

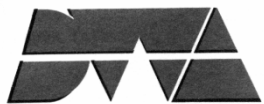
# Ensuring Your LIS's Future Duet Redux

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# Topics

- Negotiating long-term vendor contracts
- Modifying the vendors standard terms
- Risk-based contracts
- Service level agreements
- Updates and upgrades
- Data access and data conversion
- Integration/interfaces
- Traditional vs. ASP Agreements



# Different Objectives

## User

- Pay a fair price
- Accurate, complete project plan
- Dedicated, trained resources applied to their installation
- Excellent service levels
- On-time install
- Protection against vendor false claims

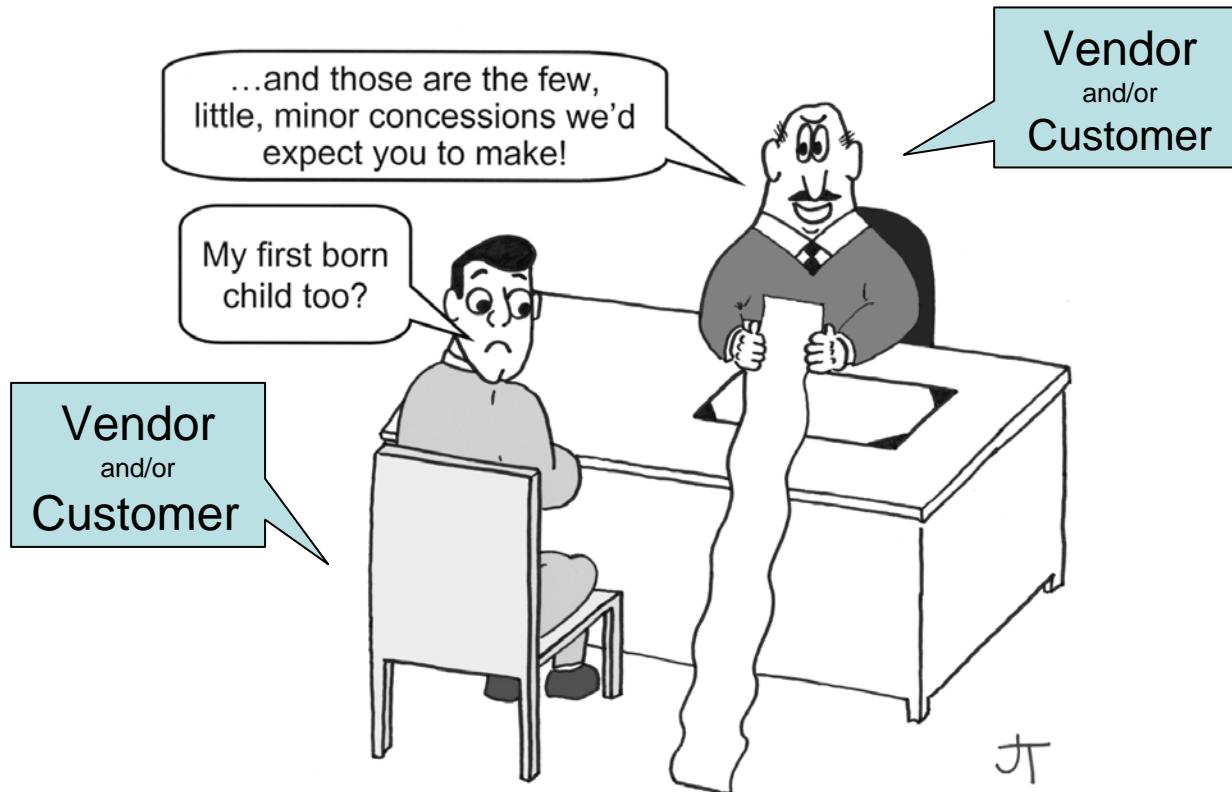
## Vendor

- Maximize profits
- Low sustainable staffing levels
- Hospital meet its staffing commitments
- Service levels sufficient to maintain customer satisfaction
- No penalties, reduced responsibility for success



# NEGOTIATING A LONG-TERM VENDOR RELATIONSHIP

- “ a two-way street”



