

RETURN ON INVESTMENT PLANNING: NOTHING TO DO WITH LOWERING COSTS!

HIMSS

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PURPOSE

- Healthcare provider organizations need to change the way they think about ROI Planning -
 - with the assumption that information technology will **NOT** save organizations money.

OBJECTIVES

- **Develop a new or enhance an existing IT ROI planning strategy which can best suit the organization**
- **Understand this strategy's positive and negative attributes**
- **Prepare a ROI Analysis suitable for a CFO**
- **Assist in the better planning, programming and budgeting of resources to support IT investments**

BACKGROUND

BACKGROUND

ATMs, Online Banking, Other e-Commerce

■ Prospective Analyses

- Lower Costs
- Save Money
- Reduce FTEs

■ Retrospective Analyses

- Cost Money
- Added FTEs

BACKGROUND

ATMs, Online Banking, Other e-Commerce

- Caravans of human resources were needed to **implement** the Information Technologies.
- Large numbers of human resources were still needed to **maintain** the Information Technologies.

BACKGROUND

ATMs, Online Banking, Other e-Commerce

■ Labor Realignment

- Current numbers of resources were able to meet forecasted workloads without adding FTEs over a period of time.

BACKGROUND

ATMs, Online Banking, Other e-Commerce

■ Labor Realignment

- Clerks / Tellers were shifted to other tasks, often requiring different and higher-level (i.e., higher paid) skills.
- Clerks / Tellers were eliminated **only** by attrition.

BACKGROUND

ATMs, Online Banking, Other e-Commerce

- **Able to Justify Investments**
 - ATMs were more convenient for customers; therefore . . .
 - The banks were able to retain market share.

BACKGROUND

ATMs, Online Banking, Other e-Commerce

- **SOFT BENEFITS** - nothing to do with lowering costs!

BACKGROUND

1996 Survey by the

Healthcare Financial Management Association

- **In-depth interviews with CFOs / CIOs**
- **17 selected healthcare provider organizations**
- **IT projects that merged clinical and financial data systems**

BACKGROUND

1996 Survey by the

Healthcare Financial Management Association

IT PROJECTS

- **Did not reduce FTEs**
- **Did not save money**

BACKGROUND

1996 Survey by the

Healthcare Financial Management Association

- **ROI was easily measured only when the IT initiatives involved transaction-processing systems based on occurrences with an attached dollar value, such as billing or payroll systems.**

BACKGROUND

1996 Survey by the

Healthcare Financial Management Association

- **Benefits were realized if the IT projects**
 - **concentrated on the quality of the organizations' customer services.**
 - **improved the organizations' market shares.**

BACKGROUND

1996 Survey by the

Healthcare Financial Management Association

- **SOFT BENEFITS** - nothing to do with lowering costs!

BACKGROUND

Partners HealthCare System, Inc. Boston MA

- **Improved Communication**
- **Operational Savings**
- **Decision Support**
- **Quality Measurement**
- **Satisfaction**
- **Clinician Efficiency**

A YARDSTICK OF A DIFFERENT LENGTH

A YARDSTICK OF A DIFFERENT LENGTH

- **Healthcare Information Technologies have the potential to dramatically change**
 - the way healthcare is provided.
 - the way provider organizations work.
- **Therefore, the old rules of measuring costs no longer can apply.**

A YARDSTICK OF A DIFFERENT LENGTH

- Often, the benefits realized dramatically change the existing business model because the basis of the justification is completely eliminated in the new model.
 - For example, the elimination of an entire paper or film warehouse

A YARDSTICK OF A DIFFERENT LENGTH

- Often, it becomes difficult for the healthcare provider organization to fully appreciate the extent of changes caused by the new information system or technology until the new system or technology is actually acquired, installed and used.

A YARDSTICK OF A DIFFERENT LENGTH

- Most healthcare provider organizations' planners and executives view information as an expense.
- This view seeks to determine the value of the activity by its cost or as a percentage of revenue.

