The Digital Medical Office of the Future

Financial Questions for Vendors

White Paper

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Here, in a nutshell, are some tips, tools, and tricks of the trade we've gathered from others and from our own reporting on how to judge a vendor's financial health and staying power. They may help you get beyond and behind an EMR vendor's financial statement before you place your practice in a long-term arrangement with that vendor.

- **Spotting fiscally prudent niche vendors.** Marketing is expensive. If you're evaluating niche EMR vendors, look for those with successful marketing deals. Small companies with niche products enhance their chances of survival if they don't compete with the big guys and have marketing deals to take advantage of bigger partners' distribution channels.

- **Stock analysts' views affect vendors' finances.** If a publicly held company has poor results and loses credibility with analysts, its stock may never recover. That's bad for customers, as stock prices are important to people who provide vendors with working capital. How do you get this information? It's far simpler than ever before. If you open a small stock account with one of the better on-line brokerages, some information is there free. Usually, you'll need a fairly big account to get free access to the very best analyst information.

- **Think both backward and forward about technology. History repeats itself, especially when it comes to technological gadgets.** If unique or novel software is combined with a unique or non-standard hardware product, then fast obsolescence and the need to plan for upgrades are virtual certainties. For example, the current efforts by vendors to offer computerized physician order entry on portable products like the Microsoft Tablet PC and PDAs come to mind. Quite possibly, small-unit hardware and software is the future of EMRs. Therefore, when considering vendors of these products, the key financial question is, "Will the vendor survive and offer upgrades <u>when</u> (not "if") the current product is obsolete?"

- **Watch your vendor's acquisitions.** A vendor can stumble by buying businesses outside of their core competency -- or even in it. WebMD bought over 10 companies in the late 1990s, and then struggled for years to merge their disparate software architectures into sets of software it had promised.

- **Profit is not a dirty word.** No, you don't want to be price-gouged, but a vendor must make a profit or disappear. Beware that some vendors' financials may be hiding low profits behind acquisitions of new companies. WebMD, when it went on its acquisition spree, was a leading example in health care IT. It was greatly helped by the late-1990s Wall Street attitude that profits mattered little in the short run, as long as sales were increasing. Wall Street raised WebMD's stature at a time when alarms should have been sounding.

- **Compare sales, releases, and implementations.** Software delays can start a vendor on an irreversible downward fiscal spiral. This is what happened to a number of HBOC products before McKesson took over. So, when you're acquiring a major system, we suggest that you demand from each finalist vendor, in confidence, for each product release, a table of:

    - sales by year
    - releases by year, and

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  - Implementations by year.
- **The timing of revenue recognition is the most frequently fudged financial number in healthcare IT.** Have a financial person compare your candidate vendors' financials for their revenue-recognition practices. Especially, watch for actions in recent years to accelerate revenue recognition, or revenue recognition policies significantly more aggressive than those of other vendors. In:

- Revenue recognition for software sales was more aggressive than for the EMR software business generally;

- Certain EMR vendors have changed their revenue recognition to even more aggressive practices in the past two years.

- Some vendors even attempted to change the way it charged for support, seeking to make clients start paying at contract signing rather than after an implementation and shakedown period, as is customary in the business. That change is doubly significant if one considers the fact that a significant number of EMR software products are still not ready after contracts were signed. In other words, the change could have conceivably forced buyers to pay support for years without a delivered, much less implemented, product to support.

- **"Hey, buddy, wanna side letter?"** Being offered a side letter or a deal with easy "outs" is <u>the</u> most glaring, lights-flashing, Klaxon-sounding alarm you could possibly get that the vendor with which you're thinking of a long-term relationship is trying to patch the hull of a leaky financial ship in mid-ocean. If you're offered an easy way out of a contract, ask yourself, "How much of the vendor's stated revenue is other contracts like this?"

But numerous physicians apparently mistakenly thinking that a side letter was a safety net, held their noses and signed them. Bad move. Almost universally, side letters are evidence that the software just signed for isn't ready and that the finances of the vendor are a sham. What good does it do you to have a side letter if the non-delivery of the software keeps you from moving forward with mission-critical information systems -- or if the vendor were to file for bankruptcy after taking your money? Obviously, none.

- **Is the vendor's market volatile or shifting?** No matter what kind of a year a vendor had the year before, the coming years could be different. Serious belt-tightening by Physicians on information systems purchases occurs every few years. It happened in 1991 and again, worse, in the period 1999-early 2002. These declines hit vendors and individual product lines unequally. When buying, you'll obviously need to make a judgment call about whether each candidate vendor is heavily dependent for its revenues on a product that is no longer in fashion or needed.

- **A vendor's performance for current clients is a key clue to its financial situation.** Support and implementation staffing are big cost centers. Be aware that some clients who are stuck with their eggs in one vendor's basket will not speak frankly about trouble because they understand that new sales are the vendor's only possible financial lifeline (and theirs). Some others complain more than may be warranted. Reality, on vendor support performance, tends to be an average, not a fact.

- **Troubling fiscal footnotes.** Even when the financial statement looks rosy, some details shout "trouble":

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– **High or rising receivables.** Receivables will rise with a spurt of recent sales, of course, but they may also signal withheld payments, which is probably a sign of troubled software. Also, a bulge in so-called "unbilled receivables" may signal slow installations, or, again, bugs in software.

