

Today's innovative usage-based financing programs let you acquire costly equipment by linking your monthly payments to your procedure volume.

Is Cost-Per-Case Leasing for You?

When it came time for Digestive Health Specialists, Inc., to furnish and equip the shell of a building that would become its third endoscopy center in the Tacoma, Wash., area, administrator Bob Murphy, MHA, MPA, had three words: Cost-Per-Procedure (CPP).

That's the name of Olympus America's usage-based financing program that two years ago gave Digestive Health Specialists \$707,096.16 in financing to equip its two-room suite with, as Mr. Murphy puts it, "everything but the magazines" — computers, desks, gurneys, suction systems, light sources, scopes (Olympus ships, installs and services its endoscopy products) and three months of operating costs.

There was no money down, no deposits and no fees. Not only was the center able to acquire the equipment, supplies and services it needed from one vendor with unmatched speed and convenience, but also the CPP program aligned

Dan O'Connor
Editor-in-Chief

the monthly payments with the center's procedure volume.

"It was painless and it was quick," says Mr. Murphy. "How could we lose from a cash-flow standpoint? If we use it, we pay for it. If we don't use it, we don't pay for it."

Here's a closer look at the growing movement toward acquiring capital equipment on a per-use lease basis.

One procedure at a time

Over the five-year term of the financing program, Digestive Health Specialists will repay Olympus one endoscopy at a time at a fixed per-procedure

rate of \$54 that only changes if the center adds or upgrades equipment (see "Figuring Out Your Cost-Per-Procedure" on page 90). Each and every procedure that the center performs goes toward paying off the original debt.

Performing between 325 and 370 endoscopies per month, the center makes monthly payments to Olympus of about \$18,000 (\$54 x 333). Though there's no monthly minimum — you pay for 10 or 100 cases per month — there is an annual minimum: Digestive Health Specialists is obligated to pay for 80 percent of its annual estimate at the end of the first year and 90 percent of its annual estimate at the end of the sec-



EVERYTHING BUT THE MAGAZINES Digestive Health Specialists will repay the more than \$700,000 in financing it received through Olympus America's Cost-Per-Procedure program one endoscopy at a time at a fixed per-procedure rate of \$54 for five years, says chief operating officer Bob Murphy, MHA, MPA, who used the money to furnish and equip a third center with computers, desks, gurneys, suction systems, light sources, scopes and three months of operating costs.

ond year.

CPP is flexible, giving centers the option of adding equipment, extending the length of the contract or increasing the price of the cost-per-procedure. Compared to other lending sources, Mr. Murphy calls the

turnkey financing deal he received from Olympus "a good and competitive package."

Procedures ÷ payment

You may know it as per-case, per-click, per-use or per-anything financing. Whatever the

name, it all describes essentially the same thing: vendor-sponsored, utilization-based procedure financing programs that give you access to large capital equipment purchases without a big upfront cash outlay or a daunting monthly payment. If the volume is there, such deals could be good for your center.

"A per-procedure plan preserves and identifies the profit margin up front," says Wynn Blieberg, national sales manager of Olympus America's Financial Services Group.

Many compare cost-per-use programs with car leases that are tied to mileage. Rather than making \$500 monthly payments on the car, you agree to pay \$1 a mile. If you drive a lot of miles, you'll pay the car off a lot faster.

In the end, cost-per-case leasing is a cost-for-convenience tradeoff. "Cost-per-use financing is just another way of looking at a monthly payment. Really all it is is taking the anticipated number of procedures you do on a monthly basis and dividing the lease payment by that number of procedures," says Joe Delligatti, director of new business development for Stryker Corporation, which has financed tens of millions of dollars worth of equipment at surgical facilities.

Cost-per-use is characterized by the ability to match revenues and expenses on a procedural basis. The direct outcome is your ability to cap costs and

to identify margin levels. Payments are made while you generate income, facilitating positive cash flow and enabling you to maintain a predictable margin. Also, in most cases, payments may be considered operating expenses for tax purposes and there may well be no impact on your capital budgets.

“The more cases you do, the better these per-use programs will work for you — particularly if you’re conservative on what your anticipated volume will be,” says Mr. Delligatti. “When you run the numbers, you’ll know it’s a good deal for you if the per-use figure tells you that you can capture all your costs and make a profit.”

Make a profit or make a go of it. “When you look at the costs of starting a surgery center, you fall on the floor and say ‘Oh, my gosh’ because the number is so large,” says Terry Giacomo, director of new business development at Olympus financial services. “But when you compare CPP to revenue, that’s when the light bulb goes off.”

