

# Getting Your Money Back

## How to build an ROI for implementing new technology to manage workers' compensation claims

In the May/June 2005 issue of *Public Risk* magazine I wrote an article entitled "Using State of the Art Technology to Maximize Workers' Compensation Claims Outcomes" and briefly touched on developing a Return on Investment (ROI) as cost justification. In this follow up to that article, I am now drilling down into the area of total cost of ownership as it relates to workers' compensation costs; what it is and why it is so important, and provide a detailed model and process for developing a complete ROI for software solutions that is accurate and measurable.

### What is Total Cost of Ownership?

In today's world of ever increasing medical expenses, it is easy to focus only on managing cost containment. This can be a major oversight when an organization is looking at bill review software, claims systems or any other new technology for improving workers' compensation claims costs and outcomes.

It is very important to understand your real "total cost of ownership" or TCO when analyzing a worker's compensation management process. There are often very significant expenses that go beyond the typical comparison of cost per bill, average net bill review savings, or most important, the total cost

of a claim. In many cases these expense elements are only the tip of the iceberg of the real cost a company is experiencing while managing the entire process.

These additional "downstream expenses" need to be identified and quantified before an accurate savings and Return on Investment Analysis can be completed. Without a TCO Analysis a decision could be made on new technology that appears to be cost effective, only to realize later that there is no increased savings or Return on Investment at all.

A few key TCO Analysis considerations include:

- Claims handling productivity and accuracy
- Bill review productivity and accuracy
- Volume of bill review reconsiderations and resources required to handle
- Consumption of claims adjuster time solving reoccurring problems
- Impact on management resources
- Too frequent and prolonged provider complaints
- Poor medical provider relations due to excessive claim and bill review backlog
- The cost of handling excessive phone calls/faxes/e-mails
- Lost time handling paper claim's files

- Cost of paper file storage space

These are just the obvious issues when looking at your real total cost of ownership. Think about office space, IT (voice and data) expense, utilities, labor and benefits. The list can go on and on but these are real expenses related to running the complete business model or as we call it: TCO. And these are costs that can be reduced through improved workflow and new technology.

Another benefit of a thorough TCO Analysis is determining the level of technology integration that makes more sense. For example, does it make more sense to use integrated claims management and bill review software or outsource partially or completely?

Until an owner or manager understands the real total expense of managing their entire enterprise, including all the areas where additional expenses can be reduced or eliminated, a sound decision cannot be made.

### It Starts with Workflow & Integration

Conducting a TCO Analysis and developing a Return on Investment, starts with understanding the theory of workflow and the current and future processes being utilized.

Let's start with some fundamentals. The theory of workflow is based on the principle of "form should follow function." When developing workflow you should first determine the individual functions and build the form around them. The challenge and opportunity in

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## Total Cost of Ownership Analysis Model and ROI Planning

### I. Review current Business Model

- A. Where are you now?
- B. Where do you want to go?
- C. Mission/Vision/Value statements
- D. Business goals
- E. Key strategies

### II. Identify current Workflow Model

- A. Prepare a high-level Process Flow Diagram
  - 1. Clerical
  - 2. Bill review
  - 3. Claims management
  - 4. Adjusters
  - 5. Reconsiderations
- B. Identify key functional areas
  - 1. Prepare detailed Process Flow Diagram
  - 2. Define all steps and procedures within the functional area

### III. Determine current Workflow Model labor expense

- A. Identify labor factors
  - 1. Full time employees (FTE)
    - a) Supervision
    - b) Staff
  - 2. Man/hours
- B. Assign costs
  - 1. Labor rate
  - 2. Salary/hourly
  - 3. Benefits
  - 4. Training

### IV. Determine current Workflow Model fixed expense

- A. Workspace
- B. Equipment
  - 1. Computers
  - 2. Phones
  - 3. Copy machines
  - 4. Other

### V. Determine current Workflow Model other expense

- A. IT and/or Information Systems

### VI. Develop proposed Workflow Model

- A. Outsource option
- B. Software option
  - 1. ASP
  - 2. Onsite install
- C. Combination option
- D. Custom option
- E. Transition option

### VII. Identify proposed Workflow Model

- A. Prepare a high-level Process Flow Diagram
  - 1. Clerical
  - 2. Document management
    - a) Imaging
    - b) OCR
    - c) KFI
    - d) Document storage
    - e) Routing rules
  - 3. Bill review
    - a) Approval process
    - b) Routing rules
  - 4. Claims management
    - a) Claims processing
  - 5. Adjusters
  - 6. Reconsiderations
- B. Identify key functional areas
  - 1. Prepare detailed Process Flow Diagram
  - 2. Define all steps and procedures within the functional area

