Healthcare IT Sourcing in 2017 – The Trends Behind an Epidemic of Overspending

Will hospitals continue to overpay for IT purchases in 2017? For those taking a business-as-usual approach to IT sourcing, it’s extremely likely. IT vendors have always profited from healthcare’s tough regulatory climate, and compliance-oriented IT purchases eat into funding for hospitals’ quality of care initiatives. Right now, the healthcare IT marketplace is especially dynamic and conditions are ripe for transactional overspending. By eliminating that overspending, budget dollars get freed up for other high-value projects.

Over the last decade, advancements in IT have transformed the business of healthcare for providers. New innovation in mobile technologies, cloud computing, big data and analytics have increased provider responsiveness, quality of care, and research capabilities. In parallel to these advancements a disruptive regulatory environment has consumed a big chunk of healthcare IT budgets and, admittedly, driven infrastructure and application system upgrades that are contributing to operational improvements.

One big winner in this new healthcare IT climate are the IT solution vendors. According to a report on healthcare information technology by BBC Research, healthcare providers spend upwards of $40 billion annually on IT programs, with clinical spending comprising nearly half of that investment.
TRENDS SHAPING THE HEALTHCARE IT SOURCING LANDSCAPE IN 2017

Dozens of factors are driving higher IT spend, and some of them make healthcare organizations particularly vulnerable to overspending on their purchases. These include:

- Adherence to ACA, healthcare exchange requirements and pay-for-performance are driving up higher BI/analytics investment. New investments and upgrades in EMR/EHR were an obvious byproduct of the regulatory climate. Today, we’re seeing the long-tail impact in the form of higher investment in big data and business intelligence and analytics tools (especially as pay for performance provides financial incentives to clinicians for better health outcomes, which must be measured and reported). This trend will continue well into 2017 as providers acclimate to additional reporting requirements as well as recognize the potential of a data-centric environment. The BI/analytics subcategory is broad, confusing and inconsistently merchandised; and overspending is common.

- More vendors moving into the healthcare space means more sourcing vulnerability. Every vendor wants a slice of the healthcare IT pie, and that’s created an influx of new, emerging players as well as established enterprise vendors offering new vertical solutions. The end result is that many healthcare providers will be working with certain vendors for the first time. How do IT buyers establish fair pricing and discounting targets for a new subcategory? How do you gauge vendor flexibility and leverage at the negotiation table if you’ve never worked with a vendor before, or if the vendor is an emerging player? This information vacuum typically leads to overspending.

- Vendor relationships are becoming more critical to providers’ compliance and continuity-of-care posture. This often translates into more leverage for the vendor (especially when it comes to vendor lock-in). Providers need to optimize more than the transactional detail with a vendor; they need to monitor and optimize the vendor relationship for maximum value, less overspending, a long-term view of IT strategy and preparedness, and best-in-class terms and conditions.

- IT pricing disparity is rampant. Pricing is all over the map for healthcare IT solutions. What one provider pays for a solution can be 20 or 30 percent higher (or lower) than the next. Discounting and terms are equally disparate as vendors continue to test the waters for buyer thresholds. Healthcare IT sourcing teams need access to benchmark pricing intel as well as vendor behavior insights that will level the playing field at the negotiation table.

- More providers are adopting healthcare information exchanges (HIEs), which will add another line item to the budget. On a mission to standardize the sharing of patient info within and across organizations, providers are cautiously moving towards HIEs. While there are clear benefits for patient care and operational efficiency, there are numerous challenges that will require IT investments. New software (cloud, mainly), interoperability/integration services, portal development and security are just a few examples. A recent Black Book HIE survey reported that the majority of practices intend to increase their HIE spending, foreseeing a 100 percent increase in 2017.

- Patients are steering the IT budget in new directions. For the last decade, compliance and operational requirements have dictated IT budgets. Today, patient satisfaction is helping steer the ship. Nurse call systems, patient communication portals, mobile applications – these are just a few areas where providers are facing patient and
An influx of new players and established enterprise vendors offering new vertical solutions means many healthcare providers will be working with certain vendors for the first time – and that equates to greater risk for overspending.

competitive pressure to demonstrate innovative approaches. This is the same challenge already faced by other sectors such as retail, hospitality and financial services, and victory goes to the early adopters as consumers – or, in this case, patients – vote with their wallets.

**SPECIFIC CATEGORIES WHERE OVERSPEND WILL GROW IN 2017**

The trends discussed earlier provide a backdrop for IT overspending potential in 2017. There are certain areas that will be especially susceptible, including:

- **Migrations to Epic.** Epic continues to amass a loyal following. However, migration to its solutions is complex and costly, often requiring unbudgeted integration and professional service fees.

