Developing Equipment Acquisition Strategies and Planning Checklists

John Meirhofer
NCal Principal Medical Equipment Planner
Kaiser Permanente Clinical Technology

Patricia Van Holt
Director of Equipment Planning and Procurement
Advocate Health Care
Developing Acquisition Strategies

Patricia Van Holt
Director of Equipment Planning and Procurement
Advocate Health Care
Agenda

A. Development of Advocate Equipment Planning and Procurement Department
   • Centralized Integrated Department
   • Insourced Equipment Planners
   • Rapid Standardization
   • Equipment Selection Process
   • Asset Management and Optimization Program
   • Strategic Sourcing
   • Consolidated Funding for Existing Medical Equipment

B. Lease vs Purchase

C. Success and Opportunity
DO YOU HAVE UNLIMITED CAPITAL
Hospitals Executives around the country are being challenged to remove cost. One common source of stress is equipment acquisition.
Advocate Health Care 2016 Journey
Advocate Equipment Planning and Procurement Department was formed April 1, 2016 with 4 main objectives

1. Enforce standards compliance

2. Increase Capital Capacity

3. Reduce project costs for equipment planning

4. Create a consolidated funding source for all clinical equipment managed by EPP
Develop a centralized integrated department committed to improving the planning, strategic sourcing, asset management and utilization of capital equipment; engaging...

- Clinical Engineering
- Construction
- Facilities
- Information Systems
- Clinical Resources
  - Technology Review Committee
  - Value Analysis Council
  - Service Line Leaders
  - Physicians
Insourced Equipment Planners for construction projects

- Filled positions with Clinical Engineers
- Thorough understanding of current facility practices and standards
- Integrated into the process from start to finish; budgeting, planning, revalidation and installation
- Reduced the cost of equipment planning and provide more value
**Rapid Standardization** efforts to improve

**Work Force Optimization**
- Ability to cross-train and adjust to staffing needs
- Improve workflow
- Improve quality of care

**Efficiencies for Clinical Engineering and Information System**
- Flexibility right assets in the right place at the right time
- Enhanced Discounts with Value Adds
- Reduce learning curve for technicians
- Upgradeability – technology and applications necessary to meet needs.

**Total Cost of Ownership**
- Standardization of supplies
- Enhanced Discounts with Value Adds
- Technology has right features and functions
- Clinical Decisions are Evidence based

---

ACE SUMMIT AND REVERSE EXPO
Standardization Process

1. Select Asset Class
2. Evaluate current technology on the market; ECRI, Procured Health
3. Present Project to Value Analysis Committee or Service Line
4. Select Committee
5. Select Suppliers
6. Select final 2 suppliers
7. Vendor Fair if appropriate
8. Request for information with criteria
9. Request for Proposal
10. Final Negotiations
11. Voting and Selection
12. Contract Award
13. Value Analysis Committee or Service Line for Recommendation Approval
New Equipment Request Form

Is this new technology
- What is it replacing
- Is this the only option
- Specific procedures
- FDA/COI
- ECRI/Procured Health

Physician needs to present to New Technology Review Committee

Equipment Evaluations
- Criteria developed
- Who should evaluate

Sourcing begins

If approved, present to the Value Analysis Committee

Results back to Technology Review Committee
- Clinical evidence
Develop an Asset Management and Optimization Program to enable better decision making processes to balance costs, risks, opportunities and performance.
**Enhanced Strategic Sourcing** by aligning with our suppliers to achieve operational improvements to support our organization strategic objectives
The Advocate Supplier Segmentation Strategy sets forth 4 levels of supplier segmentation based on their level of integration into Advocate’s success.

**Operational Definitions**

- **Integrated Supplier** – Suppliers who have made the full commitment of resources and capabilities embedded into Advocate’s actual operations sustained by a defined shared governance model. Integration is characterized by a direct shared risk/reward model and investment toward meeting the shared vision and value proposition for the combined organizations.

