

# Getting the Best Deal On Medical Equipment

**T**he process of buying medical equipment for your practice is a little like buying a car. The first step is to identify your needs and evaluate what you can afford. Then pick out a model that appeals to you, contact the vendors who sell it, compare price and options, consider who can deliver the best customer service and arrange financing.

If only it were that simple. That million-dollar piece of technology you just bought can reflect either the best or worst decision

you ever made. Your success with the equipment boils down to three factors: Planning, planning and more planning.

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question: Do you need the equipment?

“A really big, thriving practice is going to look at the number of activities that it refers out that it can [perform in house],” says Martin Moll, director of the health practice at Aldrich, Kilbride & Tatone, in Lake Oswego, Ore. “Primary-care doctors are so pressured for revenue. They are constantly asking about that.”

At some practices, employees record how many times patients are referred to the facility down the street for a specific test—like an MRI or bone density scan—over a period of several

months. After gathering this information and doing a little math, they develop a basic idea as to how much revenue their practice can generate from such tests.

Equipment vendors can also be a good resource. Based upon your patient demographics, they can provide fairly accurate data regarding how many of your patients will use the machine on

**Can you do better elsewhere with the money you would use to purchase the equipment? For example, you may be able to earn \$10,000 a month from a machine that costs \$8,000 a month. But can you turn that same \$8,000 into \$12,000 a month by introducing a new service, adding more exam rooms or hiring a mid-level provider?**

average each month. Just remember that during the first several weeks of owning the equipment, volume may be way down since your technicians will still be learning how to operate the machine. Be realistic—don't anticipate doing 20 tests a day when in reality your technicians may not be able to do more than four a day to start.

Mr. Moll knows of one specialist who recently purchased a CAT scanner. But somehow his projections for turning a profit proved to be way off. When Mr. Moll asked him for his worksheets, the physician provided him with some numbers quickly jotted down on a scrap piece of paper. The physician's hasty decision—which turned out to be a bad one—did nothing more than financially drain his practice month after month.

Even if it is obvious that you will be able to profit from the technology, Mr. Moll still points his clients to several benchmarks that they must consider. What kind of volume is needed—and for how long—to break even? The second is just as important: Can you do better elsewhere with the money you would use to purchase the equipment? For example, you may be able to earn \$10,000 a month from a machine that costs \$8,000 a month. But can you turn that same \$8,000 into \$12,000 a month by introducing a new service, adding more exam rooms, hiring a mid-level provider or even investing in the stock market?

Mr. Moll says that many physicians fail to ask themselves the last question and end up chasing something that may sound good but costs them more money in the long run. Just because you can afford to buy a piece of equipment, this doesn't always mean that

it's the wisest course of action.

Sometimes leasing equipment—versus buying it—will make more financial sense, especially if the equipment's technology has a track record of quickly becoming obsolete. "It's a very simple compare-and-contrast [analysis]," he says. "Look at your total cash outlay."

Before you sign any contract, he suggests contacting medical associations who can assist you through the process. Other medical practices that have purchased the same equipment can offer practical tips, advice, benefits and the downside of making such a purchase.

## **Review Costs and Benefits**

Be sure to examine all the potential costs and benefits associated with buying new equipment. For example, here's something you may not have considered: new equipment can help recruit young doctors straight out of residency. Many tend to be technology savvy and prefer to work in practices that support cutting-edge machines.

"They walk into your practice and see an X-ray machine that's bordering on antiquity versus the practice down the street that has a brand new machine," Mr. Moll says, adding that it gives them an indication of your practice or workstyle. "If they're fresh out of school, chances are they want fresh thinking, not conservative thinking."

Medical equipment can also double as a marketing tool for your practice. Several years ago, Jennifer Wilkes worked as an office manager for a gynecologist who had moved from Virginia to central Florida. The physician was the only female gynecologist in the area, which was mainly a retirement community.