- **Security.** The last few years have been tumultuous for information security in healthcare. For the first time, cyber-attacks have been named the leading cause of data breaches. In 2017, providers will be under even more pressure to identify attack vectors and protect patient and clinical data. Unfortunately, pricing disparity in this subcategory of IT will make it easy for organizations to pay higher than fair market value rates for technologies.

- **Storage.** The cloud and influx of more patient data has precipitated greater demand for storage. Like security, this subcategory of IT presents significant pricing disparity.

- **Software licensing.** Whether on-premise or cloud subscription, over- and under-provisioning continues to be a costly issue for most healthcare providers. It’s important to optimize licensing for the right counts as well as the right user classifications, but the vendors make it confusing – organizations need a PhD in each vendor’s licensing to get it right.

- **Indirect access.** Meaningful use and HIEs are requiring greater interoperability across the healthcare IT ecosystem – and vendors have new strategies to monetize this trend. Many require that clients purchase a license for indirect access to their solutions (SAP, Microsoft and Oracle are renowned for it). This not only translates into higher licensing fees, it can put clients out of compliance with their vendor agreements.

- **Microsoft.** New and changing licensing programs and pricing models have made it easy for healthcare providers to overspend with the IT giant. Microsoft’s mission to move customers to the cloud is only muddying the waters. Companies that lack a full understanding of these changes and Microsoft’s motivations will be well positioned to overspend in 2017.

- **License audit activity.** As traditional software licensing gives way to the cloud, vendors are seeking ways to protect revenues during the transition (as well as to expedite it!). One tactic: auditing. Microsoft, for example, is expected to audit one-third of its enterprise customer base in 2017. And, thanks to an IT ecosystem that has recently undergone much change, healthcare organizations are a prime target.

- **Maintenance/support.** Maintenance has always been rife with overspending, and this holds true for the year ahead. Many healthcare providers don’t push back on annual maintenance rate increases or explore third-party support options that provide comparable levels of service (in some cases, better) for a fraction of the spend. This “run the business” subcategory eats up a big portion of every IT budget. What if some of it could be re-deployed to initiatives that could grow or transform?
A PRESCRIPTION FOR IT SOURCING

The IT sourcing challenges faced by healthcare providers are complex and daunting. This has been the case for years, but 2017 will take it to new levels. Vendors are more predatory, the IT ecosystem is more complex and the options are more vast.

One powerful antidote is arming IT buyers with third-party price benchmark data, vendor-specific licensing expertise and vendor-specific negotiation intel. These tools are driving 7-figure savings that make the IT budget stretch dramatically farther – freeing up millions for re-deployment to other high-value projects.

Here are just a few examples of the financial impact of transaction optimization for healthcare organizations – these are real-world results achieved by NPI’s healthcare clients:

<table>
<thead>
<tr>
<th>VENDOR</th>
<th>PURCHASE TYPE</th>
<th>DEAL SIZE</th>
<th>% SAVINGS</th>
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<tbody>
<tr>
<td>CISCO</td>
<td>Multi-year hardware support renewal</td>
<td>&gt;$1M</td>
<td>29%</td>
</tr>
<tr>
<td>MICROSOFT</td>
<td>Enterprise Agreement renewal</td>
<td>&gt;$7M</td>
<td>24%</td>
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<tr>
<td>MCKESSON</td>
<td>New software license purchase</td>
<td>&gt;$1M</td>
<td>40%</td>
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<td>LEXMARK</td>
<td>PACS purchase</td>
<td>&gt;$1.8M</td>
<td>10%</td>
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<td>EPIC</td>
<td>Interface with new Abbott software</td>
<td>&gt;$650K</td>
<td>48%</td>
</tr>
<tr>
<td>MICROSOFT</td>
<td>Restructured true-up for Enterprise Agreement</td>
<td>&gt;$26M</td>
<td>16%</td>
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<td>IBM</td>
<td>Managed backup services agreement</td>
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<td>60%</td>
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<td>&gt;$2M</td>
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<tr>
<td>ORACLE</td>
<td>Unlimited License Agreement</td>
<td>&gt;$14M</td>
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ABOUT NPI

NPI is a spend management consulting firm that protects companies from overspending in three cost categories where pricing is opaque, complex and inconsistent – information technology, telecommunication and transportation. Using price benchmark data and vendor-specific cost reduction expertise, NPI helps clients assure that each purchase is priced at or below fair market value and program selection, licensing and business terms are cost-optimized. Reviewing more than 14,000 purchases annually, NPI provides objective oversight for billions of dollars of strategic spend for its clients. To learn more about how NPI can help your company start saving today, visit www.npifinancial.com or call 404-591-7500.