A THOUGHT LEADERSHIP ROUNDTABLE

Solving Healthcare Business Challenges with New Service Models

CHIME DIGITAL HEALTH LEADERS

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Philips hosted a virtual thought leadership roundtable with members of the College of Information Management Executives (CHIME) to discuss new business models and examine their potential to solve ongoing challenges in healthcare. Topics included capital expenditures vs operational expenditures, methods of assessing value in outcomes, and elements of a successful vendor partnership.

CHIME President and CEO **Russell Branzell** moderated the discussion.

Participating CHIME members:

Joan Hicks,
CIO, University of Alabama at Birmingham Health

John Kravitz
Corporate CIO, Geisinger Health System

Scott Krodel
VP, CIO, West Tennessee Healthcare

Craig Richardville
SVP, Chief Information & Digital Officer, SCL Health

Rusty Yeager,
SVP & CIO, Encompass Health

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INTRODUCTION

Driving innovation and continuous improvement in healthcare while balancing limited resources is an ongoing challenge. Chief information officers (CIOs) and chief information and digital officers (CIDOs) often find themselves in a crisis management capital-rationing cycle that requires a massive time investment simply to keep technology systems performing to standards.

As the CIO/CIDO role expands to include transformational leadership with a mission to redesign business processes, many of these executive leaders are exploring the potential pros and cons of shifting to a service or subscription model approach to complement traditional capital expenditures for equipment and infrastructure needs.

Philips hosted this thought leadership roundtable to encourage industry leaders to discuss business models and examine their potential to solve ongoing challenges in healthcare. Five members of the College of Healthcare Information Management Executives (CHIME) gathered to share insights gained from their experience with various models. CHIME President and CEO Russell Branzell moderated the roundtable, and Kristine Mullen, Head of Marketing for Connected Care North America at Philips, contributed to the discussion.

COMPARING MEDTECH BUSINESS MODELS IN HEALTHCARE

In the past, healthcare organizations have based a significant portion of their budgets on capital expenditures for equipment that might follow a three-, five-, or ten-year plan for maintenance and replacement. For example, the capital investment and service costs of an MRI system can be significant, and generally do not enable healthcare providers to maximize value creation from that investment over time.

To solve this problem, some healthcare organizations have entered partnerships based on a subscription model in which a partner organization provides equipment and service for a fee based on usage. For example, if a bed is unused, the organization does not pay for the monitors on that bed while it is unoccupied. Some of these approaches scale the type of equipment furnished based upon patient acuity levels.

Another new model presents a risk-share with a partner, in which that partner charges a predictable fee for service and equipment provision and maintenance and also shares risk based on aligned key performance indicators (KPIs).

The choice of business models presents a new evaluative challenge for CIOs/CIDOs: with several models in play, what are the potential advantages and weaknesses of each model?

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A MOVE TOWARD PORTFOLIO CONSOLIDATION

As more vendors enter the market with ever-more specialized equipment and services, healthcare organizations are feeling the pressure of managing a large number of contract partnerships, often with software and devices that run on different systems. Consequently, there is a movement toward consolidating partnerships under fewer vendors to achieve standardization and efficiency.

"Relationships are easier when you're dealing with three vendors versus 40," said Scott Krodel, CIO for West Tennessee Healthcare.

Other roundtable participants agreed. "The proliferation of options has absolutely changed the way we're doing business," said Joan Hicks, CIO for University of Alabama at Birmingham Health. "It's consuming a huge amount of IT's time from an investigation and evaluation perspective."

Despite the challenges of dealing with large numbers of vendors, roundtable participants reported that attempts to consolidate can be extremely difficult due to challenges with legacy systems and the complexity of many of the operating systems that run different medical devices.

The evaluative process for business models based on capital or operational expenditures can vary depending on the structure of each healthcare organization. "Depending on the organization, there may be different financial implications when a choice is made to pay for services and equipment "as a service" through operating budgets instead of capital budgets. The more we move into our operating budgets to pay for these services, the more it can compress operating margins and affect the total cost of ownership of a particular solution. It's important that for-profit enterprises understand the tax implications of these decisions," said Rusty Yeager, CIO for Encompass Health.