- **Strategic Supplier** – Suppliers providing a defined set of offerings & initiatives that collaborate directly with Advocate to accomplish market-leading clinical safety, quality, service, & cost-reduction capabilities. **There is a deliberate alignment of both organization’s strategic imperatives driven by a governance model.**

- **Collaborative Supplier** – Suppliers that provide a set of unique offerings to advance Advocate’s strategic imperatives, including cost reduction goals, meeting our quality, safety, and care coordination goals.

- **Transactional Supplier** – Suppliers that provide Advocate with products and services based upon standard contracting terms and conditions.
# Advocate Supplier

## Segmentation Level Expectations

<table>
<thead>
<tr>
<th>Transactional</th>
<th>Collaborative</th>
<th>Strategic</th>
<th>Integrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Terms and conditions&lt;br&gt;- Operating model&lt;br&gt;- Compliance to operating standards</td>
<td>- Focused projects offering unique solutions to targeted outcomes&lt;br&gt;- Terms and conditions&lt;br&gt;- Operating model&lt;br&gt;- Compliance to operating standards</td>
<td>- Portfolio of multiple projects&lt;br&gt;- Strategic imperatives alignment&lt;br&gt;- Innovation&lt;br&gt;- Dedicated project management resources&lt;br&gt;- Strategic shared vision&lt;br&gt;- Centralized account leadership&lt;br&gt;- Terms and conditions&lt;br&gt;- Operating model&lt;br&gt;- Compliance to operating standards</td>
<td>- Long term contract&lt;br&gt;- Investment&lt;br&gt;- Risk/reward business model&lt;br&gt;- Ensconced competencies and thought leadership&lt;br&gt;- Shared strategic roadmap&lt;br&gt;- Community benefit contribution&lt;br&gt;- Portfolio of multiple projects&lt;br&gt;- Strategic imperatives alignment&lt;br&gt;- Innovation&lt;br&gt;- Dedicated project management resources&lt;br&gt;- Strategic shared vision&lt;br&gt;- Centralized account leadership&lt;br&gt;- Terms and conditions&lt;br&gt;- Operating model&lt;br&gt;- Compliance to operating standards</td>
</tr>
</tbody>
</table>
Create a consolidated funding source for all clinical equipment to be managed by Clinical Engineering and EPP

**Situation**
- No standard process or strategy for replacing medical equipment that is outside of strategic capital cycle
- Wide range of variation throughout the system
  - Multiple make/model devices for the same asset class
  - Varying degrees of technology for the same asset class
  - Ageing inventory – $131M beyond useful life
  - Higher cost to acquire, maintain, and operate

**Recommendation**
- Create a consolidated funding source for EPP and Clinical Engineering to manage
  - Establish sourcing approach
  - Ensure compliance with Advocate purchasing policies
  - Reduce time site resources spend on procurement
- 2018 projected funding request
- Formalize 5-year plan - expand consolidated funding source
CAPITAL VS OPERATING LEASE

**Capital Lease**

- Equipment appears on the balance sheet as an asset, spread out the payments.
- The equipment leased is considered part of the company’s asset’s. Treat the equipment as if they own it, including claiming depreciation.
- At the end of the capital lease, there is usually a buy out that is well below market value; $1 buyout or small %. The equipment is then theirs.
- A capital lease is treated as a purchase.
- As a purchase, the equipment must be capitalized and depreciated over its useful life. This type of lease is the closest to an outright purchase, and is a good choice if the total payments under the lease are less than the total payments on an outright purchase.

**Operating Lease**

- Operating leases, sometimes called service (loan) leases are used for short-term leasing and often for assets that are high-tech or in which the technology changes often.
- The lessee uses the property but does not take on the benefits or drawbacks of ownership, which are retained by the lessor.
- The rental cost of an operating lease is considered an operating expense.
LEASE OR PURCHASE

LEASE

PROS

- Technology obsolesce. Leasing allows you to avoid being stuck with outdated equipment.

- There is less expense up-front with leasing because you have easy, predictable payments. You don’t have to deal with one large lump sum to purchase what you need, making it easier to budget for the equipment over a longer period of time.

- Leasing is flexible and offers more options when it comes to the type of equipment you get. You aren’t as restricted by high up-front costs or other hesitations to try something new that may help your business.

