

New IT systems can be affordable when you lease instead of buy

Costs stay down, bottom lines stay healthy when companies take advantage of ASPs

BY KEN KRIZNER



A row of servers in TriZetto's state-of-the-art Greenwood Village Data Center, Greenwood Village, Colo.

WESTERN HEALTH ADVANTAGE (WHA) faced two challenges inherent with most start-up organizations when it began operations in 1997: Its budget was tight and its information technology staff was small. The Sacramento, Calif.-based regional non-profit health plan began with six employees and one objective: getting the company up and running.

The organization, which currently has 61,000 members, had neither the time nor the money to create its own in-house system to cover the myriad IT applications necessary for a health plan to operate—applications ranging from administrative to compliance with HIPAA standards.

“We had to think about strategic growth,” says Rita Ruecker, chief financial officer of WHA. “We couldn’t think about systems or an IT environment.”

Companies often lack the financial wherewithal to have the dedicated staff and the latest hardware and software components needed to keep a system running. It can cost hundreds of thousands of dollars to develop and operate an in-house system, and those costs keep rising as upgrades and overhauls become necessary.

The solution for WHA was to contract with an application service provider (ASP), which had the technological infrastructure and software necessary for the organization to maintain its systems on a round-the-clock basis.

When a company adopts the ASP model, the vendor becomes, in effect, its IT department, assuming all costs and responsibilities of maintaining the system.

The ASP model can help non-profit organizations control their technology costs and, by extension, add efficiencies to their bottom lines. When a company contracts with an ASP vendor, it usually signs a multi-year contract that sets a monthly price for the life of that contract. The fee is based on the complexity of the system chosen. Some companies outsource all applications to their ASP vendors; others choose to outsource just a few applications.

“The ASP model has made our IT budget absolutely more predictable,” says Craig Kinyon, vice president and chief financial officer for Reid Hospital and Health Care Services in Richmond, Ind. “We no longer have to worry about hardware obsolescence or unexpected changes. The ASP model enables faster

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WINNING STRATEGIES



What a customer gains from implementing an ASP

- Offload costs of software and hardware
- Free up the building space and infrastructure required by an in-house system
- The vendor sets up the network
- A monthly fee that won't change through the life of the contract
- IT budget becomes more straightforward because hidden and unforeseen costs are eliminated
- Capital equipment is purchased and operated by the vendor
- Offload operating systems support

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'speed to value' of new applications and technologies."

GROWING IN IMPORTANCE

ASPs have become increasingly more important to healthcare payer organizations, according to Gartner. In a survey conducted earlier this year, 6% of respondents said they were in the process of implementing an ASP application.

In many instances, healthcare payers have old, manual applications that cannot keep up with the level of efficiencies needed for the current consumer demand in the market, says Janice Young, vice president and research director for Gartner.

And these organizations don't have the up-front money to upgrade the technology. Based on vendor research, Gartner estimates that implementing an ASP model can spread out the cost of a new in-house IT system to between five and seven years.

That predictability is a big selling point. An ASP model becomes very attractive as programmers and mainframes become

more expensive.

"Your IT budget becomes very straightforward," says Dan Emig, director of technology marketing for Siemens Medical Solutions Health Services, which sells ASPs exclusively to a customer base of about 5,000 healthcare providers.

Larry Bridge, senior vice president/general manager for payer services for TriZetto, says the ASP model removes the IT challenge from an organization. If a healthcare organization has its IT database in house, it needs to continually examine and upgrade the technology, and employ a large staff to maintain the system. By

implementing an ASP, an organization shares a data center with other organizations; leases software rather than having to buy it; and reduces the time it takes to design and implement a new software system by 30% to 50%.

AVOIDING OBSOLESCENCE

Reid Hospital and Health Care Services, a 359-bed, one-hospital operation that serves east central Indiana, was looking for improved efficiencies as it found itself with a soon-to-be obsolescent IT system in 1995.

"Our hardware was at the end of its life, there was no successor platform and there were no parts to be found," Kinyon says.

The hospital wanted to integrate enterprise data to streamline its clinical and financial operations but was unsure whether the system should be kept in house or outsourced. After visiting several other hospitals, Reid decided to outsource its IT functions to an ASP platform operated by Siemens.

The hospital saw an immediate return

on investment because of improvements in information access and management. The level of complexity and sophistication that the ASP model brings to Reid would have been cost-prohibitive if done in-house.

Since implementation, the system annually has saved \$200,000 from a reduction in forms, \$815,000 in records storage and microfilm costs, and \$150,000 because two IT positions didn't need to be filled.

"The ASP speaks to issues you know are there, such as downtime, off-site storage and backup plans," Kinyon says. "We couldn't address these issues as cost-effectively as the ASP can. We receive the benefits of the application without having the baggage that comes with it."

Critics also say that a drawback to adopting an ASP is that the organization is sending its information off-site. And because you are on an application shared by thousands of others, it can sometimes take longer for customers to connect. But Jason Regalbuto, president of ASP provider Beanstalk Networks, says the criticism is overblown.

"Is there downtime occasionally? Of course," he notes. "But you couldn't find an IT department anywhere, whether on-site or out-of-house, that doesn't deal with the same problems on a daily basis. You can either pay your own people to struggle with these issues or outsource it to a technology services provider to deal with."

Gartner's Young says it comes down to what an organization believes is in its best interest.

At Reid, the money that would normally be budgeted to the IT department is diverted to other areas of the hospital. There is also the added advantage of the predictability.

"Thanks to ASP model, the 'surprise factor' in our IT budget is removed from the equation," Kinyon says. "We can predict with relative certainty our costs over the next 10 years (the life of the contract). And hardware obsolescence won't be one of those costs." **MHE**