

AmerisourceBergen Corporation Case Study

Business Challenge

As a major distributor in the pharmaceutical industry and as a comprehensive pharmaceutical services provider, AmerisourceBergen Corporation has several relationships with manufacturers, pharmacies, and hospitals. In addition, the company manages distribution of both brand-name and generic drugs. AmerisourceBergen is challenged not only with the complexities of contract and relationship management with its many manufacturers and customers, but also by challenges associated with physical distribution and inventory management.

While managing the contract and pricing details associated with each of its many relationships is people-intensive and time-consuming, it is critical to the company's bottom-line profitability.

To address these challenges, AmerisourceBergen has implemented BPM enterprise-wide to enable processes such as contracts management and chargeback, AP vendor reconciliation, pro-generics competitive pricing and the quote-to-contract lifecycle. This year, as part of the company's broader business transformation initiative, AmerisourceBergen replaced its legacy system with SAP, and used BPM to create six new processes, including PO reconciliation and variance resolution. Variance resolution, which is unique to the pharmaceutical industry and critical for ensuring AmerisourceBergen's compliance with strict regulatory mandates, including FDA and DEA, is not provided by SAP. These processes will integrate with SAP and provide users with a seamless, one-stop shop experience. These and other implementations have enabled AmerisourceBergen to

- Establish more efficient and accurate tracking capabilities
- Significantly reduce chargeback disputes
- Improve transaction transparency and improve supplier collaboration
- Realize millions of dollars in recurring cost savings
- Empower more process-centric thinking across multiple departments
- Enable variance resolution to expedite credits and returns across partners, customers, and suppliers
- Establish Process Center of Excellence

To remain successful in this highly competitive market, AmerisourceBergen needs to be constantly improving, changing, and innovating.

To this end, AmerisourceBergen invests significantly and continuously in technology to extract strategic, financial, competitive, and productivity dividends. BPM is an integral tool in the company's arsenal. One area in which the company has benefitted from BPM innovations is with contracts and chargebacks. This process drives the establishment of pricing and terms with each of the company's manufacturers and then controls compliance with pricing terms and payment of rebates from the manufacturer if the company is forced to sell at a lower price to compete. The process represents a cash flow of approximately \$10 billion a year – and any disputes or inaccurate pricing data result in costly delays in getting the refunds the company is owed.

Due to frequently shifting business conditions, contract prices fluctuate. When they do, both the distributor and manufacturer need to analyze these changes and validate them against business rules. Traditionally in the industry, communications and record tracking required between manufacturers and distributors have been largely manual – with a heavy reliance on email, telephone, fax, and postal mail – resulting in costly inefficiencies and inaccurate information.

Project Start

In July 2005, AmerisourceBergen commenced a pilot BPM project. Following the success of that project, the company recognized that BPM could be leveraged across other areas of the business to solve similar business challenges. This led AmerisourceBergen to expand to an enterprise-wide BPM deployment in January 2006. In 2010, the company again extended its BPM deployment to interface with SAP.

As previously mentioned, this year AmerisourceBergen began migrating its legacy systems to SAP and is using BPM to create six new processes that extend and augment SAP's capabilities around managing and automating critical processes within SAP. For example, SAP does not offer a variance resolution process, so AmerisourceBergen is using BPM to bring out all variances in its SAP system (i.e., variance between PO and invoice). Variances are identified in SAP and then passed to BPM, which resolves the variance, matches the credit, and sends it back to SAP (more than 1.2 million credits, including manual, 812 (EDI), and paper, come into BPM for matching purposes each month). This cyclic process is seamless to users and allows AmerisourceBergen to achieve its goal of ensuring a "one-stop shop" experience for users. Additional processes created in BPM that will interface with SAP include drop ship invoices, PO reconciliation, all returns (including factoring) and associated credits, indirect expenses and invoices, and AP indexing and processing.