Another option: disposables for equipment

You may also be familiar with financing programs that let you pay off a capital equipment lease by purchasing a predetermined volume of disposables to be used with the piece of equipment every month. For example, you get the phaco machine

for buying so many IOLs. Or you get the power tool for buying so many arthroscopy cutters, burrs and blades. You

Figuring Out Your Cost-Per-Procedure

Using Olympus Americas’ usage-based Cost-Per-Procedure financing program and a \$150,000 endoscopy suite as examples, here’s a four-step way to figure out your cost-per-procedure (CPP):

1. Estimate your annual number of procedures.
2. Multiply it by the number of years in the term of the agreement.
3. Divide that by the purchase price of the equipment.
4. Add a per-procedure service-contract fee.

So, let’s say you estimate that you perform 100 endoscopies per month, or 1,200 per year. Multiply that by 3, the typical number of years in such an agreement, and you get 3,600 procedures. You’d then divide the \$150,000 purchase price of the endoscopy suite and you get by 3,600 procedures to get your cost-per-procedure, which in this case is \$41.67. Add \$8 for the comprehensive service contract for a CPP of \$49.67.

Note that if you hit 3,600 procedures in month 32 of the 36-month term, you could continue to use the equipment for the balance of the

term at no charge, says Wynn Blieberg, national sales manager of Olympus America’s Financial Services Group. You’d only pay a service component rate of \$8 per procedure.

Here’s an example of how you’d repay \$305,000 in financing at \$104.37 per procedure for which you bill \$450.

First, you used the money to totally equip your brand new one-OR suite with \$100,000 worth of Olympus equipment, \$35,000 worth of other equipment (mobile C-arm and autoclaves, for example), \$75,000 for a development team, \$75,000 for three months of working capital and \$20,000 in service on Olympus equipment.

You will do 100 procedures a month, or 1,200 per year or 3,600 over three years. Your monthly payment is \$8,770 (multiplied by 36 months equals \$315,720). Divide your total payment (\$315,720) by the number of procedures (3,600) you’ll do over that time and you come up with a per-procedure cost of \$87.70. Add a per-procedure service cost of 16.67 and you come up with a CPP of \$104.37



Facility Costs Without Using MSS Outsource Service

Cost Analysis:

Equipment & Instruments	Capital Outlay	Amortized Cost Per Year	Cost Per Procedure
Phaco System & Maintenance/Upgrade/Replace	\$ 76,900	\$ 30,900	\$ 129
Surgical Microscope & Maintenance/Upgrade/Replace	\$ 76,450	\$ 20,850	\$ 87
Instruments & Maintenance/Upgrade/Replace	\$ 33,900	\$ 8,180	\$ 38
Lease/Interest Cost	\$ 6,000	\$ 6,000	\$ 25
Total Equipment Cost	\$ 193,250	\$ 66,930	\$ 279

Estimated # of Procedures / Month 20

Estimated # of Procedures / Year 240

Supplies & IOLs	Amortized Cost Per Year	Cost Per Procedure
Intraocular Lens	\$ 30,000	\$ 125
Complete Custom & Phaco Pack	\$ 51,120	\$ 213
Cost of Acquisition, Carrying, Maintaining, Inventory	\$ 7,440	\$ 31
Surgical Technician	\$ 5,520	\$ 33
Total Supply Cost	\$ 94,080	\$ 402

Total Cost (Equipment & Supplies)

\$ 161,010

\$ 681

*This Cost Analysis is based on Market Averages
SOURCE: Midwest Surgical Services, Inc.*

ables you'll use in a month.

"You're forced to cover 'x' number of disposables every month to you're your monthly payment, or else you'll have a storeroom full of disposables

for which you

have no need,"

explains Mr.

Delligatti. "Beware of this option if

you don't have a

really good grasp

of how many pro-

cedures are going

to be brought to

your facility. You're obligated to

make a minimum payment just

to cover the cost of the equip-

ment."

This option makes overbuy-

ing easy, says Mr. Delligatti:

• You can be lulled into thinking of what's really a \$20,000-a-month lease as only a \$100-a-case or procedure. "This is thinking of it in a small-payment way," he says.

Midwest Surgical Services, Inc., (MSS) offers one such option for cataract cases. MSS is the largest cataract out-

source provider in the United

States, operating on a cost-per-

case basis with 320

facilities and 270

surgeons across the

country. With the

exception of phar-

maceuticals, MSS

delivers everything

you need to perform

cataract surgery —

from the equipment

to the supplies to, if needed, the

surgical tech — to a mobile or

fixed site (see "Facility Costs

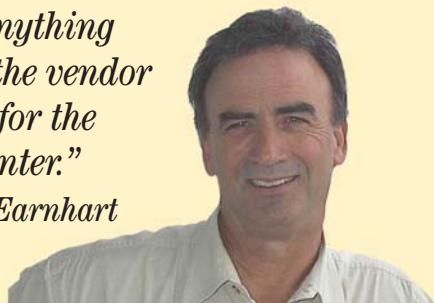
Without Using MSS Outsource

Service" above).

