particularly buffeted by change in recent years. Many healthcare providers are struggling to find their footing as their underlying business model undergoes a potentially monumental shift from the traditional fee-for-service model to value-based reimbursement. This volume-to-value transition promises to change the fundamental paradigm through which healthcare is delivered, creating a new landscape of business requirements and risks—as well as renewed opportunities for coordination and collaboration across the healthcare ecosystem.

As they struggle to navigate a rapidly changing healthcare landscape—coping with a range of business challenges, including persistent uncertainty regarding the final outcome of healthcare reform—healthcare providers are finding themselves cash-strapped and under constant pressure to reduce costs. In light of these challenges in the broader healthcare sector, we surveyed 100 finance executives at healthcare suppliers—including medical equipment and device manufacturers and distributors, among others—to explore how suppliers' cash and working capital condition has been affected by these market pressures, and how they can improve this fundamental dimension of their financial well-being.

We learned that healthcare suppliers are under pressure to improve their cash and working capital positions over the next year as interest rates rise and competition intensifies. Improving order-to-cash cycle time is not only the top priority for working capital improvement among healthcare suppliers, but also the most difficult goal to realize. A lack of order-to-cash automation is contributing to healthcare suppliers' receivables challenges and diverting resources away from more constructive, value-generating activities, but the research also suggests cost-effective paths to receivables improvement that hold the potential to yield results quickly. Read on for highlights and key takeaways from the survey.

# Pressure on finance teams at healthcare suppliers to improve cash and working capital performance is likely to increase over the next year, according to vast majority (88%) of respondents. And 45% say such pressure will increase substantially.

**Improving the management of cash and working capital will be a critical priority among healthcare suppliers over the next year. Within the working capital space, healthcare suppliers will focus on improving receivables/order-to-cash performance.**

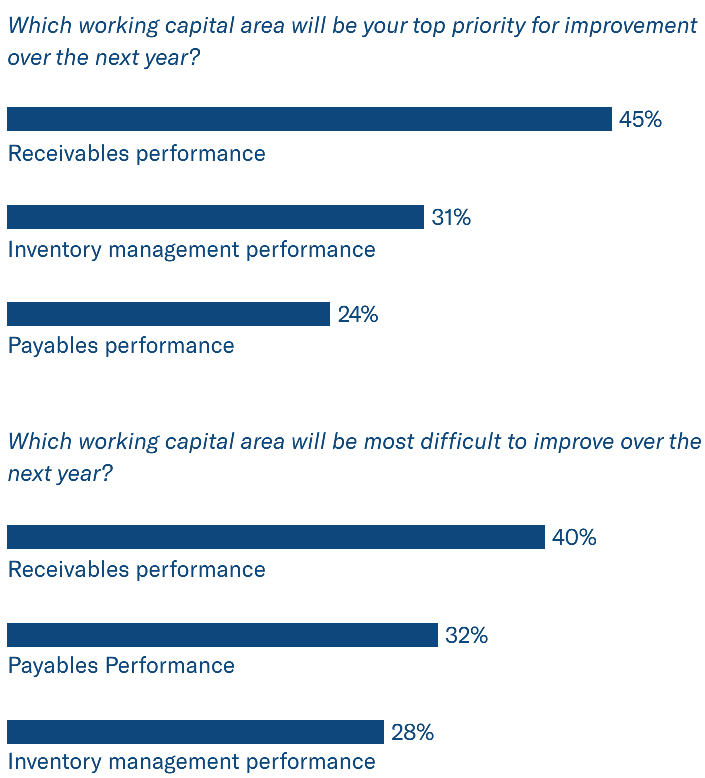
Survey results are clear: cash and working capital management will be a primary focus for finance teams at healthcare suppliers in the coming year. The vast majority of survey respondents—88%—confirm that pressure on their finance teams to improve cash and working capital performance is likely to increase over the next year, compared with last year. (Forty-five percent of respondents say this pressure is likely to increase "substantially.")

The prospect of further interest rate increases, in an environment of already scarce and often costly financing, are contributing to the pressure. Eighty-nine percent of survey respondents (35% "strongly"; 54% "somewhat") say their teams expect to spend "much more time and attention" on cash and working capital performance due to rising interest rates.

