



Contract Management for Leaner IT Spend in Healthcare

By **Jeff Muscarella, EVP of IT, NPI**

With regulatory requirements looming, healthcare IT spending is drastically increasing – as much as 1,000% for some organizations across the next 12 months. But, that doesn't mean that healthcare finance executives can't engineer today's IT investments for long-term savings. Below are several ways you can optimize technology contracting, sourcing and vendor management for cost reductions from implementation through renewal.

■ **Assemble the right IT cost management team ahead of time.**

Healthcare IT purchases are complex and benefit from a mix of perspectives from different areas of your business. In other words, as a healthcare finance executive, you can't manage costs alone. Create a cross-functional purchasing and cost management team that includes end users and managers, IT and sourcing. Purchasing and contract management should be comprehensive and address all aspects of the investment, including pricing, terms, implementation and training. This is where a cross-functional team will really shine and assure all your bases are covered.

■ **Bring in more vendors.** Only inviting 1-2 preferred vendors into the IT buying process is a mistake. You may have a stellar relationship with an incumbent, but don't be naïve. IT vendors will absolutely charge top dollar if there is no real competition. Invite more vendors to the table up front and it will pay off in the end.

■ **Establish what constitutes fair pricing and terms.** With a plethora of new and immature offerings (for example, cloud-based EHR), IT vendor pricing and terms are all over the map. New, hard-to-decipher charges require careful negotiation, particularly when it comes to preserving flexibility as your IT and business demands evolve over time. Since no one person or company can be on top of hundreds of IT vendors and their changing pricing and licensing models, and because there is no “Kelly Blue Book” to research whether your price is fair, more and more companies are looking to a third party for benchmarks and advice to ensure pricing and terms are in-line with current market conditions. The same goes for traditional IT purchases like servers and storage. The competitive and pricing landscape changes constantly – and it's up to you to find ways to stay abreast of how these changes impact your spending, discounts and terms.

■ **Beware of Hidden Cost Pitfalls:** As more IT spending becomes operating in nature (hosting, SaaS, etc.), many organizations find that they're paying 150 to 200% more than anticipated two or three years

into these agreements. Minimum purchase clauses, ancillary fees, data ownership/migration costs and exorbitant renewal rate increases are areas where vendors are slowly but surely increasing their margins. Be sure to accurately model your needs and costs over a 3-5 year window and hold your vendor to these models if your needs prove to be forecasted correctly.

■ **Manage vendor contracts throughout duration for long-term savings.** Spend management doesn't stop when the ink dries on that initial contract. Annual rate increases, your economic performance and changes in the market landscape are all reasons to revisit the pricing and terms in your contract. Remember – you can do this anytime.

Reengineering the way you purchase and manage IT vendor contracts is a sure way to prime your organization for substantial, measurable savings in the short- and long-term. These savings can be reinvested in other IT initiatives and accelerate your strategy to improve and innovate healthcare delivery.

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ANSWER TO WHERE'S THIS? Coca-Cola Outdoor Wall Sign

This Coca-Cola sign is on the east wall of Young Brothers Pharmacy in downtown Cartersville. It has been authenticated by the Coca-Cola Company as the first outdoor painted-wall advertisement for Coca-Cola. It dates back to 1894, when an industrious Coca-Cola syrup salesman named James Couden put down his order pad and picked up a paintbrush to create the first-of-its-kind sign. This sign received the 1990 Georgia Trust Award for Preservation - 25 layers of paint were removed during the restoration to reveal the original sign. Wow, what a significant, historic piece of marketing and right here in Georgia. If you haven't seen it, it's worth the short drive to Downtown Cartersville. There are lots of great new shops and restaurants there and it's one of the South's true gems.