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Moving from a license to subscription-based model for health IT —The benefits, financial implications, and vital components for success

Software subscription models can be described as an all-you-can-eat business model. In comparison with traditional software licenses, where you as a healthcare provider own a license to use the software once it has been purchased, a software subscription model means you have the right to use the software while making payments according to a payment schedule.

The subscription model has been around since the seventeenth century. Books and papers have been the most common products offered as subscription services over this time. Today, more products and services are purchased in this way as we consume movies, e-books, underwear, toothbrushes—you name it—for a small monthly fee, and it is more and more becoming the norm.

A survey by McKinsey & Company [1] from 2018 found that 46 percent of consumers already pay for at least one online streaming service. The market has grown by more than 100 percent per year over the past five years. Looking outside the business-to-consumer market, we see a similar trend across other industries, where 84 percent of new software is now being delivered through software as a service (SaaS)[2]. Companies like Netflix, Salesforce, Microsoft, Amazon Web Services and Adobe are just a few of the giants that have led the transformation from license models to subscription models.

Although this has been commonplace in other industries for a number of years, many healthcare providers have now pivoted from traditional license models to subscription of software according to a plan.

This article will guide you through the subscription model's benefits, its financial implications, and some of the most vital components when purchasing health IT as a subscription.

The benefits of buying subscription-based software

The main reason driving the shift toward subscription models, among consumers and in business-to-business, is that more value is gained over the lifetime of the subscription than with traditional licenses. If you own the software, you may need to pay for service and sometimes upgrades. With a subscription,

you have access to the software and receive upgrades automatically. In recent years, these benefits have also been recognized by healthcare providers, which influence health IT companies to switch to offering software subscriptions models.

The five top benefits we have identified for health providers of moving from a license model to a subscription model are listed below:

- Continuously gain access to new technology and a broader set of functionalities
- Operational expense-based pricing is predictable, and immediately links cost to system utilization and healthcare revenue generation
- Scalability, both upwards and downwards
- Enables expansion to other imaging disciplines and departments without having to buy new licenses
- Facilitates mutually beneficial long-term partnerships with vendors

Access to more functionality

Switching from software license acquisition to a subscription service changes the model from ownership to access. When technology is moving fast and the demands on health providers are growing, the benefits of access to more functionalities are becoming increasingly valuable: *“Why own something that will be outdated in just a few months?”*. In most cases, buying software as a subscription means you also gain access to a broader set of functionalities, which enables healthcare professionals to earlier adopt new methods in diagnosis and treatments.

Being stuck with a stagnant license could mean that you are incapable of adopting new clinical tools available on the market. Early access to new functionality also becomes highly relevant for your implementation of diagnostics with support of artificial intelligence (AI). AI applications are reliant on continuous updates and access to data, which is something that a subscription will cater for in a much more efficient way than owning a license. More frequent updates to the system keeps data for training of AI-based tools relevant.

Many health IT vendors offer different levels of subscriptions, where the top tier level offers an “all-you-can-eat” model. The lower tier packages offer a more limited scope of functionality to a lower price. What these different levels all have in common is that they provide new upgrades and functionality continuously.

Enhanced predictability of costs

The subscription model offers more predictable recurring payments and easier budgeting[3]. A sliding scale pricing model is beneficial when volumes are unpredictable since costs are adjusted directly to the utilization of the system.

Many subscription models also offer a way to lower the price per examination by committing to a minimum annual volume. This would limit the cost adjustment for larger volume declines but be more affordable with steady or growing volumes.

The level of IT system utilization can usually be linked to the reimbursement that your facility receives for the service provided, such as patient or insurance payments. Hence, the subscription model allows you to better match revenue with recurring costs.

In short, a subscription model provides an all-in-all package that makes it easier to plan and budget and to maintain a positive cash flow.

