3 Strategies for Maximizing Medical Equipment Replacement

How to optimize equipment value, reduce costs and control negative equity risks.

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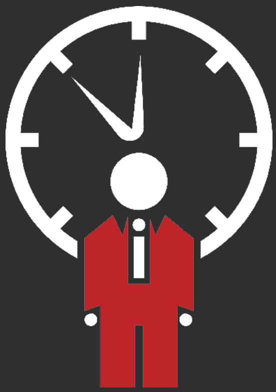
MEDICAL EQUIPMENT RESOURCES & CONSULTING

Busy - there's no better word to describe the state of today's healthcare providers.



In the midst of the many roles and responsibilities that are part of the healthcare industry, it's an ever-changing landscape. Mergers, acquisitions and joint ventures are now regular occurrences. And in the background you find the equipment that makes it possible.

Year after year, hospitals rely on complex pieces of machinery to support their infrastructure and day-to-day operations. Likewise, these devices are often over-utilized to the point of nearing failure or becoming obsolete.

This is what we call a negative equity event – it's what happens when the cost of de-installation and disposition have become greater than the value of the asset itself. In many instances, this translates into significant financial losses that could be avoided.

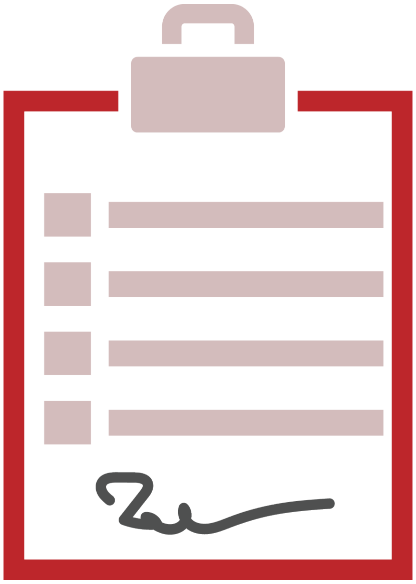
As the healthcare market navigates through the tides of constant regulation changes, consolidation trends and more scrutiny over budgeting, it's essential that management is equipped to make sound financial decisions in regards to their medical equipment.

That requires an understanding of exactly when is the right time to consider liquidating or trading your equipment, how to determine the value and how to execute the process seamlessly.

3 Recommended Strategies for Ensuring Optimal Cost of Ownership and Maximizing Equipment Value

Commit to an Equipment Review Schedule

As previously mentioned, healthcare facilities are busy places. As such, it's decidedly common for equipment reviews to get overlooked or even worse, postponed indefinitely. The solution is simple, schedule a routine equipment inventory and assessment once every three years.



The frequency of this schedule provides a balanced period of time between reviews that deliver an accurate account of the organization's equipment while preventing a negative equity event.

It's recommended that an organization times the equipment review approximately six months prior to the next budget cycle. This will ensure you have the necessary data to develop an informed and accurate capital budget.

There are several benefits to managing the timeframe of equipment replacement, including:

Optimized Procurement

By accurately assessing the remaining economic life of your equipment (see below), your organization will have a much clearer picture of the timing of capital requirements. This not only helps to prioritize expenditures across the organization as a whole, but it allows you to time your expenditures to maximize purchasing leverage when buying.

Reduced Costs

Keeping retired, outdated, or broken equipment in storage has a direct negative impact on operational costs. Selling at the ideal point of market value and when an item reaches its optimal usage, will minimize cost of ownership, guarantees the best return on your investment and avoids negative equity.

Improved Staff Satisfaction

Nothing is perhaps more frustrating to doctors, nurses and technicians than not having reliable and the most updated equipment to accomplish their roles. Improving the work environment for those on the frontlines will have a direct influence on the quality of care your healthcare facility delivers and the recognition received.

Positive Patient Perception

Demonstrating that your organization makes it a priority to invest in current technology will convey to patients and the community your facility’s commitment to providing the best possible care.

Accurately Assess Economic Life

When it comes time to review your equipment, remembering what you're really doing can be helpful. Ultimately, you're not just assessing how a device looks and functions – you're assessing economic life.

A common assumption is that economic life is synonymous with useful life, and this is simply not the case. Let's review:

The American Hospital Association defines useful life as "the estimated service period assigned to an asset based on the expected life derived from the use of the asset." [1]

Economic life expands upon that definition to ensure the asset is a). Still reliable and not obsolete and b). Has not consumed its market value. In other words, economic life is the number of years in which an asset returns more value to the owner than it costs to own, operate and maintain.

There are several factors to consider when assigning an Estimated Remaining Useful Life (ERUL) to each piece of equipment. Those factors include:

Age and Condition of Equipment

Obviously, equipment age has a significant impact on the value assessment. However, scratches, dents, rips, blemishes and other visual disturbances often have an influence as well. As such, a visual inspection of all devices must be conducted.

Operation of Equipment

How effectively is the equipment working? Is it fully functional within specifications? Has it been updated to meet requirements as needed? Deficits in performance mean a lower ERUL.

References: [1] Estimated Useful Lives of Depreciable Hospital Assets; Revised 2013 Edition; Health Forum Inc., an American Hospital Association Company, Chicago, IL

Current Market Value

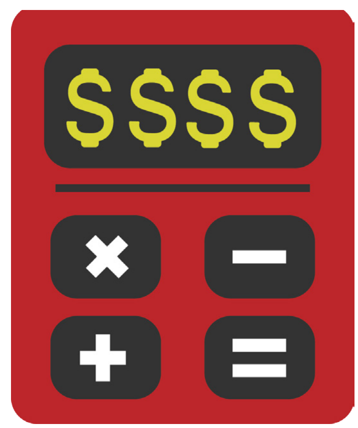
Is the unit in a negative equity position? Over the years, MERC has compiled a sizable database detailing equipment values. Using this data, in conjunction with other value analyses (such as market research and the costs of de-installation and removal), we're able to provide an opinion of current market value.

Remaining Book Value

While "remaining book value" on your financial ledger doesn't impact the market value of a device, it may influence decisions regarding ongoing use or liquidation.

Liquidate Appropriately

Another important factor in the replacement value you ultimately obtain is how you intend to liquidate each device. The term liquidation is used to describe all terminal transactions or events. Viable options include:



- Selling to a reseller or wholesaler
- Selling to another provider
- Trading to a manufacturer
- Donating to another organization
- Disposal and recycling

Unfortunately, it's quite common for organizations to overlook the many costs associated with de-installation and liquidation. This results in unexpected costs when replacement and removal becomes necessary.

Remember, unless an asset is to be sold to a buyer who will continue using it within the current location, it will need to be de-installed and moved to the buyer's location.

While that may not require much preparation for something like a syringe pump, it could be a financial deal breaker for a CT scanner. Knowing which liquidation option to pursue ultimately depends on a thorough understanding of the medical equipment market and the key players involved.

At the end of the day, your goal is simple – selling at the right time as to recoup investment and avoid disposal costs. And by understanding the market value and ERUL of key assets, you can proactively maximize economic life, minimize liquidation costs and reduce the risk of negative equity.

The good news? We can do the heavy lifting for you.

At MERC, we have developed data driven methodology which enables healthcare facilities to maximize equipment value, reduce costs and risks of negative equity. This gives organizations the ability to reinvest in technology when they have the most leverage, getting the most for their money. Speak with one of our consultants today to learn more.

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