PRA leads to US$20 million savings for BlueCross BlueShield of Tennessee

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More than an insurance company

Founded in 1945, not-for-profit BlueCross BlueShield of Tennessee (BlueCross) is the state's leader in healthcare financing. But it envisions itself as a lot more than an insurance provider. "Our goal is to give our customers the information they need to make better healthcare and financial choices," explains Bob Venable, manager of enterprise systems. "We are rapidly becoming an information provider."

This focus on information is having a huge impact on the company's data processes needs. Even though Tennessee's population—and BlueCross's client base of more than two million—has remained relatively stable, the volume of data the company processes has grown more than 20 times in the last 10 years. What's more, the company and its customers demand faster access to information than ever before. "Several years ago it might have taken a couple of weeks to pull together a proposal," observes Venable. "But now we try to provide it within 24 hours of a request. In our industry the company that can come up with the best numbers in the shortest time is going to win."

The mainframe: a 40-year mainstay

Although BlueCross uses the best platform for each business process, the mainframe has been the core of its information enterprise for more than 40 years and remains so today. It not only contains BlueCross's information data warehouse, but is also the central repository for all file transfers between BlueCross of Tennessee and its partner BlueCrosses and all information that goes out to customers, banks and peer insurance companies. All lines of BlueCross business feed up to the mainframe, so it provides a central view of the entire business in one place. "There is a perception that Windows®, UNIX® and Linux™ are less expensive than mainframe platforms," says Venable. "But we've invested tremendous intellectual capital into the processes and

programs that run on our mainframe. We can't just do a quick platform switch. When you move an entire business process from the mainframe to other platforms, there are little differences like return code processing or error analysis that can cause big problems."

Instead of changing platforms, BlueCross decided to focus on keeping its mainframe cost effective. It wanted to keep software costs flat—or even decrease them—although its data volumes were rising. But that turned out to be easier said than done. "The challenge with mainframe software is that you can't just go to a store and compare prices," points out Venable. "Some of our software packages were more than 20 years old. We had no idea whether we were paying more or less than our competitors. That's important because if one of our competitors finds a better deal without our knowing it, it can underbid us."

After talks with many of its vendors, BlueCross soon discovered it could be locked into a pricing structure that could put it at a serious disadvantage if it merged with another company or sold off a part of the business in the next few years. It wanted a flexible, use-based pricing system that would allow it to respond to changing business volumes.

PRA: the key to proactive software management

As Venable's team talked with various vendors, it met an individual from IBM® who mentioned in passing that IBM has a unit that performs software cost reviews called Portfolio Review and Analysis (PRA) engagements. What's more, it does these reviews in strict confidence and independently of sales and marketing teams. "After our own legal review, we signed a very bonding nondisclosure agreement with IBM that specified that no one else—even individuals within IBM—would know what BlueCross was paying for its software products," says Venable. "That freed us to share the real costs associated with each part of our software portfolio with the PRA team. If we had given them ballpark costs, we would have gotten back ballpark answers," he adds.

Conducted by IBM's Software Portfolio Strategies (SPS) group, a PRA engagement provides the following types of information:

Software Budget Projections: Enable companies to anticipate how their current portfolio and its associated cost structure will change over the next 36 to 60 months and take action to drive down costs. These include long-term projections based on multiple growth scenarios.

Cost Structure Comparisons: Enable an organization to compare its portfolio cost structure with those of its peer companies. This highlights areas in which the client has successfully driven down costs, as well as areas that can be improved.

Portfolio Alternatives: Identify redundant or underutilized software products, along with alternatives for many commonly used software products. This includes a cost/benefit analysis for alternative products and their potential migration costs and impact.

Negotiation Preparation: Delivers valuable information and software portfolio metrics that can provide leverage as the client meets with incumbent product vendors.

Together this information can enable client companies to establish a long-term strategic plan to drive down software costs. Although the PRA yields reams of information, IBM packages it all in a small easy-to-use notebook. Literally a shopper's guide to software, the PRA gives a focused view of what the client is paying versus what its competition is paying.

Incentive for change

For BlueCross, the PRA was a real eye-opener. The company discovered it could save US$8 million over the next four years on its mainframe software costs. But that was just the beginning. Part way through the conversion to the new software, BlueCross had an unexpected business bump and had to re-license some of its software. "We had a mini PRA done for this one-time upgrade and as a result were able to save an additional US$12.5 million," notes Venable. "We're a year and a half into our contract with IBM, and we've already saved US$14 million. And our projected savings over the life of the contract is more than US$20 million."

BlueCross also got the flexible sub capacity pricing it was looking for. "With IBM we can easily add or take away volume as our business changes, and our prices will change accordingly," says Venable.

Armed with the PRA savings projections, Venable was able to get the backing from upper management he needed to convince users to risk changing products—even products the

company had been using for 20 years. BlueCross began the conversion a year and a half before its major contracts were up. That gave it time to work through bugs and necessary enhancements. "Replacing foundational software we've been using for 20 years takes a lot of time and effort," points out Venable. "But we've been pleasantly surprised at how well the conversion process has gone. IBM not only came in with a portfolio of products at a bundled price, but also provided experts in each of the products. These people were trained in the exact software we were migrating from and the IBM equivalent. As a result, every piece of software we switched has worked out well."

Bottom line: lower healthcare costs

The percentage of U.S. output going to medical care has been rising steadily, so it's important to find ways to lower costs without cutting care. The good news is that BlueCross has found a way to do exactly that. Since data processing is part of the cost of healthcare, BlueCross has effectively lowered healthcare costs for all of its insureds. "We're giving our customers faster answers for less money," says Venable. "That's a big step in the right direction."

For more information

For more information on IBM's Software Portfolio Strategies group or the Portfolio Review and Analysis (PRA) Engagement, please contact Linda Beckner at (614) 659-7192 or at Becknel@us.ibm.com.