**THIS IS
AN ABSURD VIEW!**

A YARDSTICK OF A DIFFERENT LENGTH

- A better view is for healthcare provider organization planners and executives to view information as an asset.
- This view seeks to determine that the information is more than the technology or the system!

**THIS VIEW REALIZES
THAT INFORMATION
PROCESSES ARE
VITAL AND
NECESSARY TOOLS
FOR THE
ORGANIZATION!**

A YARDSTICK OF A DIFFERENT LENGTH

- If this view were accepted, it **could** lead to greater dollar commitments by wary executives without having to resort to the typical dollar-for-dollar arguments and pencil fudging that burn time for little gain.

HOW AND WHY TO AVOID CALCULATING RETURN ON INVESTMENT

HOW AND WHY TO AVOID CALCULATING ROI

- **There are better things to internally sell.**
 - **New sources of revenue in terms of products and services**
 - **New markets to enter**
 - **New ways to work with ubiquitous regulations**
 - **Fresher ways to support the organization's strategic plan**

HOW AND WHY TO AVOID CALCULATING ROI

- ROI analyses are problematic.
 - Often managers hedge the numbers.
 - Frequently executive committees do not believe the numbers.
 - Almost everything is an assumption.

HOW AND WHY TO AVOID CALCULATING ROI

- **ROI analyses are problematic.**
 - **Almost all values are estimates.**
 - Uncertain
 - Imprecise
 - Subjective
 - **Usually ROI analyses are NOT part of the organization's strategic plan.**

HOW AND WHY TO AVOID CALCULATING ROI

- **ROI analyses are difficult to calculate.**
 - **There is no one-size-fits-all method of measuring value.**
 - **Each healthcare provider organization has its own business objectives.**
 - **Each department within the organization has its own business objectives.**

HOW AND WHY TO AVOID CALCULATING ROI

- For example, how does one measure the following, unique business objectives?
 - Providing simultaneous and quick access to information
 - Improving patient, employee, and/or provider satisfaction
 - Increasing productivity

HOW AND WHY TO AVOID CALCULATING ROI

- **Will the unique business objectives**
 - **be measured by patient, employee or provider satisfaction surveys?**
 - **reduce the number of records with incomplete or inaccurate information?**
 - **decrease physician office waiting time?**
 - **eliminate redundant laboratory test orders?**

HOW AND WHY TO AVOID CALCULATING ROI

- **The timing has to be right.**
 - **It can take a year or more after the successful IT Project installation before the organization has a sufficient amount of data to show benefit.**
 - **By that time, there may be so many different variables for retrospective measurement that the analysis is all but impossible to conduct in terms of time and money.**

HOW AND WHY TO AVOID CALCULATING ROI

- **The timing has to be right.**
 - **IT Projects are rarely “completed”.**
 - **Evaluating change only comes when the organization’s culture changes.**

**HEALTHCARE PROVIDER
ORGANIZATIONS NEED
TO RETHINK THEIR I.T.
STRATEGIES WITH THE
ASSUMPTION THAT I.T.
WILL NOT SAVE
ORGANIZATIONS
MONEY!**

RETHINKING IT STRATEGIES

- **CIOs must be able to articulate how IT Projects**
 - can link to organizational plans.
 - can advance strategies and tactics.
 - can execute plans properly.
 - can support the organization's goals.
 - can impact the organization's directions and successes, including its business strengths and weaknesses.

