

CONTROLLING EQUIPMENT SERVICE COSTS

BY BILL SANDERS AND BRIAN BAKER



IF YOU THINK YOU CAN BEAT THE BIG BOYS AT THEIR OWN GAME, THINK AGAIN. MANY OF US HAVE LEARNED WHILE IT IS TEMPTING TO GO “BARE” WITHOUT SERVICE PROTECTION, IT CAN BE COSTLY OVER TIME, BOTH IN UNBUDGETED EQUIPMENT REPAIR COSTS AND LOSS OF REVENUE AS A RESULT OF DOWNTIME. BUT KNOWING THOSE THINGS TO LOOK FOR IN A SERVICE AGREEMENT CAN HELP YOU MAXIMIZE YOUR EQUIPMENT UPTIME AND MINIMIZE YOUR OVERALL SERVICE COSTS.

According to a 265-page report in October 2008 prepared by Global Industry Analysts, the medical imaging-equipment services market is forecast to reach \$9.3 billion by 2012. The United States represents the largest market, accounting for an estimated 47% share in 2008. Original Equipment Manufacturers (OEMs) overwhelmingly dominate in terms of market size and growth rate. For 2008, medical imaging-equipment services offered by OEMs are estimated to reach \$7.1 billion. Medical imaging-equipment services, offered by other service organizations, are forecast to exceed \$1.23 billion by 2010.

Equipment service options abound in today's marketplace. With the current economic challenges facing all businesses, the OEM's and independent service providers are more “inspired” than ever to work with you and develop service solutions that make sense for both parties.

As a rule, traditional OEM annual full-service agreements will cost between 10% and 15% of the equipment's acquisition cost. While in the past, the best time to negotiate a service contract was at the time of equipment purchase, today's market deserves more thorough consideration. It's no secret the OEM's and aftermarket equipment vendors want to sell you equipment and service. But with more owners keeping their equipment longer and delaying the purchase decision, ensuring your service agreement accurately reflects your needs can make the difference in your bottom line.

Therefore, before committing to any equipment purchase, you should decide if you are going to consider alternatives to OEM provided service and how you might revisit your entire equipment-service strategy. You may want to investi-

gate some Independent Service Organizations (ISOs) or determine if in-house provided service is feasible. While Equipment Maintenance Insurance (EMI) has not caught on to any degree in medical imaging, it has been growing in other equipment-intensive industries and may be worth evaluating for your needs. In-house service may be possible in a larger hospital or a hospital system, but is usually cost prohibitive and too risky for most outpatient imaging operations.

Whether you choose an OEM or an ISO, there are many options to tailor a service strategy to meet your budget needs and risk tolerance. Consider:

- Varying your hours of coverage
- Shared risk options that offer first-call discounts to use your own staff
- Shared risk options structured to “partner” when service dollar thresholds are met.
- A combination of insurance, and full-service coverage
- Training programs for your staff
- Parts pools

There are many alternative ways for coverage to be structured. Take the time to write out your unique business needs and don't be afraid to share those with potential service providers. They are creative people. You might be surprised what they can build for you.

For several years, beginning in the mid 90's, multivendor arrangements that allow one vendor to service multiple vendors' equipment gained momentum and continue to be a viable option today. Siemens, GE and Philips all have multivendor divisions with sophisticated training centers that train engineers to service competitors' equipment. In addi-

tion, there are some very well qualified ISOs, but they can vary in their ability to provide service to all types of imaging equipment from all manufacturers. When considering a single source multi-vendor service provider, it's important to understand, in detail, how your equipment mix fits into their expertise and the tools they have to service your equipment properly. As imaging equipment has become more advance and complex, so have the software and tools used to operate and service them. Ask the tough questions, call the references and speak to the field engineers. It will make a difference in your equipment uptime.