While the fledgling practice was attempting to attract more patients and income opportunities, Ms. Wilkes discovered that between 80 percent and 90 percent of its patient base were menopausal women who would benefit from bone density scans. So she spent some time on the Internet researching DEXA Scan machines, their pricing, features, how much space the machine required, how much training was needed to operate it and whom the practice could hire or train in house to run it.

The practice purchased the machine and announced its new

arrival to existing patients. Within several weeks of performing its first bone density test, the phones began ringing off the hook. “We were booked out for two months in advance,” say Ms. Wilkes, now a healthcare consultant in Ocoee, Fla.

Patricia Harrison, a healthcare consultant in Port St. Lucie, Fla., stresses the importance of vision: be creative with how a machine can be utilized. And, she adds, ask your vendor questions—plenty of questions.

Cathy Bird, administrative director of Premier Urgent Care in Melbourne, Fla., developed a checklist of questions to ask vendors before purchasing equipment. She suggests researching the following areas:

### **COST**

1. On average, what is the monthly cost of supplies that the equipment will need?
2. Are delivery and installation included in the price?
3. How will the equipment affect your malpractice premiums?
4. Are there any other hidden or associated costs of operating the machine? What will your total monthly expense be?
5. How will the equipment impact your utility costs?
6. If damage to the building occurs during delivery, who pays for the repairs? Ms. Bird says that when the MRI machine was delivered to her practice, the deliverymen placed it on the front sidewalk, which cracked the concrete. In the end, her practice was not held responsible for the damage.
7. What reimbursement amount can your practice expect from insurance companies? She says that some managed-care companies will not reimburse you for certain tests.
8. What happens if the delivery people drop a piece of equipment? Who is responsible?
9. If the machine breaks, your practice loses revenue. Who is financially responsible for the downtime?

### **PERSONNEL/TRAINING**

1. How many employees are needed to operate the machine?
2. How many training days does the vendor provide?
3. Will the vendor come to your office to train your staff, or will you have to send staff to the vendor’s facility?

4. Will the vendor send a representative to your office on the first day the machine is being used for added support?
5. If one of your staff quits during training, will the vendor train a replacement?
6. How much time will elapse between staff training and installation of equipment? If several months, what kind of support does the vendor offer? Ms. Bird says that her practice successfully negotiated for an additional day of staff training.

### LOGISTICS

1. How much space does the equipment need? Ask for detailed specifications.
2. If you expect the machine to attract many patients, does your building have enough parking spaces, or will you need to place the equipment at another location?
3. Will your office be inspected once the equipment is installed? An MRI machine, for instance, requires a special license if you plan to treat Medicare and Medicaid patients. Ms. Bird says that this is a tedious process involving a considerable amount of paperwork. So be sure to get a copy of the requirements before you design the equipment's room.
4. Check references. Ask about the vendor's response time to requests.

### MAINTENANCE

1. How often does the machine require routine maintenance?
2. What is the vendor's response time to maintenance and repair calls?
3. How many times will the vendor come out to repair your equipment? Is there a maximum number of calls that they will make?

Ms. Bird also suggests assigning a project manager—a non-clinician—who can oversee the entire project. “The key is to set deadlines,” she says.

Since there are only a handful of vendors who sell high-end medical equipment, their pricing will be competitive. The major differences will be found in their service agreements and warranties.

To identify which vendor has the best plan for you, create a grid or matrix that compares all the different aspects of the war-

ranties and service agreements, says Ken Hertz, senior consultant with the MGMA Health Care Consulting Group, based in Alexandria, La.

Be thorough. Take nothing for granted. Then select your top vendor and start negotiating. Just remember that you will never get more than you ask for, Mr. Hertz says, so ask for what you want. This is not the time to be timid or shy. Vendors do have some wiggle room.

For example, if the vendor offers you a two-year service agreement, ask for three or four. Mr. Hertz knows of one cardiologist who did just that and secured an extended warranty. Or maybe the service agreement runs \$20,000 a year for four years, but you can afford only \$15,000. Tell the vendor that \$15,000 is as high as you're willing to go. You can also negotiate for supplies. Instead of accepting free supplies for 20 tests, ask the vendor to sweeten the deal by bumping that number up to 40 or 50.

