SmartSpend™ Bulletin

Healthcare IT Sourcing – The Trends Behind an Epidemic of Overspending

Will hospitals continue to overpay for IT purchases this year? 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

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 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.

- **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 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.

Right now, **conditions are ripe for transactional overspending** in the healthcare IT marketplace. Compliance is still a big consumer of the IT budget, but quality and **continuity of care initiatives are long overdue** for many providers.

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SPECIFIC CATEGORIES WHERE OVERSPEND WILL GROW

The trends discussed earlier provide a backdrop for IT overspending potential in the current healthcare provider landscape. 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. Providers find themselves 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.

- **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 the coming year. 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?

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**.

A PRESCRIPTION FOR IT SOURCING

The IT sourcing challenges faced by healthcare providers are complex and daunting. 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:

VENDOR	PURCHASE TYPE	DEAL SIZE	% SAVINGS
CISCO	Multi-year hardware support renewal	>$1M	29%
MICROSOFT	Enterprise Agreement renewal	>$7M	24%
MCKESSON (ALLSCRIPTS)	New software license purchase	>$1M	40%
LEXMARK	PACS purchase	>$1.8M	10%
EPIC	Interface with new Abbott software	>$650K	48%
MICROSOFT	Restructured true-up for Enterprise Agreement	>$26M	16%
IBM	Managed backup services agreement	>$600K	60%
VERIZON	Verizon Business network services	>$8M	17%
AT&T	AT&T wireline service agreement	>$2M	20%
ORACLE	Unlimited License Agreement	>$14M	21%

ABOUT NPI

NPI is an IT sourcing consulting company that helps enterprises identify and eliminate overspending on IT purchases, accelerate purchasing cycles and align internal buying teams. We deliver transaction-level price benchmark analysis, license and service optimization advice, and vendor-specific negotiation intel that enables IT buying teams to drive measurable savings. NPI analyzes billions of dollars in spend each year for clients spanning all industries that invest heavily in IT. For more information, visit www.npifinancial.com.

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