When entering into a service agreement, pay special attention to several areas that are generally considered standard language. First, as in any contract review, you should read all of the fine print. Reading everything in a document can be laborious, especially if you are new at it, but you will not only save yourself later heartache but will begin learning about contract language (it gets easier with practice and familiarity). Highlight those items that you don't understand or those that you would like to have changed or deleted for discussion with the vendor. There are no dumb questions when reviewing service contracts and you will never know if you could get a provision changed unless you ask. Be aware of charges outside of the agreement, such as "special handling charges" and after-hours labor costs. Also, remember to ask for the service manuals with your equipment purchase. Some manufacturers will resist this request, but usually will provide the manuals if strongly requested.

Other areas you will want addressed in an agreement are:

- Response times and parts availability, including back up capabilities on parts and service equipment, i.e. whether key parts are in stock locally and are delivery guarantees provided for those that are not.
- The timing of monthly, quarterly or annual invoicing and expected payment terms. You can often save money with unique payment terms that might include quarterly or annual payments.
- Both "with cause" and "without cause" cancellation clauses should be included, along with any associated cancellation fees.
- Performance related cancellation terms.
- Tube contracts outlining how the tube life is to be calculated, i.e. number of scans, or slices, or scan seconds, etc. Replacing tubes on CT and x-ray equipment can break the budget if you don't have them covered. Train your technologists so they can be as aware of tube life as the vendor's service engineers.

Another key area that should be discussed and understood in any service agreement is an equipment uptime guarantee. This is essential to protect your revenue generating capabilities. This clause should reflect a clear formula that specifies what parameters affect the vendor's responsibility and the penalties for excessive downtime. There should be teeth in this clause and a real financial impact on your service vendor. Remember that uptime needs may be

unique to each type of equipment or may vary by location and should reflect your business operational needs. Many outpatient scanners can receive preventive maintenance and non-critical repairs after regular hours, while a scanner in the emergency department of a hospital has less scheduling flexibility. It's important to note, however, that PM's and non-critical repairs typically do not count as downtime under the guarantee. Your uptime calculation is especially important if there is no available backup equipment to provide services to patients. This problem is more acute when schedules are at or near capacity. So, be clear on what hours of operation are included in your uptime calculation.

There are other factors that the vendor may not want included in the uptime calculation, such as unacceptable temperature and/or humidity in the scan or computer room, repairs to ancillary work consoles that may not be covered, tube replacements and routine preventive maintenance. Make sure you know what is or is not included in the formula. It is most effective when the agreement provides for calculation of the uptime guarantee on a quarterly basis with remedies, if necessary, paid accordingly. Annual reconciliations have less effect on maintaining an acceptable level of downtime, as the penalty for non-compliance is too far in the future to affect ongoing behavior. Vendors typically offer levels of uptime from about 95-98%, with corresponding remedies if these levels are not maintained. Compare the remedy provided by the vendor at each percentage level to the impact of a corresponding percentage change in your revenue to determine if the remedy provides enough incentive for the vendor to meet its uptime commitment. Negotiate with them accordingly.

Another service consideration is the first year warranty provided by the manufacturer. In many cases this warranty will not match what you want in your service contract for the second through the fifth years (if you get a multi-year contract). Carefully review these terms, especially as they relate to tube coverage. For OEM's, warranty coverage is provided by the sales organization which pays the service business a predetermined fee based on standard warranty terms. If your needs are more comprehensive than this basic coverage, additional coverage under warranty might need to be purchased or negotiated as part of the purchase transaction.

If you are considering a multivendor service contract in the near future, you should be careful not to sign long-term contracts unless you have little or no penalties for early cancellation. Vendors are often reluctant or unwilling to forfeit their contracts so the competition can provide service on their equipment. For this reason, you may not be able to realize the maximum savings of using a multivendor contract until all of your other contracts have expired. On the other hand, a multivendor contract could be used as leverage to get a reduction from those vendors not included in a master multivendor agreement.

A few final thoughts may prove helpful. We all know that equipment maintenance is only as [\[continued on page 14\]](#)

and are working toward mutually agreed-upon goals should have little to fear from teleradiology companies. Conversely, those seen as diffident, recalcitrant, greedy or lacking in customer service may want to think twice about bringing a new and capable player into the mix. Teleradiology firms continue to refine their customer-service functions. Most are fast, capable and thorough, and many offer instant interaction between the reading radiologist and the referring physician. Groups that cannot provide an equivalent level of service may be setting in motion their own demise by partnering with a teleradiology company.