At the same time, executives not only recognize that cash and working capital improvement can free up cash to help achieve business objectives—they view working capital improvement as essential to their companies' growth plans. Fully 98% of respondents (38% "strongly"; 60% "somewhat") agree that their companies are "counting on" improving their cash and working capital positions over the next year to fund "critical growth initiatives."

Among the three major business activities influencing cash and working capital performance—the receivables/order-to-cash process, payables/procure-to-pay process, and inventory management-related activities—healthcare suppliers are most keen on improving receivables/order-to-cash improvement. But they also confirm that receivables/order-to-cash is the most difficult working capital area to improve. (See Figure 1.)

**Figure 1. Improving receivables performance will be a top priority over the next year—and the most difficult working capital area to improve.**




Source: Institutional Investor Custom Research Lab

This interest in improving receivables performance—and respondents' awareness of the challenges involved—are particularly understandable since order-to-cash improvement often rests on companies' ability to influence their customers' timing and mode of payment. These customer payment behaviors, by definition, rest outside the four walls of a given healthcare supplier—and outside of the suppliers' direct control. By contrast, procure-to-pay processes are more amenable to internal attention and control. Furthermore, inventory-related performance has been broadly supported in recent years by advances in predictive analytics and other technology improvements. These technology changes are, in turn, yielding improvement in the demand- and sales-forecasting activities that contribute heavily to inventory management capabilities.

## Healthcare suppliers' difficulties with customer payments encompasses much more than extended payment cycles; 69% of respondents say customers often take advantage of payment-related incentives without honoring applicable conditions.

**Intense competition in a buyers' market for healthcare suppliers' goods and services is a prominent source of pressure on receivables performance.**

The task of exerting influence over customers' payment behaviors—challenging in the best of circumstances—has been made more difficult as competition among healthcare suppliers has intensified in recent years. In a highly competitive environment, suppliers believe their customers hold a negotiating advantage and greater leverage with respect to customer payments. Eighty-seven percent of healthcare suppliers confirm that pressure to tolerate longer payment cycles has increased in recent years, and another 83% say that pressure is likely to increase further over the next year. (See Figure 2.)

Could healthcare suppliers relieve some of that burden by passing it down their own supply chains? Many say no. Indeed, more than two-thirds of healthcare suppliers say their customers' leverage over their companies with respect to the timing and mode of payment "far exceeds" the leverage they're able to exert over their own vendors and suppliers.

But healthcare suppliers' difficulties with customer payments encompasses much more than extended payment cycles; respondents also confirm that that their customers often take advantage of payment-related incentives without honoring applicable conditions. Sixty-nine percent of respondents agree that their customers "often" take advantage of the discounts and other financial incentives they offer without fully meeting the contractually agreed terms that should trigger them.

The ultimate impact of buyers' payment behaviors among the healthcare supply base is far from minimal. Indeed, a majority of survey respondents say that their customers' payment behaviors—including the unilateral extension of terms and the practice of taking advantage of incentives without honoring their conditions—is causing meaningful harm to their businesses. Sixty-three percent of respondents agree that unilateral payment-term extensions have become common enough to "meaningfully" hurt their businesses. Meanwhile, 55% of respondents agree that the practice of taking advantage of payment-related incentives without honoring negotiated conditions has also become common enough to cause meaningful business harm.

**Figure 2. Fierce competition among healthcare suppliers is reducing their ability to influence their customers' payment behaviors.** *Percentage of respondents agreeing with each statement*

**87%** "Pressure on my company to tolerate longer payment cycles has increased over the past five years."

**83%** "Pressure on my company to tolerate longer payment cycles is likely to increase over the next year."

**64%** "Our customers' leverage over my company with respect to the timing and mode of payment far exceeds the leverage we're able to exert over our own vendors and suppliers."

**69%** "Our customers often take advantage of the discounts and other financial incentives we offer without fully meeting the contractually agreed terms that should trigger them."

