CONTRACTING FOR MEDICAL IT SYSTEMS – PART 1

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High Stakes, But High Reward if Done Right

You're the President of a large health care facility in Canada, perhaps a major hospital with several ancillary institutes and sites. It`s an incredibly complex environment, demands are being made on you from all quarters, and of course you are publicly responsible for all of it working well. But money is tight, as it always is, and so you have the real challenge of making all ends meet.

As if you didn`t have enough on your plate, you are told by your senior management team that the organization's clinical software systems need a major upgrade. Currently, you have what is affectionately called a "mish mash" of different systems; one supplier for your core electronic health record, another supplier for you laboratory system, yet another for oncology, and so on. And of course there are a hundred good reasons for this plethora of systems, all of which is interesting, but completely irrelevant because it all pre-dates you assuming the leadership role nine months ago. If you are to keep your humour, let alone your sanity, you must keep looking down the road to a major IT procurement; sure, learn some good lessons from the past, just don`t get too mired in the foibles of past mistakes.

Your staff tell you there is good news – a recent market scan they conducted shows there are at least four major so-called "ERP" software vendors that now have mature product offerings in the clinical space. The ERP designation means that each supplier has a broad suit of products that can single handily replace the plethora of different products currently being supported by your organization's IT group. And this is the huge benefit of ERP – multiple systems but all tied together to the same product architecture, thereby making it easier to use and maintain.

The bad news – these ERP clinical systems, when you buy the entire catalogue of products, or the bulk of them, are horrendously expensive; as in, you could either buy such an IT system, or you could fund that oncology wing upgrade you so desperately need. In terms of your IT budget, this will be the largest computer-related procurement you will ever make, by a country mile.

On the other hand, you do get what you pay for. You will be buying IT rationality across your entire hospital community, for the first time. This is a huge win. Moreover, in addition to day to day operations improving materially, the new ERP clinical system will allow you to do some things you`ve never done before. You will be able to harness predictive health capabilities. You will be able to detect patterns of disease in the community well before that could be done now (if that could be done currently at all). For example, in one week-end, 10 patients present at emergency with similar symptoms; now you`ll be able to detect they all work at the same factory, and something is going on there. With the support of such a system, wellness more likely becomes an attainable goal rather than a marketing buzzword.

Internal Governance

So, how to gear up for such a major procurement. First, you have to cobble together the right team, ideally, people who have done this before. A major ERP clinical acquisition is not an entry level project for someone just out of IT procurement school. Ideally, you will have a Project Manager who has the scars of past similar projects; and legal counsel who has seen this movie

before. The procurement lead has to be savvy to the marketing and other dynamics of big American suppliers – this is no place for rose coloured glasses.

What about your Board ? Do you have a couple of IT veterans on it ? If not, this is the time to recruit those people. Ideally one is well versed in medical IT; but the other can bring a skill set from the private sector IT world. Banks, insurance companies, telcos, and a number of other industries in the private sector have gone through these mamouth ERP projects before – having their experience to draw on can be invaluable. The key is to learn from the mistakes of others (our parents told us to learn from our own mistakes, which is good advice, but quite painful – better, by far, to learn from the mistakes of others !).

Your CFO will need some support as well. The algorithms around the financials for these large ERP clinical buys are very complex, and the suppliers make them so on purpose (sorry, no way to sugar coat that). They could make them simpler, but there is ultimately more revenue to be had with the complexity, particularly for the unwary user. Calculating the total cost of ownership ("TCO") over a 10-15 term is difficult at the best of times with even simple systems – with clinical ERP purchases, calculating the TCO will wear our several spreadsheets before you even start to get close…it's just that complex. Then, on top of everything, you have to negotiate a meaningful discount, and have to fold in financing if that is the route you are going to take. Your CFO will have to delegate some of their day job functions to others to be able to devote the serious time they will need to unravel the financial proposal, and then to negotiate a credible deal.

Procurement Strategy

One of your early decisions is to determine how to approach the market for this super important procurement. Of course as a public institution, you will be governed by a host of public procurement rules and regulations. But within those regulatory parameters you have some choices. My own strong recommendation is to have a process that includes, towards the end, a dual track negotiation component. Under the dual track system, at some point you have narrowed the suppliers down to the top two. Then with both of them, you conduct simultaneous negotiations (sometimes called "confidential commercial discussions"), after which they both submit a "best and final offer" (the "BAFO").

Through such a BAFO process you and your team stand the best chance of learning very important nuances about how each supplier goes about its business, and in turn what you will have to do to prepare for each. Remember, and this is key – a major ERP clinical implementation will test your organization to the core. Its kinda like running a marathon. You have to prepare for it if you hope to have any chance of finishing the race. And the dual track process, capped by the BAFO, is a critical piece of preparation.

More on the marathon analogy. A very big question you need to answer is: will you do "big bang" in terms of implementation approach, or will you do a slower, more incremental implementation. By the way, there is no right answer – there is, ideally, the process of you and your staff figuring out which is the most appropriate for you, and then going with that one. Yes, each has different cost implications; but so does picking the process that is wrong for you. It`s like planning a marathon – do you go out strong, and finish slower; or do you hang back, and then pick up the pace at the end. Olympic medals have faded because bad strategy was chosen. If you want to see the results of bad decisions on implementations of ERP clinical systems, just search the internet – there are several high profile ones.

Another threshold question you will need to answer is do you want a system that your organization will be hosting (a so-called “on-premise” software system), or will you be looking for the supplier to host the system (on a “software as a service” basis) ? This question, and its answer, has major ramifications for you for years to come.

One last point on staffing. For the actual implementation, you will want to have someone on your team who has actually implemented the specific system you are acquiring. So, don`t hire this person until the end of the BAFO process, when you know precisely which ERP clinical system you will be intstalling.

The contract you sign is also important. The standard paper presented by the suppliers will not be sufficiently robust around a number of customer concerns to adequately protect you. So, you`ll have to buttress your interests with some choice additions and amendments. Next month, a review of some of the more important provisions for the contract, in Part 2 of this two part series.