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HEALTHCARE INSURER FIT FOR SUCCESS

Blue Cross and Blue Shield of Montana understands product profitability with SAS®

Industry

Health Insurance

Business Issue

Identify ways to hold down costs while proactively meeting customer needs.

Solution

SAS® Activity-Based Management helps identify costs for more informed decision making.

Benefits

SAS® identifies areas for implementing cost-saving measures and companywide process improvements.

As the state's top healthcare insurer, Blue Cross and Blue Shield of Montana (BCBSMT) has provided five decades of service to Montana residents and businesses as a financially secure, not-for-profit corporation. But recently, changes in the landscape of the health insurance industry have prompted even the most well-established insurers to constantly examine operational costs and product profitability.

"Understanding how costs shape our organization helps us grow and implement positive changes," explains Troy Michalski, BCBSMT's Cost Accountant. "SAS makes available the information executives and managers need to make these kinds of decisions."

BCBSMT executives know that understanding the different dimensions of costs at a detailed level and identifying cost overruns are two fundamental components of business success. With SAS Activity-Based Management, company analysts have developed a customized solution that can help the company hold down costs and ensure product profitability while proactively meeting customer needs.

"Our executives are really interested in finding innovative ways to maintain service levels while reducing costs," says Michalski.

Already, the SAS solution has been used to evaluate potential outsourcing opportunities, establish and measure select corporate benchmarks, enhance the level of detail available for expense reporting

and help manage costs to mandated budgets for government programs. Soon it will be used to help understand how the various activities performed within the company might influence product prices and how those price changes potentially impact profitability.

More comprehensive view of costs

Before implementing the SAS solution, finance managers could perform basic budget variance at the corporate and department levels, but they couldn't break out costs by product or by individual lines of business, or even scrutinize contributions to activity costs at the program level.

"We have a traditional accounting system that lets us look at departmental budgets, but if you want to slice that data the different ways and look at corporate or departmental processes, it's much harder to do," says Michalski.



The SAS solution, which primarily pulls data from the company's Lawson accounting system, makes detailed information available for advanced decision-making analyses. "With SAS, the fundamental design allows us to not only explore our cost data at every level but to also easily modify our approach as business changes," says Michalski.

In one instance, executives believed the company was losing money on a particular contract. Unfortunately, they had

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Ken Knoll

Financial Analyst

Blue Cross and Blue Shield of Montana

no comprehensive way to evaluate all of the costs that supported this agreement.

“With SAS, we’ve been able to re-examine the contract and get a good grip on the costs that we’re incurring,” explains Ken Knoll, a BCBSMT Financial Analyst. “Managers are now using the information to return this contract to profitability. Similar results for other areas of business will help managers decide when to modify the pricing plans for contracts or when to restructure expenses by outsourcing or consolidating various administrative tasks.”

Charting allowable costs

Along those same lines, executives and finance managers at BCBSMT can now analyze administrative costs for large group plans, small group plans, and individual and specialized products. They can also examine more specific costs for Medicare and federal employee programs.

For government programs, managers are required to submit an annual budget that reports costs down to the activity level. With SAS Activity-Based Management, they can monitor projected costs and compare actual costs with the government-allowable rate for each activity. Keeping federal and state programs within the published fee structure can be challenging. However, SAS makes it easy to recognize potential cost overruns, so

BCBSMT can adjust its activities to fall within the government’s cost parameters.

“For our government contracts, understanding our costs is critical to managing budget overruns, but efficiently reporting them by activity is also extremely valuable,” says Michalski. “Spending less time manipulating data has freed us to isolate and analyze problem areas in ways we never could before.”

Decision making with confidence

Before implementing the SAS solution, analysts worked closely with executives and managers to determine how to measure and allocate costs and activities and to establish corporate goals for implementing the system. With SAS, they developed a model that allows analysis of not only multiple levels of department activity costs but also cross-functional corporate process costs that contribute to three main categories: corporate sustaining activities, sales and marketing, and product service and support.

Throughout the implementation process, Knoll says, SAS helped to ease even the most difficult aspects of activity-based management. “Some of the other products we looked at required extensive programming knowledge, whereas SAS technology did not. Plus, SAS fit real well into our existing infrastructure,” he says.

Ultimately, the solution will allow BCBSMT to evaluate costs for every business process and to identify areas for implementing cost-saving measures and companywide process improvements. Marketing and underwriting will be able to see how product costs vary depending on the size and type of the group plan; department managers will be able to see what activities performed truly at cost; and executives will be able to look at administrative costs for specific lines of business as a ratio to revenue, claims paid or other possible financial metrics.

Michalski says the true benefits of SAS will come not only from the company’s ability to identify cost-saving opportunities but also from its ability to provide decision-making information quickly. “Managers and executives are thrilled to have access to this information,” says Michalski. “As we move forward, SAS will continue to help us become a more valuable resource for these internal customers.”

Knoll, too, is confident that SAS is the best solution for BCBSMT. “SAS has the most experience and the most widespread knowledge of activity-based costing,” he says. “The SAS solution is very straightforward and client-friendly, and the concepts are very easy to understand.”



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