**86%** "Fierce competition in our industry will make it much more dificult for my company to influence payment behaviors of its customers over the next year."

**86%** "The practice of unilaterally extending payment terms has become common enough among customers to meaningfully hurt our business."

**55%** "The practice of taking advantage of payment-related incentives without honoring negotiated conditions has become common enough among customers to meaningfully hurt our business"

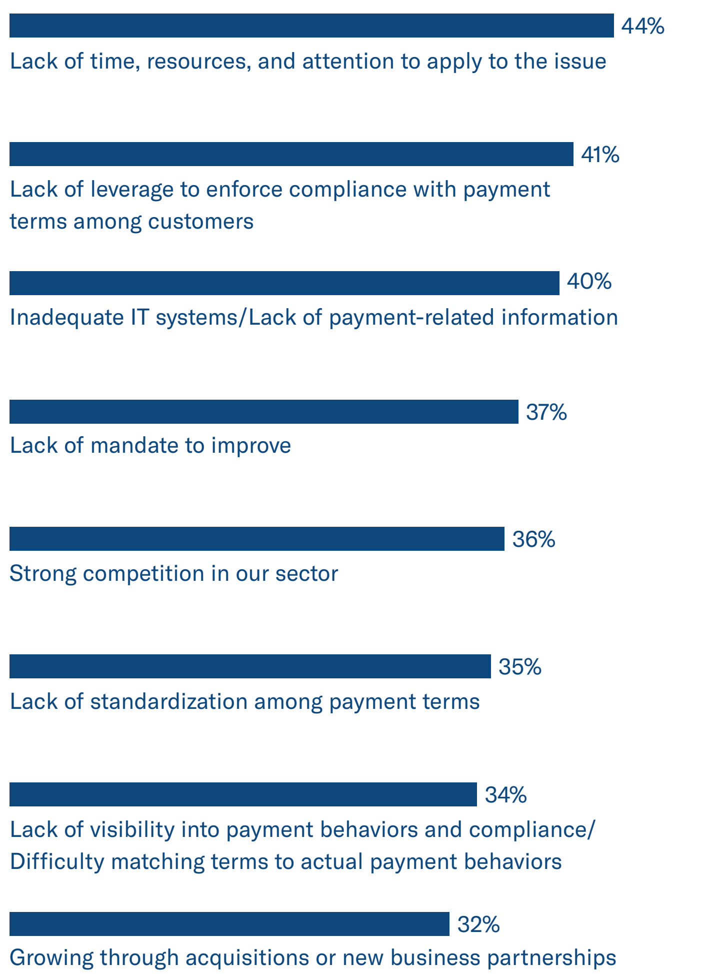
Source: Institutional Investor Custom Research Lab

The difficulty healthcare suppliers encounter in enforcing terms is closely tied to the challenges presented by a lack of automation, resulting in a cloud of hard-copy agreements, paper invoices, and physical checks that is a major barrier to payment-term standardization and reliable contract matching. A lack of automation also decreases visibility into order-to-cash activities.

Looking forward, few respondents anticipate relief from these receivables-related pressures in the coming year. Eighty-six percent of respondents anticipate that “fierce competition” among healthcare suppliers will make it “much more difficult” for their companies to influence the customer payment behaviors over the next year. Top barriers to improving their ability to influence customer payment behaviors—aside from the perennial challenge presented by a lack of time and resources to apply to the issue—include a continued lack of leverage to enforce payment terms with customers, followed by inadequate IT systems and a lack of payment-related automation. (See Figure 3.)

In fact, the difficulty healthcare suppliers encounter in enforcing terms is closely tied to the challenges presented by a lack of automation. Inadequate payment automation—resulting in a cloud of hard-copy agreements, paper invoices, and physical checks—is itself a major barrier to payment-term standardization and reliable contract matching. A lack of automation also decreases visibility into order-to-cash activities, making it more difficult to direct resources toward collections effectively, more challenging to marshal and leverage negotiating power, and more difficult to monitor actual performance against agreed payment terms. But survey results also suggest that many healthcare suppliers are struggling to achieve the degree of automation that would help them achieve their cash and working capital objectives.