It is critically important that, whenever possible, the group should control the contract with the teleradiology company and establish in writing that the firm will not negotiate directly with the hospital. Enlisting the teleradiology provider as a subcontractor greatly reduces the possibility the firm will make an end-run around the practice to win a bigger share of the hospital's business. It also allows the group to control the kinds of teleradiology services provided to the hospital.

Selecting a Partner, Determining a Price

The process of finding the right teleradiology partner should be no different than the kind of due diligence performed when selecting any key vendor or sub-contractor. Yet many groups do not shop comparatively when seeking a teleradiology vendor and simply choose the first one they find. Assuming quality and service meet acceptable standards, price and terms of service are the key differentiators and must therefore be closely examined.

Groups should accurately calculate their existing volume by modality for the periods of time, which the teleradiology firm is slated to fill. Because most teleradiology groups work on a per-study basis, determining projected costs should be relatively straightforward. Fortunately, intensifying compe-

tion between teleradiology firms continues to drive down prices and groups should shop until they're confident they've found the best deal. In addition, they should reject ancillary charges, such as fixed, per-day fees or guaranteed minimum number of studies per day. If vendors aren't willing to eliminate these surcharges, the practice should look elsewhere.

Practices should also pay particular attention to how firms bill for common procedures. Many firms, for example, assign two CPT codes or two billing units to pelvic-abdominal CT scans. But because the studies are frequently used together, other teleradiology firms have begun to charge only 1.5 units for the studies. The cost difference between the two models can be significant. Again, a thorough understanding of existing volume by modality is critical to determining the best price.

Hospitals can be enlisted to help share the expense of teleradiology services through a new or existing stipend, providing the group can demonstrate unequivocally that service will be improved and the subsidy will help the group achieve a fair and equitable income level for its physicians. Asking for a teleradiology subsidy without doing the necessary homework is a recipe for, at best, rejection, and at worst, possible displacement of the group.

Striking the Right Balance

A well-conceived and properly managed teleradiology strategy can add new muscle to a hospital-based practice by lightening the on-call load, adding a wider range of subspecialty expertise, and improving customer service to both referring physicians and hospitals. But without a strong, underlying relationship with the hospital, radiology groups enter into teleradiology arrangements at their peril. **]]]**

To learn more about author Gabe Graham, CPA, see our Contributors section on page 5.

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good as the local engineers providing that service and the redundancies and support provided by their organizations. Be sure to find out who has agreements with the vendor in your area and check out their uptime experience and satisfaction with the engineers who will be providing your service. Don't forget to consider maintenance agreements for ancillary equipment, such as chillers and consoles that can also affect imaging equipment uptime. If you are leasing your equipment, the service contract costs may be included in the monthly lease payments. Ensure those terms meet your operational needs by taking charge of the service negotiations when leasing equipment, it will be your uptime and revenue that are affected by the service coverage and uptime guarantees included in the lease. If you don't already have an equipment inventory, you should consider having one prepared. Your detailed inventory will facilitate tax preparation, keep you apprised of the age and location of your equipment and will also help you keep track of all your service contracts and termination dates. This is a great business tool for budgeting and will also be helpful should you

decide to send out a request for proposal for a multivendor service agreement. We haven't talked about IT here, but, increasingly, you'll need to be aware of the communication between your IT staff and the OEM or ISO service engineers, since the equipment they service rides on the backbone provided by your PACS and RIS systems.

Service agreements can be a major expense for medical imaging facilities, whether they are located in a hospital or in an outpatient facility. However, proper attention to this important element of your business can pay large dividends if you can find the right partner to work with. Most imaging operations don't have the resources to self insure and take the risk of not having service contracts on their major pieces of imaging equipment, but the smart, knowledgeable and careful buyer can make the most of this necessary expense and maximize the investment in the imaging tools that generate its revenue. **]]]**

To learn more about authors Bill Sanders and Brian Baker, see our Contributors section on page 5.