

Some Thoughts on the Healthcare Information Technology Industry after the 2002 Annual HIMSS Conference

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2002 Annual HIMSS Conference

It has now been a month since the 2002 Annual HIMSS Conference and Exhibition, enough time to consider it in perspective and what it tells us about our market environment.

The 2002 Annual HIMSS Conference was a far different place than the 2001 Annual Conference. September 11th, terrorism, homeland security, and a weaker economy have reshaped the healthcare information technology (HIT) environment. Customers are rethinking priorities and setting out on purposeful action. The HIT market is changing. Some highlights follow.

Rethinking priorities

The war on terrorism and emphasis on homeland security have caused a significant re-examination of national priorities and policy. Healthcare organization executives and boards have similarly re-evaluated their plans and priorities. In a recent *HealthLeaders* poll, HIPAA, staffing shortages, reimbursement and terrorism preparedness were identified as the biggest challenges facing healthcare in 2002. The just-completed HIMSS Leadership Survey found that complying with HIPAA, reducing medical errors, controlling costs and gaining operational efficiencies were the top business priorities.

The slowing or recovering economy and double-digit increases in healthcare costs will force a new strategy for controlling healthcare costs. Perhaps the Leapfrog Group marketplace initiative may emerge as a successor to managed care. In the meantime, the improving operating margins that hospitals have experienced due to improved managed care contracting and BBA givebacks are the seeds of the next round of tightening. Eventually these issues work back to IT spending plans.

HIPAA

Reality is setting in. HIPAA may not be a great IT success. By next year we may find few within the industry who will want to be remembered as a leading proponent of HIPAA. Fundamentally there are no great cost savings, but a lot of effort and spending to achieve "compliance."

Security is the top HIT priority according to multiple surveys. The failure of vendors to come up with an end-to-end security framework for healthcare is the big challenge and opportunity. Point products and technologies that address access control but not privilege management, or audit trails but not network security, are not the basis for ad hoc cobbling together of diverse systems into a secure enterprise system. The absence of interoperability standards makes security integration that much more difficult.

Clinical information systems

The dominant theme at the 2002 Annual HIMSS Conference was reducing medical errors, improving clinical processes, and increasing operational efficiencies. The "hot" technology was computerized physician order entry. The Institute of Medicine studies on medical errors and fixing the system have had a major impact on healthcare organizations. However, it is the Leapfrog Group that has made reducing medical errors a high-profile business issue.

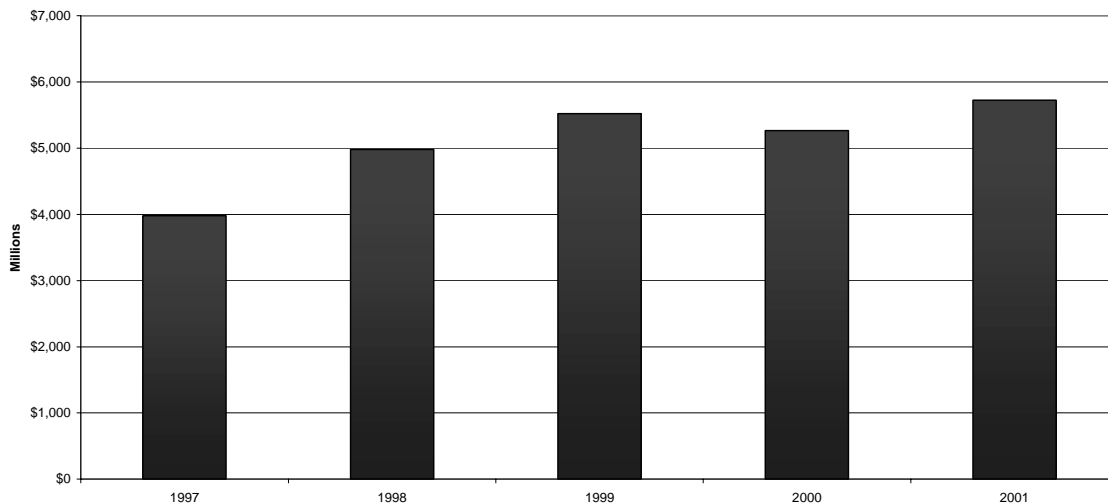
Leapfrog's impact on HIT will be to drive integrated clinical information systems, not just computerized physician order entry. One cannot implement an effective computerized physician order entry system without a clinical information system.

Leapfrog stands in sharp contrast to HIPAA as a model for change. HIPAA Administrative Simplification has been presented as a means of doing with regulation what the healthcare industry could not do for itself voluntarily: adopt cost savings standards for patient billing and related electronic transactions while protecting the privacy and security of patient data. In contrast, Leapfrog seeks to use informed consumers and market pressure to force healthcare providers to improve their processes and systems to meet objectives.

The HIT Market

The HIT market probably grew 8 to 10 percent in 2001 compared with its depressed level in 2000. It is thus back at 1999 levels. The consensus expectation is for 8 percent growth to continue in 2002. However, different segments will see widely divergent results. Security, along with other HIPAA compliance spending, will displace most discretionary initiatives. Security spending, which may account for 3 to 5 percent of HIT spending and a much larger percentage of discretionary spending, primarily flows to infrastructure vendors. Thus it may displace HIT vendor revenues unless the vendors are more aggressive in integrating security within a framework of products. The next highest priority will be enterprise clinical information systems that support computerized physician entry, process improvement, and operational efficiencies.

HCIS Market Trend
*Based on Portfolio Publicly Reporting Companies**



Vision and Globalization

Two trends that will reshape the HIT marketplace are enterprise vision and globalization of CIS. Vision is required to discern the problems and opportunities of the end users of IT and develop real solutions. Too many are ready to define touch problems "out of scope" or to mistake short-term technology fads as "killer apps" without fitting them within an operational framework. The entry of the major medical system vendors, GE, Siemens, and Philips changes the market dynamics in terms of critical mass, economies of scale, breadth of solutions, and worldwide scope. They see clinical information systems as a global opportunity, not tied to national markets. Whether they succeed in the HIT market, they will certainly cause disequilibrium and force other HIT vendors to react.

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