Increased flexibility when volume changes

A common problem with license models is that they are often purchased according to a max limit of utilization in discrete steps. This limit can be defined as the maximum number of exams per annum and/or the number of concurrent users, and thus you always need to pay for a higher volume than you actually produce. Exceeding this level can result in users being locked out of the system, or that some functionality is limited to only a few users. Sometimes, due to discrete license volume steps, you could be buying capacity beyond expected near-term utilization or are charged unreasonably high costs for excessive volumes. In a worst-case scenario, this can have severe implications for patient care, and most certainly have a negative effect on your budgets and users. It can also impede efforts to efficiently grow the business. Upgrading a license might lead to lengthy negotiations that can delay an upscale of your business and ultimately, result in lost revenue. These are all issues that can be resolved with a more flexible subscription model that adapts according to utilization.

In addition, some available subscription models in healthcare include a “free of charge” usage overdraft. This growth protection means that if unpredictable events occur that cause a sudden increase in the level of usage of the system, you will not be charged any extra for the higher volumes. This, to guarantee the predictability of the model and to allow you to try out new functionality without any extra charge.

Enables expansion to other imaging disciplines and departments

A subscription model will let you expand your system to include more imaging disciplines without having to buy new licenses. This will allow you to leverage previously made investments in the IT system, as well as improve collaboration between departments using a single system.

This is highly relevant within enterprise imaging, where many providers expand their system outside of radiology to include cardiology, pathology and other disciplines. A prerequisite for such a consolidation is that it is supported both by the subscription model and by the IT system.

Long-term partnerships

The continuous upgrade of new functionality that a subscription model provides, makes the provider and vendor relationship more of a partnership rather than an arm’s length transaction. Therefore, the subscription model creates a stronger bond between the health provider and the IT vendor—meaning it is more than just another sale and another product on the shelf. This was especially evident at RSNA 2019, where we heard from many healthcare providers that they were looking for a long-term strategic partner rather than just a traditional IT vendor selling a system. For example, Signify Research commented the following:

The role of imaging IT vendors with customers is also clearly changing. In the past, imaging IT software provision was essentially a transaction; today and increasingly in the future, such is the scale and complexity of enterprise imaging IT deals means that customers now view their selected vendor as a long-term partner.

Signify Research, RSNA post show report 2019

The subscription model aligns the customer and the vendor toward common goals, as both stand to benefit if the customer receives value from the subscription. If you obtain value, it is more likely that the subscription will be renewed. If you do not get value, you will most likely return to the marketplace.

The factors that make a relationship like this work are open communication of utilization and outcomes, and willingness to share responsibility for quality and functionality improvements in products. Instead of us, the vendor, nickel-and-dime and charging for each new functionality, you, the health provider, gain access to a full package that includes much of all the new functionality. We are incentivized to only develop what improves outcomes. Hence, the subscription model is beneficial for you since it forces us to improve and step-up our products.

Looking at the research, a psychological phenomenon may occur when you renew a subscription, which does not occur in connection with a one-time transaction: *if you are not satisfied with the service, you can simply leave the subscription to expire and find another seller* [4]. This contrasts with many one-time transactions, which force you to make significant commitments as a result of high software prices. You may have felt that historically, the “one-time-purchase” model does not provide vendors with incentive to maintain relationships with you as a customer.

However, subscription models offer a way to lower costs by committing to a longer period of time. This also makes sense from the healthcare provider’s perspective, since the first year will include an implementation cost.

As technology and medical advancements are moving faster than ever before, strong partnerships between the parties are necessary to attain mutual success. A subscription model will create incentives to nurture this relationship in a much more beneficial way than a license-based transaction.

Financial implications

Although the benefits of subscription models are many, you may argue that a monthly or quarterly subscription costs you more in the long run. However, with the right model, and the right content, you will receive more value for money.