**Figure 3. Aside from resource scarcity, top barriers to influencing customer payment behaviors are a lack of leverage to enforce payment terms, followed by lack of automation.** *Percentage of respondents identifying each item as one of their three top barriers to influencing customer payment behaviors*




Source: Institutional Investor Custom Research Lab

**Among healthcare suppliers, the order-to-cash process is under-automated compared with other finance processes and activities. But finance executives recognize that improving order-to-cash automation and eliminating paper would yield meaningful financial benefit for their companies.**

Although automation has an important role to play in improving order-to-cash performance, survey results demonstrate that the order-to-cash process is less automated among healthcare suppliers compared with other finance processes and activities—and may remain so in the absence of finance teams' focused intervention. According to survey results, the order-to-cash process among healthcare suppliers is less likely to be highly automated than other finance processes and activities—including the procure-to-pay process. Order-to-cash is also among the processes least likely to be identified as a high priority for automation in the coming year. (See Figure 4.)

In light of these results, it comes as little surprise that a majority of respondents (58%) say their companies distribute 20% or more of their invoices in paper—and more than three-quarters of respondents (76%) say that fewer than half of the invoices they deliver are paid electronically.

Further examination of the results reveals a relationship between under-automated order-to-cash transaction processes and healthcare suppliers' ability to influence their customers' payment behaviors. The 58 respondents who estimate that their companies distribute 20% or more of all invoices in paper, for example, are far more likely to strongly agree that their customers "often" take advantage of payment-related financial incentives without honoring the agreed triggering conditions. A majority (52%) of respondents distributing more than 20% of invoices in paper strongly agree with this statement, compared with only 7% of respondents delivering fewer than 20% of their invoices in paper. (See Figure 5.) Respondents distributing a larger number of paper invoices are also more likely to agree strongly that customer payment behaviors—including unilateral extension of payment terms and failing to honor terms and conditions—is meaningfully hurting their businesses. Suppliers delivering more paper invoices are also much more likely to say that problems with issuing invoices and receiving payments is costing them resources they need for high-value, customer-relationship-building activities. It can be little wonder, then, that 81% of all respondents confirm that their companies would realize "meaningful financial benefit" if they were to deliver more invoices electronically, and 83% say they would gain a meaningful financial benefit if they could receive more payments electronically.

If eliminating manual processes would yield significant benefits, then why are order-to-cash processes populated with paper at so many healthcare suppliers? Survey results show that key order-to-cash activities, including issuing invoices and receiving payments, are under-automated and under-integrated at a majority (52%) of healthcare suppliers—performed using either spreadsheets/manual processes or loosely integrated point solutions. (See Figure 6.) (Forty-eight percent

**Figure 4. The order-to-cash process is less automated than other finance processes—and is one of the lowest priorities for further automation in the coming year.**

*Percentage of respondents confirming each finance process or activity is "highly automated"*


*Percentage of respondents identifying each finance process or activity among their two highest priorities for automation over the next year*

