



MONTEFIORE MEDICAL CENTER

SAP BUSINESS TRANSFORMATION STUDY

AT A GLANCE

Industry	Healthcare
Revenue	US\$2.2 billion
Employees	13,000
Location	New York City
Web Site	www.montefiore.org
SAP® Solution and Services	SAP® ERP application
Implementation Partner	SAP

With more than 70,000 admissions per year, Montefiore Medical Center is one of the largest healthcare institutions in the United States and the dominant hospital in the Bronx borough of New York City, where it has two major campuses, 29 outpatient centers, a home healthcare agency, two nursing homes, and a growing number of community offices.

Key Challenges

- Continue providing top-quality healthcare
- Remain profitable despite declining rates, rising costs, and ever-stricter regulations
- Take control of material-purchasing decisions
- Provide the information needed for smarter ordering
- Reduce process times throughout the supplies replenishment cycle

Why SAP Was Selected

- Superior architecture and underlying software engine
- Commitment to the healthcare industry
- Willingness to customize software to meet exacting specifications
- Caliber of the talent dedicated to implementation

Implementation Best Practices

- Worked closely with SAP to perform customization
- Obtained strong executive-level commitment
- Made almost all key decisions within 24 hours
- Conducted formal training for users
- Insisted on compliance with new purchasing practices

Low Total Cost of Ownership

- Completed implementation within 7.5 months
- Reduced IT staff from 12 to 10 over a decade while revenues doubled

Financial and Strategic Benefits

- Achieved payback within 3 years
- Reduced annual equipment and supply costs by millions of dollars
- Virtually eliminated maverick ordering
- Improved supply-item tracking for better negotiating
- Secured accurate information for decision making
- Continuously improved processes via balanced scorecard
- Freed up doctors and nurses to spend time with patients

Operational Benefits

Key Performance Indicator	Impact
Material cost savings over 10 years	US\$72 million
Reduction in supply chain management costs*	US\$4-6 million
Purchase order cycle time**	-95.8%
Delivery-to-payment cycle time	-99.4%
Item replenishment cycle time	-96.1%
Annual material cost savings***	Varies up to 65%
Compliance with preferred vendor and contract terms	80%
Inventory turns****	50%

* For the first year

** Reduced from 24 days in 1996 to 1 day currently

*** Via supplier aggregation and rationalization

**** Increased from 12 to 18 (turns) per year, equaling 50%





“Regulations are placing enormous pressures on revenues and profitability in the healthcare industry. With SAP software in place, we view this as an opportunity to outpace our competitors.”

Charles Agins, Vice President of Finance, Montefiore Medical Center

“We want to transform Montefiore into a knowledge-based, flexible work culture focused on best practices and process orientation. SAP software provides the information that’s vital for making it work.”

Charles Agins, Vice President of Finance, Montefiore Medical Center

Taking Control of Purchasing Decisions with SAP® Software

In 1996 Montefiore Medical Center was suffering from the same economic pressures – rapidly rising costs, tough government regulations, and declining income – that were driving other hospitals to insolvency. Unlike many, however, Montefiore had the size to reverse the tide by negotiating favorable agreements with vendors and aggregating purchases to command large volume discounts.

It took two dramatic changes for Montefiore to take advantage of its clout as one of the nation’s largest healthcare institutions: a totally revamped culture for making purchases, and software to provide the data required for the new culture to work. Through courage and determination Montefiore’s senior executives completely overhauled the culture, making all purchasing decisions themselves and putting a stop to one-off procurements at low levels that were costing dearly. And by choosing SAP, they implemented the enabling software that provides the information they need and the functionality to use it well. Ten years later, Montefiore has more than US\$72 million in savings to show for its efforts as well as business processes that take minutes or hours instead of days or weeks.

Completing Implementation in Seven Months

When the project began Montefiore had no way to obtain accurate, complete, up-to-date information on inventory levels and material needs. The hospital drafted a 200-page requirements document and approached SAP for a solution. SAP presented its business software and agreed to work with Montefiore to customize it to meet the specification. Montefiore contributed its industry experience and SAP its development expertise, and both organizations assigned top people to the project. Seven intense months later, Montefiore’s implementation went live. In the process, SAP gained insights that it has put to use on behalf of other healthcare institutions.

Saving Millions of Dollars Annually While Slashing Process Times

Immediately the new application began bearing fruit. Using the trustworthy estimates of required volumes from the SAP® software, senior management took control of purchasing and overhauled its processes. They negotiated big discounts from vendors in return for exclusive agreements and used detailed data from SAP software to aggregate orders. Soon Montefiore avoided adding additional costs of US\$18 million a year on drugs, US\$2.8 million over a five year period based on a new contract for copying and printing, and millions more on supplies, cell phones, food and drink – virtually everything the hospital purchased.

The nonmonetary benefits were just as dramatic. Montefiore cut its time to issue purchase orders by more than 95%, time to make payments by more than 99%, and supplies replenishment time by more than 96%. Medical professionals, relieved of responsibility to order supplies, have more time for patients, improving the quality of the healthcare Montefiore provides. The project even achieved a reward of another kind: its architects received a Smithsonian Award for Innovation in Healthcare.

Turning Ongoing Pressures into a Competitive Advantage

Now in its second decade with the SAP ERP application, Montefiore has many plans for achieving additional benefits. An upgrade to the application is underway, and human capital management is next. Financial pressures and new regulations continue to plague the healthcare industry, but Montefiore welcomes them all. With all its process and software armaments, it feels the effects to a lesser degree than other hospitals and therefore has a distinct advantage in a highly competitive field.