A common mistake many healthcare providers make is comparing the lifetime cost of a license model to a subscription model. Subscription plans mean the expense shifts from capital to operational, which may appear more expensive in the long run if compared with the upfront and service costs for the license model. Such a simplified comparison does not provide a fair picture, as two different ways of consuming software are being compared. With the right subscription model and selected tier, more value is added across the length of the contract, such as always having access to the latest functionality that otherwise would be available by additional purchases. Everything needs to be taken into consideration in an evaluation and should include the following at a minimum:

- maintenance
- access to new functionality

- updates and upgrades
- expansion to other disciplines
- better matching costs to system utilization and revenue
- increased flexibility, etc.

What is also often forgotten about are the lifetime fees that arise due to the functional limitations of the license model, such as the need to pay for additional functionality or upgrades. These costs are often avoided in a subscription model.

Financial comparison guide

The traditional license model is characterized by a large up-front fee, followed by a recurring service fee. In some contracts, upgrades may be included, but these are normally limited and keep new functionality to a minimum, since some vendors strive to sell most new functionality as add-ons.

The subscription model means a flat recurring fee (if the system utilization is constant) that is higher than the service fee, but normally no up-front license fee is charged other than the installation cost.

When comparing the accumulated costs between the two models, if no add-on sales nor any other advantages of the subscription model have been considered, it appears that the subscription model is more expensive than the license model in the long term—an assumption that in practice is incorrect. This highlights the need for estimating additional value and the additional lifetime costs to make a fairer comparison. Such additional costs are new functionality, upgrades, services, expansion to otherologies and other license-associated items.

Vital components of a subscription model

So, the benefits of subscription models are clear, but if your organization is not ready, or the subscription contract does not support your operations, the transition might not provide all the promised value. We have listed four common areas below to keep in mind to ensure a successful implementation:

- **Scrutinize vendor risk:** Subscription models may increase operational risk if the vendor is financially unstable. If the vendor goes out of business, it leaves the customer without an opportunity to renew the subscription or gain access to its own data maintained as part of the software. For example, in medical imaging, physicians require full access to old images for decades. A vendor bankruptcy can have fatally business-critical implications for you as a health provider if your business depends on the availability of software.
 - Examine the subscription contract to ascertain what will happen if such an event were to occur. Minimize the risk by selecting a financially stable vendor with long-term owners.
- **Analytics capabilities:** The great benefit of the subscription model—to be able to directly match system utilization with costs—might not be possible due to the inability to forecast and track volumes.

- Ensure that you can estimate and track volumes and system utilization levels, and that proper business analytics capabilities are established.
- **A scalable subscription model:** A good subscription model enables you to scale your business efficiently. Through predictable operational costs matching your income, you can ensure that the growth you project is sustainable. Without this cost control, your growing patient base can quickly overload the infrastructure and strain results.
 - Make sure you understand the scalability of the subscription model and its capability to support your predictable growth.
- **Future-proof packaging and vendor partnership:** As technology and medical diagnostics and treatments advance, so too do your requirements for new functionality. The package you select today may serve your operation perfectly at the present time, but as things change, you want to have the ability to upgrade and gain access to new functionality.
 - Make sure you will have the possibility to switch or upgrade functionality packages and shift between different subscription levels. Examine the vendor’s capability to provide you with new innovations as technology and medical practices develop over time.

Summary

We can see that health providers are looking for new ways of doing business that are more predictable, easier to understand, and can link costs to actual volumes, revenues and cash flows. From a clinical perspective, technology and medical advances are evolving faster than ever before. The pace of development requires you to continuously adopt new functionality to handle new ways of performing diagnostics and treatment methods. These are all areas unsuited to the traditional license model for medical software and were shifting to software subscription is beneficial.

In the new fast-moving era of healthcare, characterized by tough financial requirements and demands for high-quality patient outcomes, the subscription model offers many advantages over a traditional license agreement—advantages that in the long term will lead to actual cost reductions, increased access to new functionality, and more beneficial provider-vendor partnerships. In an age when getting value for money is more important than ever before, the benefits of the subscription model are driving the change in the way you consume software.

There is no doubt that software subscription is the future of health IT and doing your homework carefully before making the move will maximize your chances of leveraging the full benefits of the model.

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