Do the same with training. If the vendor offers either one day

### Surfing the Web for Bargains on Equipment

Besides logging onto eBay for small-ticket items, some physicians are turning to medical e-marketplaces for all types of used medical equipment. Physicians are matched with other doctors who are selling equipment due to retirement, practice closure or merger, relocation, idle inventory or equipment upgrades, says Cynthia Schuster, president and founder of SoluMed.com ([www.solumed.com](http://www.solumed.com)), an e-marketplace for selling or buying medical equipment and services.

This secondary marketplace—as it is sometimes referred to—is best suited for physicians who know exactly what they want, such as the specific manufacturer and model of a machine.

Used “as-is” equipment bought directly from other physicians or clinics usually produces the greatest savings, she says, adding that the prices are usually 30 percent to 40 percent lower than the cost of the same equipment if purchased new. But doctors need to exercise caution. She suggests the following tips:

- Request pictures of the equipment so you can evaluate its condition.
- Conduct a site visit for high-ticket equipment to ensure that it works properly before offering full payment.
- Use a credit card or escrow services (in which an independent party

or one and one-half days of on-site training, ask for three days. Some practices request that the vendor's trainer return six months or a year later to make sure that their employees are using the equipment properly and successfully handling the practice-management side of the machine, such as coding claims properly. Based on his experiences, Mr. Hertz says, nine times out of 10, they're probably not.

"Push the envelope," Mr. Hertz says. "You've got to take the time to know where your costs are going to be, where you can realize savings, what it is that you want and need, what's important to you. Then you need to ask for it."

Don't be afraid to spend a little money for a consultant, which may end up saving you a lot of money and headaches later on. At the very least, consult with in-house staff who may have some technical expertise with the equipment you plan to purchase, whether you are buying high-tech medical devices or electronic equipment for the office.

holds your payment until all terms of your agreement are met).

- Request a 30-day warranty if purchasing through a dealer. While equipment with warranties comes with a higher price tag, the added protection may be worth the higher cost.
- Expect to pay for the equipment in full before it is shipped.

Some doctors don't realize that they are dealing with an equipment broker instead of the actual seller. Always try to work with sellers who have the equipment in their possession instead of brokers who may have a lead on someone who is just thinking about selling the same equipment you want, adds Mark Zirinsky, president at Production Engineering-Medical Equipment Division ([www.pemed.com](http://www.pemed.com)), an on-line site for used medical equipment.

Although you can save a lot of money by buying used equipment, there is a trade-off. The equipment may not be exactly what you want or need.

"With anything that's used, you're going to get 80 percent of what you want at 20 percent of the price," Mr. Zirinsky says. "If you are expecting 100, 110 or 120 percent of what you want, go buy it new; then pay a premium for someone to custom-manufacture it for you from there. One needs to have realistic expectations."

## False Assumptions Can Be Costly

There are hundreds of facts and figures that could impact your decision to buy medical equipment. Make no assumptions. Check everything out—two or even three times. Remember, it is your money that is at risk, and it could quickly vanish due to lack of planning or false assumptions.

Several years ago, one multi-specialty surgical group lost \$100,000 on its equipment because it made inaccurate assumptions. Mr. Hertz at MGMA says that the physicians vacillated for five years over whether to create an on-site surgical room for breast biopsies. For years they had been performing such procedures at the local hospital. Financially, the surgical room made sense since the majority of their patients were women who relied on them for annual breast exams. Besides, they reasoned, an on-site surgical room would be more convenient for both doctors and patients.

So the doctors outfitted a special section of their office with a stereotactic (surgical) table and other medical equipment, then hired technicians. “It was really a first-class operation,” he recalls. They even hired a female architect to design the waiting room and changing area so that they would feel warm, inviting and embracing. The final price tag was about \$250,000.

