

ARTICLE

Next-generation ERP: What's needed for the new era of healthcare operations

ERP processes and systems need to be agile enough to support high-quality, affordable care in this new era of healthcare delivery.

<https://www.chartis.com/insights/next-generation-erp-whats-needed-new-era-healthcare-operations>

Health systems are under tremendous pressure, and outdated enterprise resource planning (ERP) systems' technical debt is a growing weight constraining their agility to address the most pressing challenges.

The patchwork of disparate supply chain, human capital management (HCM), and finance systems and processes are preventing health systems from having the information they need to make data-driven decisions in real time. Meanwhile, these aging, highly customized on-premises ERP products are also preventing health systems from realizing the agility, innovation, and cost reduction required in today's environment.

To thrive in this new era of constant change, health systems need advancements that the new generation of cloud-based ERP systems can provide. These advances include:

- Supply chain digitization, a clinically integrated supply chain, and real-time inventory management
- Artificial intelligence (AI)-enabled finance processes
- Mobile workforce management, employee self-service, behavioral analytics, and talent science

Cloud-based ERP systems can provide them all in a single integrated platform. Health systems that continue to invest in their old platforms are merely paying interest on technical debt. Staying with outdated ERP technology may be costly, putting health systems at a deeper disadvantage as other market players position for agility. In fact, we estimate that more than 50% of the U.S. News & World Report Best Hospitals have made a move to cloud ERP.¹

The time is right for health systems to prioritize their ERP strategies and adopt next-generation ERP systems for operational and strategic gain.

"The time is right for health systems to evaluate their ERP strategies and consider next-generation ERP systems for operational and strategic gain."

New ERP technology enables a single, integrated platform and source of truth

For the past two decades, health systems have been focused on implementing and optimizing their electronic health record (EHR) systems. While focusing on clinical imperatives was critical, ERP took a back seat in many organizations.

During that time, ERP vendors were significantly investing and innovating to develop next-generation, cloud-based ERP platforms—with a full spectrum of healthcare operations functionality. These platforms are smarter, faster, and leaner. They can now keep pace with business change, and they have accelerated efforts around AI enablement. Newer technologies are advancing ERPs from back-office solutions to the forefront of digital business operating models. This can reduce the health system's cost of care and improve workforce satisfaction and long-term growth.

As shown below, new cloud-based ERP technology can provide a more efficient and integrated platform, offering strategic business tools that generate a return on investment (ROI). New functionalities include employee self-service, talent science, mobile workforce management, and real-time analytics, among others. They are providing a better experience, supporting more efficient business processes, and transforming the operating model. These functionalities are also enabling enterprise integration with health systems' EHRs to achieve the ultimate goal: a centralized information platform and single source of truth across the organization.

New functionality delivers measurable results

Financial management

Automation, standardization, and agility

- Close process timeliness
- Cost of processing supplier invoices/payments
- Discount maximization
- Time managing cash
- Productivity for expense reimbursement
- Compliance with corporate travel policy
- Time and expense visibility and analytics

Human capital management

Staff retention and reduced turnover costs

- Recruitment and hiring manager productivity
- Payroll administration and productivity
- Employee onboarding and training costs
- Labor relations, labor/overtime costs
- Acuity-based workforce analytics
- Employee experience and diversity
- Behavioral analytics and talent science
- Employee turnover costs

Supply chain management*Automation, cost controls, and AI tools*

- Supply chain planning productivity
- Material obsolescence and inventory handling costs
- Warehouse team productivity
- Transportation cost reduction
- Maverick spend cost management
- Contract management
- Procurement costs

IT cost management*Technical debt and cost management*

- Hardware/software costs for legacy ERP and third-party applications
- Interfacing and integration staffing (typically internal and sourced labor)
- Licensing, maintenance, and upgrade costs
- Storage costs and data center maintenance
- Costs to scale?

Cost of care*Productivity and integrated cost management*

- Clinically integrated supply chain
- Contingent labor costs
- Direct materials/services spend management
- Materials and patient outcomes best practices and? standardization
- AI and automation
- Actionable insights

Long-term stability and growth*Faster integration and partnership value*

- Speed to market
- Agility
- Decreased implementation time and cost
- Earlier ROI realization and value creation
- Economies of scope and scale

Navigate the journey to drive strategic outcomes

Market shifts and new functionalities have created the need for health system executives to decide not *if* but *when* their organizations will migrate to fully integrated cloud-based ERP systems. In fact, we estimate that more than 50% of hospitals have adopted an integrated ERP system and migrated to the cloud. Health systems' IT leaders can learn from those efforts and set the stage for implementation and long-term success. Essential elements include hard-wiring change and organizational readiness and establishing a deep partnership with operational leadership early on.