Executive sponsorship is integral to BPM at AmerisourceBergen and is department-driven. When executing a proof of concept for new implementations, executive sponsorship is provided by the department heads, with most BPM projects funded on a departmental basis.

To date, AmerisourceBergen has implemented BPM enterprise-wide and has over 3,000 users (including subsidiaries) and over 200 processes automated. Return on Investment (ROI) in terms of hard dollars is achieved in as little as three months after each process going live.

ROI Business Value

AmerisourceBergen built a business case to justify implementing BPM – focusing on the hard dollar benefits the company would realize in the form of lower headcount, fewer disputes, and more accurate pricing information as well as soft benefits such as faster processing of price changes and better supplier and customer relationships. The company recognized that in addition to the initial pilot projects, many critical business processes would likely become BPM projects in the future. This made the business case for investing in BPM technology even stronger, as it would be a technology that could be extended and leveraged across other areas of the business.

The success of AmerisourceBergen's project and ROI generated by using BPM helped establish a strong business case for expanding the use of BPM to other areas of the business. The company held workshops to educate other departments about the value of BPM and helped them identify potential "process" candidates for use of the technology. Out of this effort, many additional processes were identified as candidates for BPM, underscoring the need for and value of an enterprise-wide deployment.

The use of BPM has resulted in significant, recurring cost savings and long-term competitive advantage for AmerisourceBergen. Company officials believe that the effective implementation of BPM software is essential to achieving real-time communications of contract, pricing, and membership updates between its trading partners, and, most importantly, it directly impacts AmerisourceBergen's bottom line.

With Metastorm, AmerisourceBergen has successfully adapted a strategy where new BPM implementations occur in less than 12 weeks. Moreover, removing repetitive and tedious paper-based processes that suffered from high error and rework rates was seen as a positive improvement by staff.

Cost Savings

As part of the business case for BPM at AmerisourceBergen, the company focused on hard dollar benefits in terms of

- Lower headcount.
- Fewer disputes.
- More accurate pricing.

BPM delivers significant cost savings to AmerisourceBergen. Total benefits across the enterprise are tens of millions of dollars each year. As mentioned previously, ROI is achieved in as little as three months after each process going live.

Time Reductions

BPM provides AmerisourceBergen with

- Faster turn-around times realization.
- More efficient and accurate record tracking.
- Contract changes are loaded in minutes, rather than hours.
- The ability to effectively balance resources.

Increased Revenues

BPM is enabling AmerisourceBergen to increase revenues in several areas. For example, automating the accounts payable process has improved reconciliations from 20% a month to 70% a month – thus driving significant revenue growth for that department.

Productivity Improvements

Examples of productivity improvements at AmerisourceBergen include

- Greater transaction transparency.
- Increased management visibility into key performance indicators.
- An online audit trail of all activities.
- Improved accuracy.
- Increased accountability on the part of employees.
- Streamlined work allocations.

Project Team and Type of Business Staff

AmerisourceBergen's BPM projects are collaborative efforts with business and IT. Both business and technical participants comprised the project team, and primarily included the Accounts Payable department – from the VP of Accounts Payable to Data Entry operators. The implementation team was comprised of four members.

Executive sponsorship is integral to BPM at AmerisourceBergen and is department-driven. When executing a proof of concept for new implementations, executive sponsorship is provided by the department heads. For example, all processes built for the contracts and chargebacks were sponsored by the vice president of that area.

BPM has quickly become a priority at AmerisourceBergen to improve internal productivity. The company saw the advantage of creating a Process Center of Excellence, comprised of key business and IT people who assess processes, help with business case development, and oversee BPM projects to ensure they are successful. The Center of Excellence focuses on the following business and IT drivers:

Business Drivers

BPM can deliver extremely efficient ROI if the business and IT organizations work together. Process capital residing in individual business units can vary from company to company.

IT Drivers

Scalable and cost-effective server infrastructure.
Create re-usable integration components and BPM libraries.
Develop in-house product implementation expertise.

