The upside of an enterprise ‘as-a-Service’ approach for healthcare CFOs

Alternative purchasing model creates financial flexibility, more strategic spend, and value creation flywheel for continuous improvement

Chief financial officers (CFOs) are keenly aware of how major technology investments consume much of their capital budget and staff resources. Technology systems related to patient safety and care, such as patient monitoring, can incur multi-million-dollar costs for updates to maintain connectivity, integration, training, and maintenance – ballooning total cost of ownership (TCO).

Even if health systems have the capital resources, these system purchases haven’t always yielded the desired improvement results, making it difficult to justify the value of the investment or change course. For CFOs, this can create a rigid and unproductive cycle of trying to conserve working capital while maintaining technology that doesn’t map to clinical care success metrics or provide flexibility to adapt as organizational demands change.

In considering the cost/benefit trade-off decision, CFOs often lack utilization data on installed systems, making it difficult to understand what exactly they are paying for, what value it provides, or what staff are using (and in many cases, not using). Also, CFOs don’t always have the expertise or resources to deeply analyze root cause of performance issues or identify continuous improvement opportunities. Traditionally, CFOs have not had many financial levers to solve this conundrum. This is where strategic partnerships that offer new business models can help. Now, CFOs are actively evaluating how shifting to an as-a-Service (aaS) approach of ‘access-over-ownership’ protects capital dollars, enables agility, and supports strategic priorities while still being fiscally responsible.

Increase financial flexibility, optimize working capital

One key benefit of an as-a-Service approach for CFOs is financial flexibility. By changing typical capital expenditure (CapEx) costs to operating expenditure (OpEx) costs, CFOs can optimize working capital. This enables them to more easily adjust as their business demands shift, making managing profitability easier while enhancing clinical and/or operational performance. For example, a patient-monitoring-as-a-service solution can help make cross-unit improvements in device utilization rates and workflow consistency, which can contribute to increased productivity, better patient care, lower cost, and higher throughput.

With an as-a-Service approach, CFOs no longer need to consider how they might finance a significant upfront cost of a clinical system as a capital expenditure. Instead, they have a predictable amount to pay each month as an operating expense, with a strong connection to their revenue. This increases cash on hand so CFOs can strategically redirect capital dollars to buy new equipment or build a new department that could increase revenue-generating opportunities for their health system.

An aaS model also reduces the operational management aspect of systems, which can be a significant drain on workforce resources. With an as-a-service model, a health technology vendor ensures systems are properly working and staff stay up to date on using the technology as part of contractual commitments. This further alleviates the ongoing struggle by internal support departments to implement new system components or maintain compatibility, training, and upgrades.

"The cost of monitoring as a service is part of our operations budget. It allows us to stabilize the cash flow, redirecting capital dollars to things that are going to be more revenue-producing. For example, a $40 million capital investment could be redirected to an MRI scan, a CT [computerized tomography] scan, a robotic surgical system, or other equipment that could generate additional revenue."

Dr. David Zambrana, Executive Vice President and Chief Operating Officer at Jackson Health System

Source: Harvard Business Review Analytic Services report: Ensuring Agility and Connectivity in Today's Health Care Landscape, January 2022

In addition, as essential care technology (such as a patient monitoring system) nears end of life and new clinically relevant improvements are released, CFOs will have significant upgrade costs and compatibility challenges that they may not have budgeted for yet. An aaS model for patient monitoring and similar systems can alleviate the overwhelming financial burden that CFOs will face and better balance CapEx and OpEx resources.

Invest more strategically, gain data visibility

Another benefit of an as-a-Service model approach is that it enables CFOs to be more strategic about the investments they make – and who they choose as a partner – when it comes to enterprise technology systems. By design, a full as-a-service agreement provides more insights into value being delivered to a health system by linking how technology is used by staff and how it impacts the quality of patient care. In contrast, with self-managed technology, valuable metrics are often not even collected, let alone monitored or analyzed for patterns and interdependencies that may affect efficiency or cost-effectiveness. Without the right data insights, it's hard for CFOs to make an informed decision on strategic investments.