KEYS TO SUCCESS INCLUDE:

1. Set a realistic transformation agenda

ERP strategies of early adopters frequently included broad, lengthy, complex, and costly transformation programs that were supported by dozens of on-site consultants. This model is becoming obsolete. Vendors now have rapid-cycle implementations, requiring precise project and change management and attention to achieving milestones.

With scope creep and over-ambitious transformation agendas, projects can turn into never-ending cycles with dramatic cost overruns and delays in achieving benefits. Leaders must make sure their plans are clear on the key components that would move the needle the most. Otherwise, projects frequently try to achieve too many things. This leads to missed deadlines and increased cost.

Effectively strategizing and planning for ERP up front is critical. Leaders must clearly delineate the cost, value, and reasonable pace of change to advance the health system's strategic objectives. Leaders also need to ensure strong project management and conduct periodic in-flight reviews to monitor project health and provide opportunities to course-correct as needed.

2. Establish a compelling business case and measurable ROI

Many organizations struggled when they had not outlined in a business case the costs, expectations, and expected benefits for the ERP program. Identifying and achieving benefits is a key component that separates successful implementations from unsuccessful ones.

Developing a well-defined business case with key performance indicators (KPIs) and clear benefit owners before implementation sets realistic goals and ensures that executives and key stakeholders are aligned on expectations. ROI is a major driver for ERP implementation. Organizations should delineate up front benefits like labor productivity savings, financial management efficiencies, and supply chain productivity and cost

reductions—as well as accountability for achieving them. Organizations can use a dashboard-driven project management approach that encompasses vendor and technical partner management, organizational readiness, and benefits tracking to accelerate ROI.

3. Prioritize business process strategy

The opportunity to replace highly customized processes with proven, best-practice processes is a major change to how organizations have historically implemented ERP. Healthcare organizations that don't take the time up front to develop a clear future-state business process strategy and plan find themselves with limited or missing functionality after go-live, along with user pushback to adopting the new system.

Workflow analysis and redesign are required to take maximum advantage of new functionalities. Given the number of processes across finance, supply chain, and HR, healthcare organizations need to identify and prioritize key processes and benefits up front. Organizations should ensure operational alignment with those decisions and then target redesign to high-value business processes that will move the needle. Examples include real-time inventory management; workflow-driven onboarding and offboarding processes; and a streamlined, AI-enabled financial close process.

4. Disciplined change management to drive actual and sustainable change

ERP implementations require the entire organization to work together to bring about transformational change. This journey goes beyond technology and impacts people, processes, and systems. Without disciplined change management, it's easy to revert to old processes and workarounds, undermining the transformative value of the new technology. Organizations that don't focus on change management experience internal resistance, which can impede adoption and intended benefits.

A disciplined change management program should center on organizational readiness and include a strong communication plan, workflow impact analysis, and end-user training strategy. Ensuring alignment across the organization and articulating the case for change is imperative. Equally important, organizations should prepare impacted areas for the changes in processes and technology. Organizations should involve and inform key stakeholder groups early and often to build trust and cultivate transparency at all levels. Meeting people where they are and leveraging the trusted relationships built across the organization will accelerate adoption and benefits achievement.

The time to transition is now

Health systems' patchwork of disparate business operation systems and processes is preventing them from having the information they need for real-time, data-driven decision-making. Given the significant advancements in next-generation cloud-based ERP systems, the opportunity for operational and strategic gain is tremendous. Holding onto outdated systems may be costly.

The question for health systems should be *when*, not *if*, they will make the transition. When done right, new ERP functionality can drive substantial value. It can produce efficiency gains and lower costs across finance, supply chain, and human capital management. Ultimately, it will reduce the health system's cost of care and improve workforce satisfaction and long-term growth.

Sources

1 Chartis analysis of client and market data.

Avoid the Pitfalls: Start with this Preflight Checklist

ERP Preflight Checklist

Our services

STRATEGIC TRANSFORMATION

PERFORMANCE TRANSFORMATION

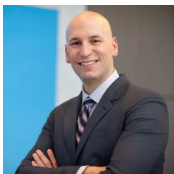
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