# Success Factors

- Understand your vendor's culture – corporate visits
  - Long-term partnership
- Set your own internal rules, objectives and expectations early on – but be prepared to change
- Create a control organization and project team
- Clearly define external vendor access to your organization
- Keep communicating on a regular basis

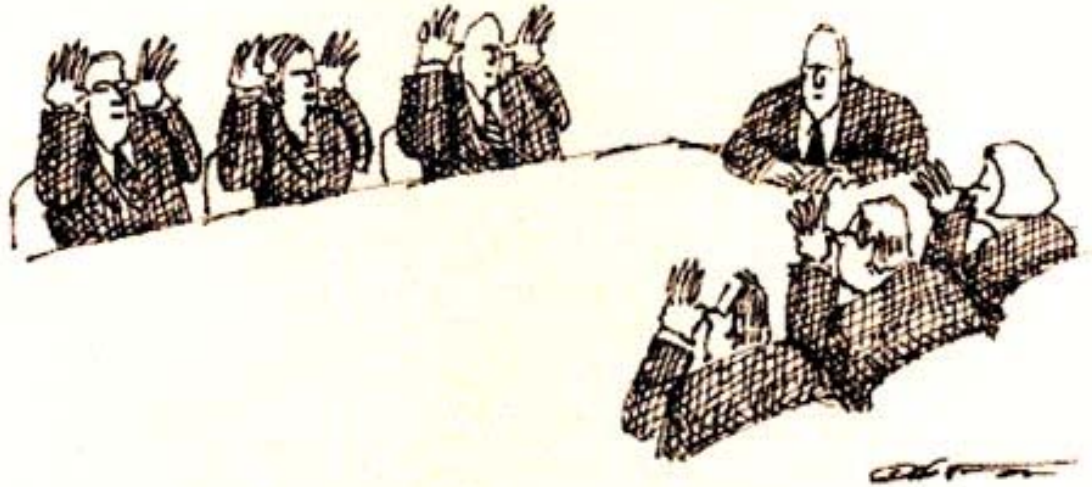


# Approach To Negotiation

- Both disclose “mandatory” requirements up front
- Vendor response to RFI/RFP to be part of contract
- Form a negotiating team early on
- Prioritize (realistically) your objectives
- Be prepared to resolve issues quickly
- Be flexible (within limits) – Be fair
- Don't be adversarial



# How to Avoid A Bad Contract Process



*The mediator sensed that the negotiations were in trouble.*





# Contract Negotiation Basics

- Premise # 1
  - Worst time to negotiate contract is during contract negotiations
- Premise # 2
  - The vendor standard contract has value
  - The stuff in bold can be changed
- Premise # 3
  - Contract must cover the ENTIRE system
- Premise # 4
  - Contract must be fair and protect the interests of both parties (not a contest)



# Protecting Your Interest

- WARRANTIES/PERFORMANCE
  - Get it in writing
    - Acceptance criteria (function/feature, performance, uptime, backup/recovery, remedies)
    - Performance (standards, workload/user growth)
    - Support (coverage, response, escalation, 3<sup>rd</sup> parties)
- LEGAL STUFF
  - Let your attorney do this



# Risk Based Contracts

## Pros and Cons



# What is Risk Based Contracting?

- An alliance between a buyer and vendor incorporating significant financial, implementation, support and planning commitments on both parties
- A method to share in the benefits of a successful system implementation as well be held accountable for the risks of failure
- A long-term relationship, not just a one-shot purchase



# What is it not?

- Solely a method to penalize a vendor
- Applicable to all contracts
- Applicable to all implementations



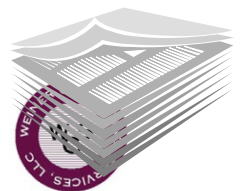
# Key Components

- Long-term relationship to meet “mission critical” needs of an organization
- Typically for more than one product
- Most effective for multi-hospital health system
- Requires commitment of resources (people/\$)
- Provides incentives for both parties to meet or exceed objectives as well as penalties if objectives are not met



# What are the types of risk-based contracts?

- Outsourcing
- Development partner agreements
- Tied to Milestone achievement
- Performance based
- Benefit based
- Combinations of above