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> **Craig Richardville**
> SVP, Chief Information & Digital Officer, SCL Health

Some organizations have found that the advantages of being able to upgrade equipment without major capital outlays have outweighed other considerations. Subscription models for hardware replacement can save budgets, as CIDO of SCL Health Craig Richardville explained. "When a provider finds an asset fully depreciated and tries to hang on for another year or more, there is a tendency to underestimate the extra expense and burden to caregivers if they have to work with substandard or less-than-reliable equipment. Equipment upgrades also usher in the potential positive impact of technology enhancements for added quality and safety for our patients," Richardville said.

DEFINING VALUE IN A PARTNERSHIP BASED ON VENDOR-OWNED EQUIPMENT

After laying out these pros and cons for each business model, roundtable participants considered what defines value in a partnership.

One important factor is discerning the total cost of ownership for equipment under the traditional capital expenditure model, in which a healthcare provider owns the equipment in its buildings. If a piece of equipment breaks under the old model, the provider organization assumes all the risk of replacement on an unpredictable schedule. A partnership that deploys vendor-owned devices can share that risk and spread out the impact of unexpected breakage.

In addition, partnership on a fee-for-usage model can prevent expenditure for idle equipment, a concept described by roundtable participants as "metering."

By contrast, leaders at some health systems believe that owning the company's equipment allows more flexibility to manage their budgets, depending on their particular operating environment. "However, managing equipment refreshes and new capital expenses requires discipline, organizational understanding, and commitment to the overall goals of the organization," said Yeager. "In our case, we have a disciplined budgeting process that focuses on the quality and cost of care in order to provide benefit to all of our stakeholders."

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> **Joan Hicks**
> CIO, University of Alabama at Birmingham Health

One way that partners could most prove their value is by addressing common problems in equipment management, such as informal accumulation of equipment by staff members for future use. "One thing that has come up as a value proposition for us is being able to identify that equipment that's sitting in a closet somewhere," said Hicks. "Preventing shortages caused by missing equipment would be one of the value-adds that we look for in a partner." Innovations such as chips embedded in the equipment and other methodologies to track location could assist in this solution."

On a much larger scale, vendor-partners need to address cybersecurity issues with medical devices. The methods currently used to try to keep medical devices secure are, in the words of one CIO, "a nightmare" of patchwork solutions because all the operating systems are different. Those security measures often make the equipment harder to use for operators delivering patient care, underscoring the need for standardization.

Because this cybersecurity risk is a problem across the industry and providers are adopting more tools to combat it (as shown in the CHIME Digital Health Most Wired 2020 survey), vendors who want to offer value need to be generating cybersecurity solutions.

Participants also pointed out that the history of previous partnerships can influence boards against subscription arrangements. One organization suffered negative outcomes from an equipment-leasing contract that "went sour" with the vendor partner. For over a decade after, it was difficult to persuade the board that there could be value in a partnership in which a vendor owned the equipment. For that reason, CIOs want to rely on a proven record of achievement before entering into a partner relationship with a vendor. "Before we get into a long-term relationship with a vendor, I would want to have a demonstrated track record of success as well as a partnership track record," said John Kravitz, CIO of Geisinger Health. "You can't separate easily once you have a partnership like this. It's very painful and it can take years to separate."

Vendor-owned equipment can also provide enormous benefits under the right circumstances. Not having to buy supplementary equipment because it is instead supplied by a vendor on an as-needed basis can improve efficiency. As with any shift to an organization, new business models will take time to design and implement toward shared accountability and value creation.

Service interruptions could also be forestalled if a vendor were monitoring equipment by artificial intelligence (AI) or usage dashboards that allowed the vendor to predict a potential breakdown. With that advance notice, the vendor could notify the provider organization that a breakdown was imminent and replace the equipment with no interruption in service.