– **"Significant derogatory data" on a credit report.** In the view of Experian, which is in the business of examining whether companies and people are creditworthy (that is, whether a bank would find it a good risk as a business partner), pledging any of these as collateral for credit is significantly derogatory to creditworthiness: "accounts receivable, inventory, contracts, proceeds, hereafter acquired property, leases, or notes receivable." Patents, copyrights, and office equipment and furniture used to be on that list.

– The significance of borrowing against these assets is that it may be a signal that much of the claimed revenues in a P&L are receivables -- which, of course, may not ever actually be received. Or, a new loan against assets may indicate that the business has suffered deterioration since its last financial statement.

– By the way: do you run a credit report on each candidate vendor for a major acquisition? Why not? It's a good, inexpensive way to double-check a lot of facts.

Other Articles you should review:

- EHR and PMS Contracting Issues – What you should know.
- Can you afford not to have an EHR – The real ROI Study
- What questions should you ask the vendor regarding the Company's Financial Viability
- PMS and EHR Functionality Ratings
- Clinical and Operational Transformation – a requirement for a successful implementation

To learn more about these related articles, or to learn how AC Group can help you save time and money, contact Mark R. Anderson at 281-413-5572 or by email at mra@acgroup.org.

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Mr. Anderson is one of the nation's premier IT research futurists dedicated to health care. He is one of the leading national speakers on healthcare and physician practices and has spoken at more than 350 conferences and meetings since 2000. He has spent the last 30+ years focusing on Healthcare – not just technology questions, but strategic, policy, and organizational considerations. He tracks industry trends, conducts member surveys and case studies, assesses best practices, and performs benchmarking studies.

Besides serving at the CEO of AC Group, Mr. Anderson served as the interim CIO for the Taconic IPA in 2004-05 (a 500 practice, 2,300+ physician IPA located in upper New York). Prior to joining AC Group, Inc. in February of 2000, Mr. Anderson was the worldwide head and VP of healthcare for META Group, Inc., the Chief Information Officer (CIO) with West Tennessee Healthcare, the Corporate CIO for the Sisters of Charity of Nazareth Health System, the Corporate Internal IT Consultant with the Sisters of Providence (SOP) Hospitals, and the Executive Director for Management Services for Denver Health and Hospitals and Harris County Hospital District.

His experience **includes 32+ years working with Healthcare organizations, 20+ years working with physician offices, 7 years in the development of physician-based MSO's**, 17 years with multi-facility Health Care organizations, 15 years Administrative Executive Team experience, 6 years as a member of the Corporate Executive Team, and 9 years in healthcare turnaround consulting. Mr. Anderson received his BS in Business, is completing his MBA in Health Care Administration, and is a Fellow with HIMSS. Additionally, he serves on numerous healthcare advisory positions and has developed programs including:

- Developer of the Six-levels of Healthcare IT for Hospitals and the Physician Office
- Researcher and producer of the 2002-2008 PMS/EHR Functional rating system
- Advisory Board and Content Chairman – Future Healthcare, 2007-08
- Advisory Board and Content Chairman – Physician and Hospital Bonding Summit, 2008
- Advisory Board and Content Chairman - Healthcare IT Outsourcing Summit, 2002-08
- Advisory Board and Content Chairman - Patient Safety and CPOE Summit, 2002-06
- Advisory Board and Content Chairman – Consumer Driven Healthcare Conference, 2003, 2004
- Advisory Board and CPOE Chairman - Reducing Medication Errors, 2003, 2004, 2005
- Advisory Board of TETHIC 2003, 2004, 2005
- Advisory Board of NMHCC 2000, 2001, 2002, 2003, 2004, 2005
- Advisory Board of TCBI Healthcare Conference 2000 - 08
- Advisory Board of TEPR and MRI, 2000-08
- Past President of Local HIMSS Boards – Houston, Tennessee, Southwest TX
- Editorial Board of Healthcare Informatics 2001 - 06
- Judge, MSHUG ISA, 1999-2005, TEPR Awards, 2001-2002, TETHIE 2003-05, HDSC 2003-05
- National HIMSS Chapters Committee 2001 - 04
- National HIMSS Fellows Committee 2001, 2002, 2004
- National HIMSS Programs Workgroup Committee 2001, 2002, 2003, 2004, 2007
- Chair HIMSS HIE Education Task Force - 2007-08
- Member of HIMSS RHIO Best Practices - 2007-08

More about AC Group:

AC Group, Inc. (ACG), formed in 1996, is a healthcare technology advisory and research firm designed to save participants precious time and resources in their technology decision-making. AC Group is one of the leading companies, specializing in the evaluation, selection, and ranking of vendors in the PMS/EMR/EHR healthcare marketplace. Twice per year, AC Group publishes a detailed report on vendor PMS/EHR functional, usability, and company viability. This evaluation decision tool has been used by more than 5,000 physicians since 2002. Additionally, AC Group has conducted more than 200 PMS/EHR searches, selections, and contract negotiations for small physician offices to large IPA since 2003.

More than 500 healthcare organizations worldwide have approached their most critical IT challenges with the help of trusted advisors from ACG. Since 1972, ACG advisors have been helping healthcare professionals make better strategic and tactical decisions. This unmatched combination of market research and real-world healthcare assessment gives clients the tools they need to eliminate wasteful technology spending, avoid the inefficiency of trial and error, and discover a superior alternative to "guess" decisions. For our healthcare physician clients, ACG provides independent advisory and consultative services designed to assist physicians in evaluating and selecting technology to enable the creation of the "The Digital Medical Office of the Future".

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