The Difference Between Price And Cost

A Value-Driven Approach To Evaluating Service Providers

Purchased services can account for up to 50% of a healthcare organi-zation's non-labor spend. They can include services such as clinical, facilities, corporate services, equipment maintenance, IT and administrative. Two of these categories – clinical and equipment maintenance – have a direct impact on patient care delivery. So, why is it so important to know the difference between the upfront price and true cost of these purchased services? Knowing that, as well as the benefits of a price-cost focused analysis can make a big difference to an organization's overall bottom line.

Swarna Alcorn, vice president of service for Olympus Corp. of the Americas, says an upfront price-only strategy may negatively impact total budget spends when organizations choose purchased service contracts. She says an organization should understand the difference between purchase price and total cost in equipment service contracts and use best practices in demonstrating criteria to evaluate equipment service contract providers. The three tenets – efficiency, quality and risk management – that lead to a value-driven, price-cost decision should always be followed versus a price-only strategy when choosing service contracts supporting medical equipment spend.

***The Journal of Healthcare Contracting* (*JHC*): How does a price-only strategy limit decision-making in choosing purchased service contracts to support medical equipment?**

Swarna Alcorn: When purchase price alone is the determining factor in evaluating service contracts, an organization may be at risk for a negative downstream experience in the form of clinician satisfaction, patient satisfaction and timely capture of reimbursement and revenue. The better alternative it to not only evaluate on purchase price alone, but instead to factor in total cost. In this way, the decision of which vendor to go with should include consideration for the downstream implications of the experience that the vendor you choose will deliver to your clinicians, and ultimately the patients you serve.

When clinicians are preparing for a day of patient cases, they need to know the equipment they need is available for use so that they can provide patient care without unnecessary interruption. Equipment service providers play a pivotal role in ensuring that this happens, and as part of their proposals, should be creating assurance that they will support your end users' needs to have equipment ready to go.

We call this "uptime," or the percentage of working days a department's equipment is available for use. In evaluating equipment service providers, a key criterion to focus on is the average uptime that the vendor will be able to provide you. Seeing that number, and being able to compare it amongst potential vendors, will provide a better understanding of which provider can help to ensure that patient cases are not delayed due to equipment being down or unavailable.

If patient cases are delayed due to equipment being down and unavailable for use, a significant cost is placed on the unit's efficiency, and this cost should be considered with the same weight as any upfront price savings. Having a high uptime means that both staff and patients will feel more satisfied – staff because they are able to provide uninterrupted care, and patients because they do not have to further adjust their schedules to compensate for a delay in procedure start time, or even more impacting, a reschedule of their procedure due to equipment being unavailable.

From a financial standpoint, feeling confident in the uptime a vendor can deliver also provides more confidence in knowing that unanticipated overtime for staff will be curtailed and reimbursements and revenues will flow as expected. If cases are happening on schedule, reimbursements will flow on schedule.

***JHC*: How does a price-cost analysis make a difference to the overall bottom line for purchased services?**

Alcorn: To be complete, a bottom-line analysis for purchased services should include data from across the continuum of care, and not just at the point of sale. The economic value that a medical equipment service provider delivers should not be solely measured through an upfront purchase price analysis, but instead through a more comprehensive uptime analysis. Doing such an analysis will create the level of transparency needed to substantiate the level of value the vendor has delivered to your organization.

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To start, ask your current vendor what uptime they have delivered to you for the past 12 months. If the vendor is unable to provide this information, that is an indicator to assess on its own merit. If they can provide this information, the next data point needed is the economic value of what each percentage point of uptime is worth to your organization. On the top line, this is a calculation of what it means to capture reimbursement revenue in a timely manner. On the bottom line, this is the additional calculation of being able to manage costs, like staff overtime, in a measured manner. Vendors should be able to provide this layer of detail as well through a collaborative discussion about the number of equipment in your unit, the number of procedures per day, average labor costs and average reimbursement per procedure. To think about uptime in terms of financial metrics, consider, for example, the difference between having equipment available to cover caseload 20 days out of the month versus 17. Based on the calculations I have seen, even a few days of downtime can have noticeable impact on a unit's financials.

If comparing vendors, the uptime criterion is an important measure in determining what level of value each provider can deliver. As a general rule, look for an uptime number in the mid to high 90s. If a vendor you are considering has not provided service to you before, and can therefore not provide a specific uptime that they've delivered to your organization, ask them what the average uptime they deliver nationally is.

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***JHC*: Which team members are required in a valuable cross-functional, decision-making process and why are their roles important for success?**

Alcorn: Choosing an equipment service provider is an important decision, and one that should undergo the same rigor as the precipitating capital equipment investment. To ensure the decision is reviewed and informed holistically, it's beneficial to bring a cross-functional team to the table, with representation from the following departments:

- Supply Chain
- Clinical Engineering/Biomed
- Infection Prevention
- Clinical
- Finance
- Risk Management

Each of these functions will have a different perspective and focus area, and combined, their input will help to inform an equipment service provider selection that will serve all interests of your organization. Supply chain and finance, for example, will have a financial orientation to their decision making, while the clinical representatives will be primarily concerned about the end user experience – everything from repair quality and turnaround time to access to educational resources and availability of loaners. Clinical engineering will have focus on things like value for money, the support a vendor can provide in maintaining accurate inventory lists and access to technical assistance centers and remote troubleshooting support.

Two audiences that we see becoming more involved with vetting equipment service providers are infection prevention and risk management. Including these team members in the decision-making process is an important way of mitigating the unknown of hidden costs that can result from poor patient outcomes. Both infection prevention and risk management are looking at ways to minimize risk exposure for patients, staff and the broader organization. For these audiences, the vendor's quality measures will be most important, as will ensuring that the vendor is performing equipment repairs with OEM parts and OEM protocol. There will also be a key focus on validating that the vendor is able to assure that the equipment can be properly cleaned or reprocessed post repair.

In understanding the pertinent areas for each member of the vetting team, the organization is ensuring the most optimal experience in the care and use of the equipment being covered. The decision to select an equipment service provider is much more than comparing two quotes; instead, it is a decision that requires a holistic approach to review a variety of key performance and key quality indicators. ■

For more of Alcorn's price-cost decision analysis and the tenets that set it apart from price-only decision making, go to JHC Online at www.jhconline.com/the-difference-between-price-and-cost.