"We let you have the equip-

"Typically, anything that's good for the vendor is not good for the surgery center."

— Stephen E. Earnhart



• Or you can end up overbuy-

ing because you're doing less

than the anticipated volume.

"And that would be a problem

no matter how you financed it,"

he says.

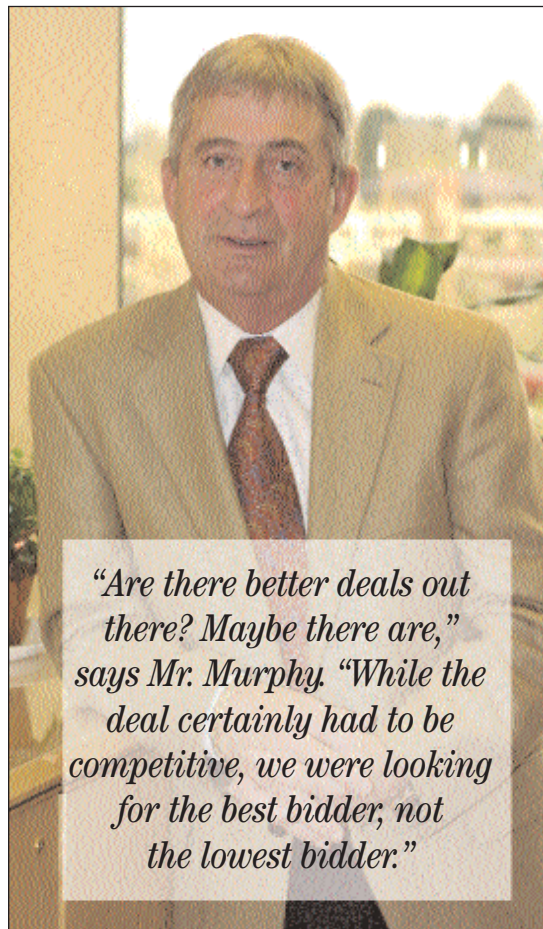
ment that you want to be able to have, use it when you want to use it, pay for it only when you use it,” says Dick Minors, vice president of sales for MSS. “Plus, we assume the risk and the headaches of owning the equipment, which is the ongoing process of maintenance, repair, replace, upgrade and repurchase. ... We’re a sensible approach for small- and medium-sized accounts.”

Not a good idea

For a dissenting point of view on cost-per-case leasing, we turn to Stephen E. Earnhart, president and CEO of Dallas-based Earnhart & Associates, a facility management and ambulatory surgery joint venture firm.

Mr. Earnhart calls cost-per-case leasing “an easy way to take care of a big problem” that gives you a false sense of security that you can get a \$150,000 piece of equipment for free if you buy all of your supplies. But, he adds, “just because it’s easy doesn’t mean that it’s right. Nothing replaces sitting down and getting competitive bids on the equipment and the supplies.”

When you consider that the average surgery center spends \$1.6 million on equipment, “it’s just too important for some



nursing administrator to say, ‘We’ll get all of our equipment through here and they’ll take care of everything.’ There’s a price to pay for having somebody do your work for you,” he says. “You lose that competitive edge. ... Typically, anything that’s good for the vendor is not good for the surgery center.”

Three factors, says Mr. Earnhart, make a facility successful or unsuccessful: revenue (cases), personnel costs and supply costs. “You’re taking one of three major drivers of success in your facility and turning it over to a vendor who

has a conflict of interest. We’re not talking about how much you’re paying for juice. It’s so easy to erode the profit margin on that case forever for what appears to be free equipment.

“I don’t want to black-brush everybody and say all of these plans are bad, but you need to explore all of your options before you sit down and take the easy road.”

\$428,000 to go

After two years, Digestive Health Specialists’ outstanding debt stands at about \$428,000. It matters little to Mr. Murphy that the financing will end up costing his facility slightly more than a standard

bank loan would have.

“Are there better deals out there? Maybe there are,” says Mr. Murphy. “While the deal certainly had to be competitive, we were looking for the best bidder, not the lowest bidder. But the most important thing is that I have a relationship with Olympus America. When I make one call to one person, we get a response on the same day — whether it’s for a loaner scope, a repair or whatever. That’s important to us.” ■

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