**THIS IS
A MORE
CHALLENGING
BUT IMPORTANT
OPPORTUNITY!**

**APPLYING OLD
METRICS TO
NEW
OPPORTUNITIES**

**i.e., HOW TO MAKE
OLD
PERSPECTIVES
WORK WHEN
AVOIDING THEM IS
IMPOSSIBLE**

COMMON RETURN ON INVESTMENT MODEL

$$\sum_{\text{years}=1}^N \left(\frac{\text{Expected quantifiable Economic Returns/Year}}{\text{Direct System Costs/Year} + \text{Maintenance/Service Costs/Year} + \text{Cost of Funds/Year}} + \text{Expected Strategic Returns/Year} \right)$$

Core business

IT BENEFIT POTENTIAL

		Technology Investment Areas				
Benefits		Infrastructure	Core Transaction Systems	Enterprise & Emerging Technologies	Strategic & Decision Support	IT Management
	Examples	WAN Databases Internet	Practice Mgmt Lab/Radiology Patient Admin	EMPI/ERP E-commerce Intra/Extranet Voice Recog	Clinical/ Population Data Repository	Outsourcing ASP Model
	Cash	Low	1 st Gen: High 2 nd Gen: Med 3 rd Gen: Low	Medium	Medium	Medium
	Efficiency	Medium	High	High	High	Medium
	New Revenue/ Earnings	Low	Low	High	Medium	Low
	Strategic Positioning	High	Low	High	High	Medium

SAMPLE RETURN ON INVESTMENT DOCUMENT

**ADDITIONAL
HELPFUL
ROI PLANNING
STRATEGIES
AND HINTS**

HELPFUL ROI PLANNING STRATEGIES AND HINTS

- **Participate more in the senior management team**
 - to be fully attuned to the financial and service issues of the organization.
 - to be able to come to the negotiating table with more financially responsible IT plans.

HELPFUL ROI PLANNING STRATEGIES AND HINTS

- **Propose more money for operating budgets.**
 - **CIOs typically overlook or underestimate required operating commitments in order to obtain executive support for all the capital expenditures required in new or upgraded IT projects.**

HELPFUL ROI PLANNING STRATEGIES AND HINTS

- **Work hard to get the organization's customers on the side of IT.**
 - **No longer should CIOs have to be the only individuals campaigning for IT dollars.**
 - **Users get to own their projects.**

HELPFUL ROI PLANNING STRATEGIES AND HINTS

- **Develop a level of trust and be viewed as fiscally responsible.**
 - **This requires developing a track record for delivering in terms of time and money.**
 - **This is important whether or not the current or former CIO is/was responsible for developing past, poor initiatives.**

HELPFUL ROI PLANNING STRATEGIES AND HINTS

- **Budget for the anticipated and unanticipated change.**
 - **Unless anticipated change is planned and pushed, it will be slow in coming.**
 - **Unless unanticipated change is “planned”, benefits will be nominal.**

HELPFUL ROI PLANNING STRATEGIES AND HINTS

- **Make a conscientious effort to ensure that the organization's strategies and tactics are not flawed or improperly executed.**

HELPFUL ROI PLANNING STRATEGIES AND HINTS

- Calculate the total cost of ownership in all proposals.
 - Include labor - the most costly expense and the one that is left out most often.
 - Constantly review and manage all the recurring (i.e., system maintenance) costs.

HELPFUL ROI PLANNING STRATEGIES AND HINTS

- Calculate the total cost of ownership in all proposals.
 - Amortize all the fixed costs (i.e., hardware / software) over the life of the products.
 - This makes it easier to compare the cost of products with different financing models, such as ASPs.
 - Calculate all the incremental costs (i.e., replacement hardware / software, administrative costs) over the life of the project.

HELPFUL ROI PLANNING STRATEGIES AND HINTS

■ Ask key questions.

- How expandable/expendable is your IT structure?
- What is your position along the risk continuum?
- Where is your organization along the IT lifecycle?
- What is your organization's competency to manage technology?

HELPFUL ROI PLANNING STRATEGIES AND HINTS

- Incorporate detail.
- Enforce conservatism.
- **VALIDATE, VALIDATE, VALIDATE.**

CONCLUSION

CONCLUSION

The aforementioned premises and suggestions

- Use to better plan, program and budget adequate resources for IT investments.
- Do **NOT** use to make the go / no-go decision to acquire, install or enhance the information technology or system.

DISCUSSION?