

Non-profit organizations don't need to be efficient. True? "No, we must be even more diligent in how we use our money", says Stephen Douglas, Alberta Blue Cross. They are now developing a costing model to help them make more strategic and operational decisions.

"Before Prodacapo, the financial planning process was manual, complex and spreadsheet based."

Stephen Douglas, Manager of Financial Planning and Analysis



More efficient with new costing model

The non-profit health benefit provider Alberta Blue Cross is developing a costing model that allows it to present cost structures and flows based on Activity Based Costing (ABC).

Stephen Douglas, Manager of Financial Planning and Analysis, explains how it all works.

"We have significant shared services and IT infrastructure, supporting a wide variety of products and customers. The cost base is the entire Alberta Blue Cross organization."

By using ABC, Alberta Blue Cross wants to accomplish a better understanding of where their resources end up and to break down costs at a sales level.

"We do a lot of things for our large customers. If we want to maintain certain service levels for certain customers we may need to make adaptations to the pricing. Prodacapo will give us facts about our existing costs so we can make more effective strategic and operational decisions," Mr. Douglas continues.

A NON-PROFIT ORGANIZATION

Alberta Blue Cross provides health benefits for more than 1.6 million residents of Alberta, Canada. Benefits include dental care, prescription drugs, vision and ambulance care, emergency travel and other things that aren't covered by government programs. In 2015, Alberta Blue Cross processed over 52.8 million claim lines with a value exceeding \$2.29 billion CAD.

The company also administers a wide range of government-sponsored programs. For example, the provincial government provides a drug coverage plan to all seniors ages 65 and over.

"Seniors get an Alberta Blue Cross card. We administer all the claims that are submitted on that

plan either through pharmacies or through paper-submitted claims," he continues.

As a not-for-profit organization, Alberta Blue Cross has no built-in profit margins and any financial surplus is reinvested.

"Some people think we don't need to be efficient because we are a non-profit organization, but it is even more important for us to be careful with our dollars. We need to think about the benefits to our customers."

USER FRIENDLY SOLUTION

"Before Prodacapo, the financial planning process was manual, complex and spreadsheet based," Stephen Douglas says.

Together with the need to provide reports to the government, this was the reason to implement ABC with Prodacapo.

"There is more viability to our costing model now. We're actually able to trace and understand our costs. It makes it easier to understand the impact of decisions. Now we can identify and address issues that we have. It is a more complicated model, but on the other hand it facilitates smoother reporting back to our plan sponsors. The information is used by people from Sales, Finance and our business units."

They chose Prodacapo over other software mostly because it is user-friendly.

Stephen Douglas says, "Prodacapo doesn't require any specialization from the users. The models are easy to create, maintain and develop."

THE ALBERTA BLUE CROSS MODEL

Costing experts in Alberta and Frank van Vliet, Prodacapo, guided them when creating the Alberta Blue Cross model.

"Prodacapo doesn't require any specialization from the users. The models are easy to create, maintain and develop." Stephen Douglas, Manager of Financial Planning and Analysis



“We did not develop a standard model and this made us look at different ways of treating costs and adapting to different opportunities which allows us the opportunity to consider options that will affect our bottom line. Options include considering rate changes or product level changes.”

“Also when considering changing the structure of our activities, like going paperless versus mail outs, we can measure the effectiveness of our actions.”

Now they can use Prodacapo to analyze the changes, gain insight into cost savings and look for any adverse cost intakes from the implementation of such changes.

BUDGET AND FORECAST WILL BE NEXT

After six months, Alberta Blue Cross is able to make analyses at the customer level with a better understanding of activities carried out within the organization.

“From now on we will take it a step further and use the data to make more action-based changes to improve our operations.”

In the future, the Prodacapo models could be used to make forecasts before making decisions.

“We are about to introduce some life products and need to be able to understand costs in advance,” Stephen Douglas continues.

Project facts

On-time, within budget and increased scope

The project team consisted of Alberta Blue Cross staff complemented by contractors and Prodacapo consultants. The project started in September 2015 and was completed by the end of the same year, taking four months in total. This was followed by three months of testing and fine-tuning before the system went into operation at the beginning of April 2016. The project was on-time, within budget and the deliverables and scope exceeded the initial request.

THE SCOPE EXTENDED

Initially the focus was to get a good understanding of the indirect product and customer costs. Later, after discussions and understanding Prodacapo's features, the scope was extended with:

- profitability analysis
- tax recovery (sales tax)
- direct cost (claims)
- specific customers instead of customer types only

EXPECTATIONS AND RESULTS

Expectations from implementing ABC

- A better understanding of where their resources end up.
- A better understanding of which products are profitable.
- A better understanding of which (type of) customers are profitable.
- A smoother monthly run to produce tax and profitability reports.

The most important results

- Customer segment profitability
- Customer profitability; Affecting pricing and product specialization

Alberta Blue Cross has gained a better understanding of the costs that are consumed by our customer segments from their supporting business areas. This is very important because of the many supporting business areas that are shared amongst the customer segments.

The business units are held accountable to their contribution margin, which causes them to more actively revisit the activities to assess their effectiveness. The Prodacapo costing model gives key stakeholders of each segment the opportunity to really understand supporting activities and costs required to deliver our products.

With the Prodacapo model, Alberta Blue Cross better understands the true cost of each customer. It gives us better insight into to the client's consumption of costs, while isolating those who have the most or least amount of costs (either monthly, Year to Date or yearly). Consequently, Alberta Blue Cross can respond according to that information.



Prodacapo Headquarters

Vasagatan 36, SE-111 20 Stockholm, Sweden
Tel: +46 8 622 25 00, E-mail: info@prodacapo.com
www.prodacapo.com

www.prodacapo.com

Prodacapo was founded in 1994. We have specialized in software solutions for Strategic Corporate Performance Management. Our headquarters are in Stockholm, Sweden. Our solutions are available from an expanding international network of partners, as well as directly from Prodacapo.