DEFINING VALUE IN A PARTNERSHIP BASED ON VENDOR-OWNED EQUIPMENT CONTINUED

"This has to be a complete mental shift toward customer service and concierge-style service going forward," Kravitz said. "It's a big transition, and it has to be strategized, serviced and staffed accordingly to make it successful."

Value can mean creating more predictable budgets to avoid equipment expenditures that can bring unexpected costs of $3-6 million, creating a heavy burden on smaller healthcare systems. Subscription models can help avoid these unexpected costs. "Unfortunately, it's our revenue-generating areas that are trying to keep their equipment updated," said Krodel. "To me, what is core to the strategy is how I can build a model with a vendor that has economic return and keeps revenue-generating areas out of the boardroom from a capital perspective."

For true value, providers also emphasized that they need to be able to trust that there will be no surprise costs thrown into their business model on the backend.

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ELEMENTS OF A SUCCESSFUL SUBSCRIPTION PARTNERSHIP

In addition to value, a number of other factors go into creating a successful long-term partnership.

Several participants referred to the importance of key performance indicators (KPIs) that measure every important aspect of a relationship, not just ten major metrics. Otherwise, vendors can become focused on a limited number of KPIs while other crucial aspects of the partnership are ignored.

"There needs to be a commitment that is going to be honored even if leadership changes or staff positions change: the partnering organizations have got to be committed to the same goals," Hicks said. "It's a commitment to all services. It's not just a few KPIs."

"I would create a KPI for everything I could possible measure," said Kravitz. "Because then I know the vendor is really doing the work we need them to do. I'd have KPIs everywhere and dashboards everywhere, so everyone in operations could see them and know the partnership was really working for us."

Vendors also need to know their strengths and offer their services in those areas of strength, while being transparent about areas that need to belong to other vendors.

"If a needed service or equipment cannot be provided by a vendor, then the health system may need to develop a partnership to establish the appropriate insourced or outsourced solution," Yeager stated. "The challenge is defining the actual mutual benefits of the partnership, because it is easy to value the partnership on intangibles and from each partner's own perspective. Ultimately, performance and cost should determine value, which can be a challenge to measure consistently."

ELEMENTS OF A SUCCESSFUL SUBSCRIPTION PARTNERSHIP CONTINUED

Participants suggested that an optimal partner would also recommend solutions gathered from its unique business perspective on the industry, because vendors operate in so many locations that provide them with industry-wide insights.

"Bring to us the best practices that others are implementing," Richardville said. "Expose us to ideas we wouldn't have exposure to without the partnership. Tell me something that's happening in the future that I don't know about that will help me make a better decision today. That kind of disclosure of things that aren't yet public knowledge is important to a partnership."

In the end, a successful and enduring partnership can be described by principles as well as specifics. "Trust, results, and win-win outcomes," said Krodel. "It's very simple."

"You certainly need KPIs: you have to have measurement tools and things you agree on," said Richardville. "But you also have to be agile in understanding that the environment changes. And if you have to go back to the contract when discussing outcomes and goals, then you're probably not a real partner—you're more of a vendor."

CONCLUSION

New business models in which vendors provide and maintain equipment and deliver advanced technical and clinical services for healthcare providers toward key performance goals can offer distinct advantages for budgeting and operational efficiency if those vendors maintain a strong commitment to holistic customer service and cost containment. These new business models can offer healthcare providers flexible financial models, with scalability and customization to support their shared performance goals, in contrast to older leasing models that consisted of fixed terms and fixed cost elements. Shared-risk models can be beneficial for both provider and vendor if they are deployed and managed well.

Whether or not a healthcare provider chooses to implement a new business model will depend on whether the costs of a subscription model can be made truly predictable without any surprises that raise operating costs beyond expected levels. The most desirable vendor-partners will bring industry-wide best practices to the table and solve efficiency problems with a concierge-style approach to partnership.

Healthcare providers are aiming to consolidate their portfolios to reduce the number of vendors with whom they do business. The organizations that will rise to the top as partners will be those with a proven track record of success delivering new business models with clinical outcomes-based results, and those organizations who place trust at the top of their value system.

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