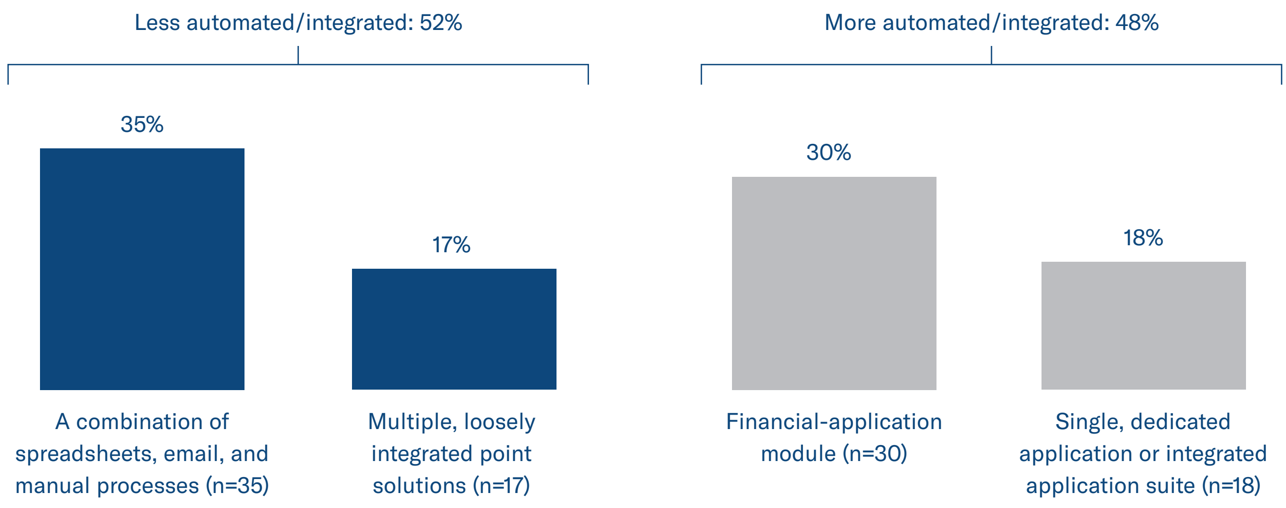

Source: Institutional Investor Custom Research Lab

**Figure 5. Healthcare suppliers distributing more than 20% of their invoices in paper report difficulty with influencing customer payment behaviors much more frequently than their peers—and are much more likely to confirm that this problem is hurting their businesses.** *Percentage of respondents in each segment who agree strongly with each statement*

| | **20% or fewer** invoices distributed in paper (n=42) | **More than 20%** invoices distributed in paper (n=58) | Difference |
|---|---|---|---|
| "Our customers often take advantage of the discounts and other financial incentives we offer without fully meeting the contractually agreed terms that should trigger them." | 7% | 52% | -45% pts |
| "The practice of unilaterally extending payment terms has become common enough among our customers to meaningfully hurt our busines." | 10% | 22% | -12% pts |
| "The practice of taking advantage of payment-related incentives without honoring negotiated conditions has become common enough among our customers to meaningfully hurt our business." | 7% | 22% | -15% pts |
| "Problems related to issuing invoices and receiving payments are costing my company resources that we need for high-value, customer-relationshp activities such as contract negotiation, pricing, and busines collaboration." | 17% | 36% | -19% pts |

Source: Institutional Investor Custom Research Lab

**Figure 6. For a majority of healthcare suppliers, processes tied to receiving payments are under-automated and/or under-integrated.**
*Percentage of respondents using each technology platform to issue invoices and receive payments*




Source: Institutional Investor Custom Research Lab

**Figure 7. Healthcare suppliers employing more highly automated/integrated IT systems to deliver invoices and receive payments are more likely than their peers to confirm that their systems support their objectives.** *Percentage of respondents who say their technology platforms support each activity "very well"*

| | **More automated** (n=48) | **Less automated** (n=51) | Difference |
|---|---|---|---|
| Processing payments accurately and swiftly with a minimum of manual reconciliation | 38% | 16% | +22% pts |
| Delivering invoices accurately and reliably, with a minimum of manual intervention and reconciliation | 38% | 20% | +18% pts |
| Providing visibility to internal stakeholders into invoice-receipt status and preparation for payment | 56% | 39% | +17% pts |
| Gaining end-to-end visibility into order-to-cash performance, including issuing invoices and receiving payments | 44% | 27% | +17% pts |
| Enforcing negotiated payment terms | 35% | 24% | +11% pts |
| Improving the company's cash and working-capital position | 35% | 25% | +10% pts |

Source: Institutional Investor Custom Research Lab

of respondents use single applications/integrated suites or financial-system bolt-ons to execute order-to-cash processes.)

A closer look at survey results again reveals a relationship between higher levels of receivables-related automation and integration and healthcare suppliers' ability to meet their objectives. (See Figure 7.) Not only do results confirm that companies employing higher degrees of automation are more able to execute key order-to-cash processes with a minimum of manual intervention, they also show that more-automated healthcare suppliers believe they're better supported as they pursue broader, more context- and process-dependent activities—including enforcing negotiated payment terms and improving overall working capital performance.