### VIII. Develop proposed Workflow Model assumptions

- A. Productivity
- B. Accuracy
- C. Labor
- D. Workspace
- E. Equipment
- F. IT

### IX. Determine proposed Workflow Model labor expense

- A. Identify labor factors
  - 1. Full time employees (FTE)
    - a) Supervision
    - b) Staff
  - 2. Man/hours
- B. Assign costs
  - 1. Labor rate
  - 2. Salary/hourly
  - 3. Benefits
  - 4. Training

### X. Determine proposed Workflow Model fixed expense

- A. Workspace
- B. Equipment
  - 1. Computers
  - 2. Phones
  - 3. Copy machines
  - 4. Other

### XI. Determine proposed Workflow Model other expense

- A. IT and/or Information Systems

### XII. Project annual ROI

- A. Productivity
- B. Accuracy
- C. Labor
- D. Workspace
- E. Equipment
- F. IT

### XIII. Establish projected benchmarks and metrics for measuring ROI performance

- A. Productivity
- B. Accuracy
- C. Labor
- D. Workspace
- E. Equipment
- F. IT

### XIV. Prepare ROI Plan

- A. Budgets
- B. Benchmarks
- C. Metrics
- D. Back up plans
- E. Contingency plans

### XV. Monitor actual versus projected ROI benchmarks and metrics

- A. Productivity
- B. Accuracy
- C. Labor
- D. Workspace
- E. Equipment
- F. IT

### XVI. Implement corrective action

- A. Identify trigger points
- B. Implement back up plans
- C. Implement contingency plans

workflow development lies in the process of integrating and connecting the functions.

A logical and efficient work process will point to workflow being part of the solution—or a problem in many cases. Deciding to change workflow is often avoided in organizations because of cultural issues such as “We have always done it that way,” or “If it is not broken, do not fix it.” Implementing new technology requires abandoning these types of cultural attitudes.

One of the ways new technology can most impact workflow is integration. Integration includes electronically connecting all the components of the workers’ compensation process. This includes the claims system, adjusters, nurse case managers, PPO networks, doctors, attorneys and the bill review system. It is through this integration and access to real-time information that you can greatly improve claims management, patient outcomes and cost containment processes.

### **Building a TCO Analysis & ROI**

Making changes in technology and workflow should always be based on a solid TCO Analysis and ROI. This ROI should include both direct and indirect savings. To build a solid justification for an investment into new technology and workflow, you should follow some basic steps.

Begin by fully understanding your current workflow including taking the time to create a Workflow Diagram and document the key processes, work activity and labor costs for each function. Also determine your non-labor costs such as workspace, equipment, materials and any other indirect costs.

Next, define a revised Workflow Model and develop key assumptions for the new workflow, such as revised time for each function and expected labor savings and reductions in other expenses.

Developing assumptions will likely include changes or shifts in labor expense. These shifts will possibly involve adding lower cost functions, such as scanning documents, while reducing the time spent for higher cost functions, such as claims adjuster activity. The net effect should be a reduction in costs.

Once you have determined your new workflow expense you can project the ROI using an annualized spreadsheet. After implementation you should monitor your actual expenses versus your projections and determine if your ROI is being met.

As the new process matures you may need to make adjustments and should continue to monitor the results to ensure you are meeting the total ROI goal.

### **A Road Map & Compass**

We’ve included a detailed outline for conducting a TCO Analysis and developing a measurable ROI Plan. The outline is designed to provide a basic road map.

As with any journey you embark on, a map and compass are only a guide. Along the way you will find and experience many things of importance that may not have been on the map. Take mental pictures or even real ones if you like! Then take your trip notes, analyze them and add them to your TCO Analysis and ROI planning process.

The result will be an even better road map and one tailored specifically to your needs.

While this outline may seem very complex with a great deal of questions to answer and

decisions to make, remember it is designed to facilitate data gathering, analysis and planning. Once the information is collected, many organizations are able to analyze the data internally and determine the best choice of workflow and technology.

Other organizations may choose to select a vendor who will help them develop an appropriate workflow that maximizes the effectiveness of the technology. This type consultative vendor can often also help clients do it all, including the TCO Analysis and develop the ROI Plan.

### **Turning Analysis Planning into Action**

You must be disciplined in completing the TCO Analysis and ROI Plan. If you follow this outline you can be well on your way to determining the right workflow and technology. But this analysis and planning process is only the beginning.

One of the real benefits of a true TCO Analysis and ROI Plan is it becomes the action plan for completing the installation and ongoing management of new technology and workflow. You are able to reference and verify the assumptions, manage expense elements, and monitor benchmarks and metrics throughout the implementation process.

This preplanning focus provides the tools and confidence to adjust and react quickly to changing assumptions and allows you to keep the ROI Plan on track while making process changes as you go. There is no perfect plan, but through complete analysis and planning, including appropriate back up and contingencies, you are ensured to achieve maximum results... and that is what taking action is all about. •



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