



## Competition Fuels IT Buys, Financing Quandaries

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Healthcare equipment financing is surging forward to keep pace with unprecedented spending, with institutions designating more capital for equipment than ever before. In fact, they're allocating approximately 51 percent of their capital for fixed assets to this line item, according to a recent report compiled by the Healthcare Financial Management Association.

The survey found that hospitals' three most frequently cited capital projects are technology based. They include digital radiology systems, mentioned by 72 percent of respondents, particularly larger hospitals with more than 300 beds and not-for-profit facilities; computerized provider order entry, mentioned by 64 percent; and major information technology system upgrades, cited by 61 percent, most frequently by large hospitals and teaching facilities.

About 76 percent of healthcare CIOs reported that their IT budgets were likely to increase in the coming year, up from 72 percent in 2004, according to the 16th annual leadership survey of the Healthcare Information and Management Systems Society, sponsored by Superior Consultant Company/ACS Healthcare Solutions.

Several factors are driving the healthcare IT trend. One is obsolescence. While most healthcare equipment historically has enjoyed at least a useful life of five to seven years, that's not true anymore. The increasingly rapid pace of medical technological advancement is making newly purchased or leased equipment become obsolete faster than ever before. A new \$1 million CT scanner that a hospital purchases today could be replaced in the market by a newer technology within two or three years.

Healthcare organizations also are doing all they can to increase efficiency. Electronic record systems are no longer the domain of early adopters, with implementations going beyond large urban organizations and trickling down to smaller and mid-sized healthcare facilities.

The spate of recent mergers and acquisitions in healthcare also is having an effect. Administrators realize how a smart IT strategy can make or break relationships with newly merged or acquired facilities. Upgrading and changing technology is landing near the top of the "to-do" list in such situations. This new focus helps make organizational changes appear as seamless as possible to customers by ensuring networks communicate effectively and that all sections of the business can provide customers with the same experience. This will become increasingly important as the frequency of industry integration accelerates.



Providers also will have to invest in IT to meet requirements to provide greater transparency to patients. As patients assume more responsibility for their own health, they will need more information about quality and cost.

Finally, keeping up with competitors also spurs technology purchases. Patients are more involved in their healthcare, and more likely to research conditions and potential treatment options than ever before. They're more likely to ask if physicians have certain technologies in-house, and they'll shop around for providers who can offer top-of-the-line treatment equipment. As a result, even small hospitals and medical practice groups that haven't invested heavily in technology are hurrying to do so, whether they can afford it or not.

Even though many factors are spurring IT purchases, healthcare organizations are struggling with how to finance those costs. Many CIOs indicate that lack of adequate financial resources are the most significant barrier to successfully implementing IT.

Technology will challenge the healthcare financing industry to continue to go beyond traditional equipment financing models. Because the scope and type of technology projects differ radically from one project to the next, the healthcare financing industry will need to continue its migration toward solutions that are catered specifically for each client.

A significant challenge for the financing industry, and healthcare as a whole, is to find ways to address the needs of the "have-nots" – facilities that have limited access to capital, now estimated to represent 20 percent of all American hospitals. They lack sufficient cashflow and thus have problems finding financing that can address their facility and technology investment needs. In some cases, their asset mix doesn't provide enough collateral support; in others, cashflow is too small or too erratic to support the level of financing that's needed.