Automating order-to-cash processes doesn't just improve efficiency and boost working capital performance; it can play a key role in improving overall competitiveness. In a business landscape in which customers have the leverage to demand the highest quality goods and services for the lowest possible prices, healthcare suppliers have a substantial incentive to differentiate themselves on service. Order-to-cash improvements are a natural fit with this opportunity.

**In an environment of scarce resources and strong competition, healthcare suppliers seeking to free funds for critical business initiatives by improving their working capital performance are seeking partnerships and technology solutions that will help them pool their negotiating power, standardize and enforce payment-related terms and conditions—and make it easy to do business.**

Survey results clearly show that a lack of automation is making it more difficult for healthcare suppliers to reach their cash and working capital objectives—a problem that's becoming more urgent as persistent uncertainty and rising interest rates dial up the pressure to self-fund crucial growth initiatives. But with limited time and resources to apply to the issue, what kinds of improvements should healthcare suppliers pursue to realize the greatest return for their efforts? The results of this research suggest the following key takeaways:

Partnerships and solutions should help to pool negotiating power, standardize terms and conditions for payment, and automate enforcement. The healthcare suppliers participating in this survey vigorously affirm that their companies are at a disadvantage when negotiating with their customers, making business partnerships and solutions that help to even the playing field a top priority for healthcare suppliers.

Because the time, resources, and attention they can devote to improvement are limited, healthcare suppliers seeking further order-to-cash automation should cast a wide net when evaluating potential solutions. Survey results indicate that further order-to-cash automation is a relatively low priority among many healthcare suppliers. This means that a successful business case for improvement will need to show impressive results quickly, with minimal risk. Rather than making a default decision to bolt additional functionality onto existing financial systems, finance teams seeking to achieve greater order-to-cash automation should evaluate a range of technology options, with particular attention to quick-to-implement, low-risk, cloud-based, best-in-breed systems. By paying close attention to ease of use and functionality, in addition to ease of implementation and integration, suppliers seeking to improve order-to-cash automation can help boost adoption rates and ensure that the potential for financial returns is fully realized, while minimizing the risk of failure.

Healthcare suppliers see particular potential in healthcare supplier networks. Nearly three-quarters of all survey respondents (73%) confirm that "making better use of healthcare-specific supplier networks" would yield a "meaningful" financial benefit to their companies. To get the most from joining a healthcare supplier network, participation is an important consideration—but suppliers can also benefit by enrolling in a network that removes transaction-related friction to speed payment, and also helps them to achieve other important goals, including pooling negotiating leverage and improving the standardization and enforcement of payment terms and conditions.

Automating order-to-cash processes doesn't just improve efficiency and boost working capital performance; it can play a key role in improving overall competitiveness. In a business landscape in which customers have the leverage to demand the highest quality goods and services for the lowest possible prices, healthcare suppliers have a substantial incentive to differentiate themselves on service. Order-to-cash improvements are a natural fit with the broader imperative to become easier to do business with—that is, to smooth away any friction that might arise in the course of placing and filling orders, delivering goods and services, issuing invoices and making payments, and resolving disputes. Indeed, an overwhelming majority of respondents—96%—expect it will become more important for their companies to be "easy to do business with" in order to "maintain and extend their competitive positions" over the next year.

# Sponsor's Statement

As the U.S. healthcare system faces sustained uncertainty, healthcare finance executives remain steadfast in their efforts to streamline operations and drive out unnecessary costs. Since 2000, Louisville, Colorado-based Global Healthcare Exchange, LLC (GHX) has been helping them achieve this mission by maximizing automation, efficiency, and accuracy of business processes.

