



AMERIHEALTH MERCY

COST ALLOCATION HELPS MANAGED-CARE PROVIDER MANAGE GROWTH

QUICK FACTS

Industry
Healthcare

Revenue
US\$2.9 billion

Employees
2,500

Headquarters
Philadelphia

Web Site
www.amerihhealthmercy.com

SAP® Solutions and Services
Activity-based costing with the SAP® BusinessObjects™ Profitability and Cost Management application

The AmeriHealth Mercy Family of Companies is the largest Medicaid managed-care organization in the United States. As the company enters new markets and launches new services, it needs a better way to allocate costs and make informed pricing decisions. With the SAP® BusinessObjects™ Profitability and Cost Management application, the company gains a better understanding of the factors that impact organizational costs and profits.

Key Challenges

- Support growing portfolio of service offerings
- Allocate accurate cost data to internal and external customers
- Determine true costs of business processes
- Improve margins by pinpointing problem areas
- Help business leaders set competitive prices that support profitability goals
- Increase frequency and accuracy of cost reports

Implementation Best Practices

- Completed planning and deployment phases in short, 2-week period
- Completed application testing and stabilization over an additional 4 weeks
- Focused training efforts on power users
- Streamlined implementation by using prebuilt definitions for cost activity

Financial and Strategic Benefits

- Improved profitability by identifying and reporting cost variances
- Met customer demands for more transparent cost analysis
- Identified services that were priced too far above or below actual costs
- Used accurate cost data to enable better decision making and faster analysis

Why SAP Was Selected

- Leadership position in market for activity-based costing software
- Robust functionality of application
- Flexibility to accommodate internal cost allocations
- Self-explanatory software that allows users to analyze costs and produce reports with minimal IT support

Low Total Cost of Ownership

- Met overall 6-week implementation schedule
- Replaced labor-intensive, error-prone costing processes
- Avoided expense of hiring additional analytical support staff

Operational Benefits

- Improved the accuracy of requests for proposals
- Helped reduce claims processing costs by 10%
- Provided key data analysis for the pharmacy business, helping boost revenue by 20%
- Improved budgeting by supplying accurate cost forecasts to senior management
- Significantly improved the timeliness and accuracy of quarterly cost reports
- Improved contract renegotiations due to a better understanding of specific customer costs

“We can now do powerful cost analysis very quickly. As a result, we’re able to give our business leaders the information they need to make better decisions about pricing and process improvement.”

Jim Shoemaker, Director, Corporate Financial Planning and Analysis, AmeriHealth Mercy Family of Companies

Making a Diagnosis

The AmeriHealth Mercy Family of Companies provides healthcare services to more than 6.5 million people. In addition to managed care, the company provides administrative services such as claims processing and call center management, as well as pharmacy benefit management services.

As the company’s service portfolio became more complex, cost allocation became more difficult. The company relied on a laborious, spreadsheet-based process that allocated costs to each regional office or customer. The process was prone to errors; worse, it couldn’t be completed until two months after a quarterly closing. To get a better picture of the cost of doing business, financial leaders needed to understand the variables associated with providing a specific service to a specific customer. “When we started providing varied services to customers and affiliates, we had to find a way of allocating costs more accurately,” says Jim Shoemaker, director of corporate financial planning and analysis. “It was hard to have a conversation about prices when we didn’t really know how much it cost to service that customer.”

Taking an X-ray of Costs

To gain a more accurate picture of costs – and provide the data needed to optimize prices – the AmeriHealth Mercy Family of Companies implemented the SAP® BusinessObjects™ Profitability and Cost Management application. The software helps companies measure

costs and profits across products, customers, and channels using activity-based costing methodologies. (Activity-based costing assigns costs to products or services based on the corporate resources used to produce them.) The company chose the application because of its versatility, ease of use, and ability to accommodate preexisting business activity definitions.

Shortly after implementation, the AmeriHealth Mercy Family of Companies used the software to evaluate its claims processing activities. By breaking claims processing down into a series of steps such as receiving, processing, auditing, and reworking – and then allocating a portion of overall corporate costs to each step – the company uncovered a wide range of variables. “We can now see the drivers that impact costs much more clearly,” says Shoemaker, “and we’ve been able to reduce the cost to process a claim year after year, resulting in a 10% savings in administrative costs.” The savings have stemmed from making greater use of automated claims processing services and subsequent staff reassignments.

Improving the Prognosis for Profitability

Accurate cost data helps the company renegotiate contracts, price new services, and create more accurate requests for proposal. The company can now give detailed explanations about why certain services have relatively high or low prices, and can also suggest ways for customers to cut costs. For example, when customers use electronic claims

submission or automatic claims adjudication instead of manual processing, prices can be adjusted accordingly. Equally important, precise cost information helps the company assess the profitability of each customer so that prices can be realigned and margins improved. This improved insight is being used by the company’s PerformRx (pharmacy benefit management program) business, which has experienced a 20% growth in revenues.

Activity-based costing also helps the AmeriHealth Mercy Family of Companies improve auditing and reporting. Preparation time for quarterly reports has decreased from months to weeks, and the annual budget has been improved through the use of more accurate cost forecasts. “SAP BusinessObjects software gives us a much better understanding about what impacts our costs,” says Shoemaker. “That results in faster analysis and better decision making.”

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