# Example - On-time delivery

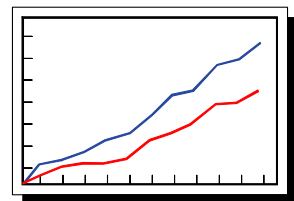
- Milestone Based
  - Project defined in X milestones.
  - At each milestone, vendor and customer must have met their defined work requirements.
  - If date met, vendor gets paid.
  - If milestone missed because of customer delay, vendor still gets paid.
  - If earlier achievement, vendor gets paid plus bonus.
  - If milestone missed and customer has met its obligation, vendor pays customer penalty.





# Example - Improved Service Level

- Vendor has agreed to support response time
  - Two hour call back for emergency calls
- If metric met, vendor paid standard support fees
- If metric exceeded, support fee reduced by % of miss
- If metric improved, support fee increased by % of improvement



# Example - Risk/Reward

- System will reduce one full FTE due to implementation of Auto-verification
  - Metric - 50% of all tests will be auto-released
- If metric met and customer has not reduced or re-allocated FTE - shame on customer!
- If metric is not met, vendor pays pre-determined penalty
- If metric is exceeded, customer pays additional incentive fee



# Risk Contracting Summary

- It's not for everyone
- Not all vendors are willing to participate
- Must have commitment at all levels - both with enterprise and vendor
- If based on benefits to be realized, a comprehensive benefits realization study with measurable metrics must be performed
- As a strategic partnering agreement it can be a win-win for everyone!!



# Updates and Upgrades

- Time and cost to implement
  - What is covered with monthly support
    - Update or upgrade
      - License fees, hardware, implementation
    - When does support payment go into effect?
    - Periodic Operational Audits (by vendor)
- What if vendor solution is too costly?
  - Third party solutions
    - Get vendor to guarantee fixed fee for interfaces?
- Leverage the Users Group
  - Coalition with similar laboratories



# Service Level Agreements

- **Support Services**

- When Do Support Fees Start?
- New Releases
- Problem Resolution Process
  - Escalation
- Guaranteed Renewal
- Coverage (Days, Hours)
- Response Times and Availability
  - Measurement metrics
  - Remuneration
- Cost (Limitations on Increases)
- Default (Including 3<sup>rd</sup> Party Access)



# Data Access and Conversion

- Contractual agreement for access to your data
  - With or without vendor assistance
- Third party tools
  - File/database connectors and extraction
  - XML and HL7 interface streams
  - Screen/report scraper
  - Data conversion



# Integration/Interfaces

- Custom interfaces -some day old news
  - “Interface-less” interfaces that plug and play
    - Standardized
      - Format
      - Content
      - Transport
    - Many standards groups
      - Fed push to land on a few starting to succeed
- Need vendor community to embrace and user community to lobby



# Healthcare Economic Tradeoffs

## Traditional vs Applications Services Provider

### TRADITIONAL MODEL

- Capital Budget
- Fixed Expense
- Onsite Computers
- Maintenance Intensive

### ASP MODEL

- Operations Budget
- Variable Expense
- Offsite Computers
- Central Maintenance





# ASP - Pros

- Low Up-Front Investment
- Operating Budget – Not Capital
- Lower Lifetime Costs
- Risk Sharing with Vendor
- Solves Skill Shortage
- Limits Administrative Responsibilities
- Technology Upgrades from ASP
- Conformance with Regulations via ASP



# ASP - Cons

- Generic Solution – May not “fit”
- Inadequate Speed – Bandwidth
- Inadequate Reliability, Security
- Risk in Achieving Actual Savings
- Long Term Contract to get Payback
- Loss of Control of Data
- Vendor Stability, Longevity Issues



# Embedded LIS

- Common vendor or “Best of Breed”?
- Update/Change control procedures
  - Assure integrity of interfaces
- LIS specialist or generalist support?
- LIS enhancement priority



# Summary

- There are various approaches to long-term contracting
  - Future growth in workload, locations
  - Risk–Based agreements
  - Applications Service Provider model
- Consider your situation and your confidence in your vendor as well as your own organization's realistic capabilities and “will”.