In creating a business case for BPM and the Center of Excellence, the BPM team held multiple classroom and WebEx sessions to demonstrate benefits of BPM technology. Attendees were surveyed to identify business processes that would benefit from a BPM effort, then the team analyzed results to prioritize those that would generate the biggest and fastest return on investment.

Methodologies Used

The Center of Excellence team at AmerisourceBergen ensures that BPM is entrenched in the fabric of AmerisourceBergen. Over 200 processes have now been deployed enterprise-wide.

The implementation team uses a modified version of the Software Development Life-Cycle as its methodology as well as Agile and Iterative development lifecycle. This enables them to categorize and prioritize projects, conduct iterative and rapid development, build reusable components, effectively involve the business, and provide a 30-day warranty as a “cushion” for their implementations.

KPIs are built around processes to measure productivity and are defined on a departmental basis. These KPIs enable the company to continually refine and optimize its processes. The business and process owners determine the appropriate KPIs to monitor and measure for their respective department, with IT providing input and ultimately executing on the directive.

One of the largest contributors to AmerisourceBergen’s ability to achieve success in its BPM efforts has been its focus and emphasis – from the outset – on scoping 3-month deliverables and milestones for every BPM project, with defined metrics to ensure they are consistently delivering ROI and adding value to the business. Now, AmerisourceBergen has a mature Process Center of Excellence in place to govern BPM projects corporate-wide and maintain a constant focus on KPIs. It is this focus on KPIs and its emphasis on applying BPM to mission-critical, core business processes that has enabled AmerisourceBergen to track millions of dollars in recurring savings across several of its BPM projects.

Technology or Software Used

AmerisourceBergen uses the Metastorm BPM Suite for its business process initiatives. The company selected Metastorm because the suite provides a platform for categorizing and prioritizing projects, building reusable components, and conducting iterative and rapid development in an agile framework – all of which were high priorities for the implementation team. The company has over 250 processes deployed on Metastorm BPM and recently extended its implementation to interface with SAP, and has so far created six new processes in Metastorm that will seamlessly integrate with SAP to deliver a one-stop shop experience for users.

AmerisourceBergen’s BPM implementations are decentralized. Each business unit has its own BPM program, with its own application server and repository. Since the company is working in a decentralized manner, it is important that the implementations align with this structure. The greatest advantage of this structure is ease in upgrading a process as only the department that is upgrading to a new release is impacted. The rest of the departments can work normally and without disruption.

All implementations run on Windows servers. In addition, the product architecture satisfies both business and information technology requirements for AmerisourceBergen

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Components used in the deployments include:

- Microsoft World
- Active PDF Server
- Rich Text Editing
- Spell check
- FTP .NET Assembly

This flexibility in components is important. For example, in many cases AmerisourceBergen needs to send claims documents to suppliers in non-editable PDF form, whereas in other processes, it is important to offer the option for users to edit matters using rich text editing.

The ability to build reusable components was one of AmerisourceBergen's primary goals in deploying BPM. Metastorm BPM allows easy reuse of, and collaboration around, process knowledge and documentation.

Lessons Learned

Answer: AmerisourceBergen developed several learning points or best practices based on the lessons it learned from its BPM deployment. When looking at expanding or embarking on new BPM projects within the organization, the company refers to and applies these best practices, which include

- ✓ Establish a COE team with adaptive individuals.
- ✓ Work in a very agile and iterative mode.
- ✓ Build reusable components.
- ✓ Involve the business to ensure alignment.
- ✓ Take advantage of BPM technology.
- ✓ Categorize projects and look for quick wins.

The company also learned the following valuable lessons with regards to the use and deployment of BPM:

- ✗ Use BPM workflows for managing processes, not for transactional systems.
- ✗ *With BPM, responsibilities are divided between IT and Business and the two must work collaboratively in order to build effective processes.*

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