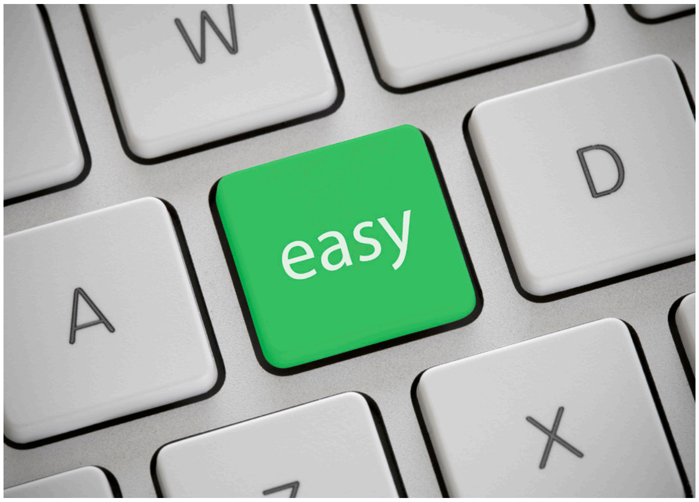
GHX commissioned this inaugural research, Driving Performance Through Automation, to explore the growing financial pressures on healthcare suppliers today. Increasingly squeezed by competition, finance executives must improve cash and working-capital performance to fund critical growth initiatives at their companies.

GHX has built the largest community of healthcare supply chain trading partners by connecting supply chain, finance, and clinical professionals with suppliers and partners. The company's pioneering cloud-based technology and services offer the healthcare industry an open and neutral electronic trading exchange that delivers procurement, contract management, order lifecycle management, vendor credentialing and compliance, business intelligence, invoice and payment automation, and other supply chain-related tools and services. Since 2010, GHX has helped its customers realize more than $8 billion in savings.

In mid-2016, GHX acquired an automated payment solution to improve the way business is transacted between providers (hospitals and health systems) and suppliers. GHX ePay completes the payment side of GHX's extensive solutions portfolio. By automating the labor-intensive process of manual payments and helping ensure timely, secure payment to vendors, GHX ePay maximizes operational efficiency and financial returns for the various parties in the supply chain. It provides suppliers with greater choice, control and predictability in the payment process.

GHX's ePay and invoice management solutions support the growth in the ePayables marketplace. According to Bank of America Merrill Lynch, the industry has seen 85 percent growth since 2005 and continues to grow 17 percent annually. While the healthcare industry has been slow to adapt, that is changing.

The principal driver of this growth is cost. A survey conducted by RPMG Research showed the savings of an electronic transaction compared to a paper invoice is $22. If a company processes 50,000 invoices a month, as many Fortune 500 companies do, ePayable technology could result in savings of $1.1 million monthly.




As this study shows, finance professionals are demanding automated invoice and payment options that remove manual processes.

As the Institutional Investor study shows, forward-thinking finance professionals are embracing, even demanding, new automated invoice and payment options that remove manual processes, paper invoices and paper checks, and unpredictable credit card fees, while improving accounts receivable performance through expedited payment and a guaranteed average DSO. GHX is proud to sponsor this study as part of its continuing effort to serve its healthcare customers and help them achieve their financial goals.

For more information, visit www.ghx.com and The Healthcare Hub.

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# About This Report

This report is based on a survey of 100 senior finance decision-makers working for healthcare suppliers in North America. The survey was conducted in late February and early March 2017 by Institutional Investor Custom Research Lab, in collaboration with GHX.

The demographic profile of survey respondents is as follows:

**Title**

| | |
|---|---|
| Chief financial officer | 9% |
| EVP or SVP of finance | 6% |
| VP of finance | 15% |
| Controller | 8% |
| Treasurer | 3% |
| Director of finance | 27% |
| Head of accounts receivable (or equivalent) | 12% |
| Senior manager, accounts receivable (or equivalent) | 20% |

**Business**

| | |
|---|---|
| Medical equipment/therapeutic device manufacturing and/or distribution | 44% |
| Pharmaceutical | 40% |
| Other health care equipment or service provider, manufacturer, and/or distributor | 10% |
| Laboratory/diagnostic services | 6% |

**Annual revenue**

| | |
|---|---|
| $250 million to $500 million | 18% |
| $500 million to $1 billion | 7% |
| $1 billion to $5 billion | 32% |
| $5 billion to $10 billion | 16% |
| $10 billion or more | 27% |

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Institutional Investor
1120 Avenue of the Americas, 6th Floor
New York, NY 10036

InstitutionalInvestor.com