But something strange began to happen. Little by little, the doctors resorted to their old habits—using the hospital’s facilities instead of their own. Mr. Hertz believes that they were accustomed to it, weren’t all that committed to their own surgical room and didn’t really want to change. Soon almost every biopsy was being performed at the hospital. It didn’t take long before the practice’s surgical room became a big, expensive flop.

Around the same time, the hospital decided to purchase a stereotactic table. You can probably guess what happened next. The practice sold its table (which by then had significantly depreciated) to the hospital, and converted the surgical room into a storage room.

Their story is not all that uncommon. Before buying expensive medical equipment, Mr. Hertz says, you must start with three sets of assumptions: what will most likely happen and the worst- and best-case scenarios.

“You need to understand what happens if this doesn’t work,

what are your alternatives, what if you have to sell the equipment or need to generate more business for it,” he says. You’ve got to do the planning up front if you’re going to do this right.”

But sometimes even the best-laid plans can end up badly. Mr. Hertz knows of two different cardiology groups that wanted to create a diagnostic center that leased nuclear equipment. They considered soliciting investments from primary-care physicians, but adding more parties to the arrangement became too complicated, so the two groups went off on their own and opened their center in 2005. Each of the five physicians referred appropriate patients for testing.

This arrangement will end in 2007, when the Stark law kicks in for nuclear imaging. This Federal legislation prohibits physicians

from referring patients to a medical facility in which they have a financial interest. The rationale behind this law is that physician self-referral may encourage over-utilization of services, drive up healthcare costs and limit competition by other providers.

Still, the medical practices have several options. Mr. Hertz says that one group can purchase all the equipment for in-house diagnostic testing. It could also lease the equipment one or two days a week to the other group. But in order to be compliant with the law, he says, the second group would have to send one of its doctors to the first group’s office on those particular days.

Besides new legislation, Mr. Hertz says, doctors need to consider the political implications of purchasing equipment in their community. Would anyone be offended if you brought this equipment inside your practice? Would you dramatically change referral patterns? If your practice relies on referrals, check with key sources before making a decision.

Some insurance companies are throwing a kink into doctors’ plans. These insurers are informing primary-care and ob-gyn physicians that all X-rays—even those taken in house—must be read by certified radiologists, says Mike Fleischman, principal

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at Gates, Moore & Co., an accounting and healthcare consulting firm in Atlanta. In other situations, physicians cannot even order an X-ray until they speak with a certified radiologist.

“This is happening around the country,” says Mr. Fleischman. “Several of the big carriers are doing this as a method to control costs. The irony is that we did this 10 years ago. It didn’t work then, and it’s not going to work now. Frankly, it’s going to make a lot of people mad.”

Other problems surround staffing. Although you may be able to afford ultrasound equipment, who is going to operate it, considering the current shortage of ancillary medical technicians? If you do not plan to train an existing employee, allow yourself ample time to recruit a qualified technician.

Office space is another critical consideration. Mr. Fleischman knows of one medical practice that would like to purchase new equipment but lacks sufficient office space. He says that the practice would have to eliminate some exam rooms, which wouldn’t make financial sense.

Even if you have adequate space, how will the equipment’s location fit into the flow of the practice? Will patients need to walk down a long corridor, which could pose a problem for some elderly people? Can the equipment be located next to a restroom, which would be important for some ultrasound patients? Is the equipment going to be placed so far away from the waiting room that patients will need to be escorted to and from the machine, taking up staff time? These are details that you need to consider.

Poor office flow creates bottlenecks. By slowing things down, it wastes valuable time for everyone in your office, from the front-desk receptionist to your nurses, medical assistants and billing clerks. Many practices never consider its impact until too late.

## **Beyond Price**

In their effort to save money, some medical practices are purchasing refurbished or last-generation medical equipment on eBay or other Websites, everything from microscopes and defibrillators to lasers and ultrasound machines. While this can save a lot of money, it can also create big problems for medical practices, says Bryan McMillan, managing director of business development at Stryker, a medical equipment supplier in

Roanoke, Tex., that sells everything from orthopedic implants to imaging equipment.