For example, CFOs can evaluate telemetry monitor data for length-of-stay (LOS) metrics that tie to occupancy rates and revenue. If a health system can't safely shorten LOS, the resulting inability to accept new patients may impact revenue opportunities. Without the data insights and analysis (as to why this is happening), the variability and root cause of micro-level issues (such as patient acuity levels compared to occupancy rates) go undetected and persist into macro-level problems (such as LOS reimbursement or revenue growth).

CFOs can delve into the data on their own but it's time consuming, resource-intensive, and costly. When health systems have an as-a-service-model approach to systems, the technology partner, instead of their own internal staff resources, is looking at all this data. And a partner can look across customers to bring additional insight and best-practice expertise on how a health system can mature its in-system use. In this way, deriving meaningful actions on those insights is more easily achieved and it can increase the value the health system realizes for the investment made.

Focus on value creation flywheel, economies of scale

Health systems often don't have visibility into all the costs that make up the true TCO of their current state. As a result, some CFOs express concern that an as-a-service model with a pay-per-use fee structure may be too volatile and incur a different kind of unexpected cost, particularly as units of measure such as patient volume can itself be unpredictable. However, when CFOs do have greater visibility with an aaS approach, they can look at retrospective data within their own health system, see trends in variability, and forecast potential system needs to minimize the risk of any potential cost spikes.

Additionally, when tying an as-a-service usage or subscription fee to an economic unit of measure like patient reimbursement, the cost and revenue are directly correlated. Most aaS models provide for an 80-120% range of variability that manages risk for both contracting parties. While the TCO of an as-a-Service model might appear to be more than that

of capital purchase with financing and maintenance services, its long-term upside of value realization over the lifetime of an agreement is much higher – as it can create a flywheel of value creation.

Relinquishing physical asset ownership of technology system components can be another area of hesitation for CFOs, particularly if they need to spend a portion of capital dollars for budgeting purposes. Hybrid aaS models exist in which CFOs can retain ownership of the hardware while still benefitting from the OpEx fee and partner services, with the ability to completely shift ownership over time and realize full aaS benefits. This hybrid ownership and fee structure enables CFOs to continue asset depreciation preferences, while also investing in an aaS model for analytics, clinical improvement, and technology management to better align with their performance goals.

"77% of finance leaders said they were moving beyond the traditional finance function to partner in organizational decision-making to boost business growth."

Source: Deloitte 2021 US Healthcare CFO Survey

A significant benefit of using an as-a-service approach is improving not only what CFOs can tangibly see (such as better bed utilization, staff availability and training, primary KPIs) but also having positive ripple effects in other areas that they can't readily see (such as workflow standardization, less medication used, improvement in patient outcomes, and secondary KPIs). As-a-service models can also further enhance intangible benefits in staff experience and patient outcomes by supporting adoption and continuous improvement. When CFOs move to an as-a-Service approach with a vendor as a strategic partner, they can derive more holistic, ongoing value out of their technology system investments as part of clinical care delivery while achieving greater economies of scale across the organization.

Ultimately, when CFOs focus less on the financial negotiation (lowest price) and focus more on value creation (driving optimization and transformation) they see how an as-a-service approach can be more financially prudent for technology systems, rather than bearing the burden of ownership and responsibility themselves.

New as-a-service business models with partners can enable CFOs to optimize working capital, predictably forecast spend with better connection to their revenue, and ensure financial investment decisions are tied to clinical KPIs as well as operational performance and business success. This can enable greater throughput of the 'flywheel of value creation' and empower CFOs to play a more strategic, impactful role in achieving the metrics that matter most in their healthcare organization.

Learn how Philips Enterprise Monitoring as a Service delivers comprehensive patient monitoring capabilities through an acuity- and use-driven financial model, helping ensure systems are continually optimized across the enterprise and KPIs are met in a predictable, strategic way.

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