“You don’t know where the equipment is coming from, that it’s in proper working order,” he explains. “There’s liability associated with that equipment, if any of the equipment were to cause injury to a patient. We can’t guarantee it’s safe if it has been repaired by a third party. So the extra added value they perceive they’re getting by buying it on eBay could be a big liability issue for them down the road.”

### Run the Numbers Before Buying Equipment

Will buying that MRI or DEXA Scan machine make financial sense for your practice? Martin Moll, director of the healthcare practice at Aldrich, Kilbride & Tatone, in Lake Oswego, Ore., offers this basic example to help steer you on the right path:

#### Dr. Smith—Equipment Purchase Analysis

	2006	2007	2008
<b>Revenue Summary</b>			
Number of procedures per year	400	420	441
Revenue from procedures	70,000	73,500	77,175
Contractual adjustments (amount collected as opposed to amount billed)	(10,500)	(11,025)	(11,576)
Yearly net revenue	59,500	62,475	65,599
<b>Expense Summary</b>			
Acquisition costs	50,000	33,000	33,000
Additional fixed costs (salaried personnel, etc.)	22,500	22,500	22,500
Additional variable costs (additional supplies, etc.)	1,000	1,050	1,103
Yearly expenses	73,500	56,550	56,603
<b>Cash Flow Summary</b>			
Net profit (loss) per year	(14,000)	5,925	8,996
Cumulative cash flow	(14,000)	(8,075)	921
<b>Break-even analysis</b>			
Annual volume needed to break even	496	380	380

Although many doctors want to outfit their offices with the latest medical equipment, many suffer from sticker shock. Some imaging equipment, for instance, can range from the high six figures to millions of dollars.

“Doctors need to be prepared for the sticker shock associated with the price of what they’re trying to do—make their place state-of-the-art,” Mr. McMillan says. “Doctors have always seen the medical industry as something that has taken care of them. While we want to take care of them, we also have to create value for our company. At the end of the day, we all want to do business in a legal way, in a way that’s going to drive business for them and for us and in a

**Bryan McMillan** of Stryker advises physicians to ask medical suppliers about the different financing alternatives available. Stryker offers at least three different types of packages: an operational lease, a capital lease and a fee per use or fee per disposable arrangement. Each has benefits and weak points that need to be explored.

way where everyone is going to be happy.”

As part of their negotiating tactics, some doctors in private practice expect the same deep discounts that are given to hospitals that spend millions of dollars on equipping their facility with the latest technology. But that’s just not realistic, says Mr. McMillan. Instead, he says, they need to ask medical suppliers about the different financing alternatives available, which many doctors don’t realize exist.

Stryker, for instance, offers at least three different types of packages. With an operational lease, Mr. McMillan says, physicians make a monthly payment that is roughly 10 percent less than direct purchase of the equipment. They can depreciate the asset from day one as opposed to waiting for five years, which traditional accounting procedures require for purchased equipment. Then at the end of the term, they can turn the equipment back into the company or lease a new-generation machine.

But this type of financing doesn’t work well for equipment that can be easily stolen, accidentally broken or discarded. If any of these things occur, he says, the practice might as well own it since it will have to pay for it anyway and can write it off, unlike a leased item.

Under these circumstances, a capital lease would make more sense, he says. A medical practice pays approximately 10 percent more on its monthly payment than an operational lease, but at the end of term, there's a \$1 buy-out. In other words, the practice can own the equipment by paying \$1. The only downside to this arrangement focuses on technology. Not many physicians want to own outdated equipment, but they can't afford to walk away from a multi-million-dollar machine. So this package is better suited for equipment whose technology doesn't rapidly advance and that will be in the exam room or office for many years, such as lights or printers.

The last alternative is fee per use or fee per disposable. Mr. McMillan says that this plan is best suited for disposable items like shaver blades. In this case, the medical practice would be upcharged for each blade, which would be credited toward a cap-

### Equipment Installation Pitfalls

In the late 1990s, Jennifer Wilkes worked for a radiologist whose dream was to own his own \$2.5-million diagnostic testing facility without soliciting financial help from any investors.

It took a full year just to obtain the proper permits, such as for placing the equipment in the building and for using it on-site. "The permits seemed to be the big drawback," says Ms. Wilkes, a health-care consultant in Ocoee, Fla. "Something always had to be upgraded or inspected."

Among the most difficult and costly processes was installation of the MRI machine, which turned out to be a week-long event. The outside wall of the building had to be removed. The radiologist spent \$50,000 to rent a heavy crane to remove the wall and lift the heavy MRI machine into place. The crane was so big that it nearly blocked the entire street, she recalls, adding that she also had to obtain a city permit to block off the road for two days. The next month was spent setting up the machine.

In total, the center took nearly two years from obtaining credentialing to its grand opening. "If I had to give anyone advice on what to do before, during or after an attempt to build and run a multi-modality center, make sure you have all of your ducks in a row," says Ms. Wilkes. "Make sure you have a [comprehensive] plan and a date to open, then aim toward it."

ital purchase over a period of time. For example, if a shaver blade costs \$70, the medical practice would be charged \$80. The extra \$10 would be applied toward paying off the practice's ultrasound machine. He says that many doctors prefer this arrangement to pay off capital equipment since it does not require them to offer any money upfront.

But like the other plans, it has a disadvantage. A practice that supports seven doctors, for example, signs up for a five-year plan and predicts doing a specific amount of volume with the machine. As its volume ramps up, the monthly payment is reduced. But what if a doctor or two suddenly leaves the practice? Its volume suddenly drops. Now the practice is stuck paying the higher price because of the decreased volume, which then begins to cut into its cash flow and profits.

All three plans have obvious benefits and weak points. Work with your salesperson or account manager to create a financing package that accommodates your needs. But even more important, Mr. McMillan says, is to develop a trusting relationship with the vendor.

"There's a great partnership that can be formed between the medical manufacturer, the doctor and his practice in a way that's going to accentuate for the long term what the doctor can do for his practice," says Mr. McMillan. "There's a lot of knowledge that we have that can help these doctors make the most out of their practice."

He is referring to consulting services that some vendors, like Stryker, offer in order to help doctors stay focused on a niche service, better understand their demographics, realistically determine what volume they can expect and create strategies on how each doctor can best leverage the new equipment.

GE Healthcare, which also sells medical equipment, has

trained some of its clients on Six Sigma, a methodology that uses data collection and statistical analy-

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sis to find the source of errors and eliminate them, says Jose Molina, marketing manager at GE Healthcare in Waukesha, Wis.

Mr. Molina tells of one group of approximately 20 physicians that recently built a new orthopedics and spine surgery center. He says that GE not only trained the physicians on Six Sigma, but also helped them implement it at their facility.

“We wanted to make sure that they took advantage of all the equipment that they bought,” he says. “This methodology helped them address all the changes—workflow changes—so they [could become] active in getting their return on investment.”

Sometimes equipment vendors participate in one area that few doctors ever inquire about—marketing. They may co-brand a newspaper advertisement that announces or promotes the new equipment or pay for a portion of the printing costs for brochures, flyers, handouts or other marketing collateral.

GE offers a marketing tool kit, says Mr. Molina. It includes brochures and templates for press releases to help medical practices communicate information to their patients and referring physicians about their new equipment.

The idea here is to look for a vendor who can help you with every aspect of your new equipment, such as constructing a room for it, marketing it and offering speedy repairs and maintenance.

“Partnering with the right vendor is critical,” says Mr. Molina, adding that price should never be your only consideration. “Look for a vendor with a track record, that’s going to be around and can help set you up as a successful provider.”