CON’S

- You usually pay higher costs over time than you would if you paid up-front. Most leasing options require interest to be paid as well.

- Since you don’t own the equipment, it gives you absolutely no equity. You won’t have the option to sell the equipment once you are finished with it, so there is no potential to make any money back.

- The available length of lease terms may be longer than you need. Strict agreements may force you to pay for and keep a piece of equipment for a longer time frame than you require, resulting in wasted funds and space. This can be especially difficult for larger pieces of equipment that you need for a short period of time but don’t have storage space for.

PURCHASE

PRO’S

- You will own the equipment, so you can make any alterations necessary. Maintenance is also in your hands, so you can make sure problems get fixed immediately. You won’t have to wait for issues to be addressed or need permission to make changes.

- You have the option to sell the equipment when you are finished with it, allowing you to recover some of the cost.

- Buying is easier because you don’t have to deal with agreements and contracts. You simply pick out what you need and pay for it. This works great for smaller equipment that is easy to store, as well as equipment that has a long life.

CON’S

- You will have a higher initial cost as opposed to lower monthly payments that may be easier to budget. It may be difficult to pay for costly equipment.
Were we successful?
In two years improved capital capacity by $15.3M

Planned 12 Construction Projects and revalidated 24 Projects Cost Avoidance of $129K

Standardized on 15 Asset Categories Bed Standardization Project

Develop Asset Replacement Program & Utilization and Optimization Program

100% all Planning done by EPP

Continue to Develop Roles and Responsibilities
Clinical Technology: Medical Equipment Planning

John Meirhofer
NCal Principal Medical Equipment Planner
Kaiser Permanente Clinical Technology
Clinical Technology: Medical Equipment Planning – Overview

- Kaiser Permanente’s Medical Equipment Planning team provides medical equipment planning for Capital Projects in the California, Georgia, Maryland, Virginia, Washington D.C. Colorado, Oregon, Washington and Hawaii.

- The team is comprised of 27 full time Medical Equipment Planners and 6 Principal Medical Equipment Planners. All have a vast array of experience covering the full compliment of service delivery within Kaiser Permanente.

- That combination of experience lends itself to research and monitor changing technologies and clinical advancements within KP and other healthcare organizations.

- Medical Equipment Planners have knowledge of all types of medical and non-medical equipment. These include everything from a glove dispenser to a completely integrated physiological monitoring system and more.
Medical Equipment Consultants are an integral part of the project team throughout the project life cycle:

- Scoping
- Schematic Design
- Design Development
- Construction Documents
- Construction
- Procurement
- Installation and Move-In
Clinical Technology: Medical Equipment Planning – Services

Scoping

• Review project scope and determine medical equipment needs
• Develop equipment budget for submission to leadership

Schematic Design

• Review space and functional programs and align with medical equipment needs
• Develop equipment list
• Conduct user group meetings to discuss workflow and equipment requirements, to meet patient care needs
• Manage equipment budget
Clinical Technology: Medical Equipment Planning – Services

**Design Development**
- Develop equipment specifications
- Manage equipment budget
- Develop equipment budget for submission to leadership
- Conduct equipment inventories, evaluating existing equipment for re-use
- Facilitate vendor coordination meetings with KPIT, CSE, architect, clinician and contractor
- Assist the architect with equipment integration for architectural drawings, including drawing reviews

**Construction Documents**
- Develop final equipment specifications
- Provide equipment lists to clinicians, architect and contractor
- Manage equipment budget
- Prepare equipment to send to purchasing
- Attend OAC Meetings
Clinical Technology: Medical Equipment Planning – Services

**Construction**

- Attend OAC meetings
- Answer equipment related questions
- Confirm existing equipment inventory and integrate into equipment deployment list.

**Procurement**

- Manage equipment budget
- Send equipment to purchasing
  - Equipment is sent to purchasing based on schedule as determined by the Project Manager and Start Up Services (SUS PM) group Lead times.
- Review equipment orders as requisitions are created by the procurement team
- Respond to SUS PMs equipment questions
Installation and Move-In

- Partner with the Clinical Service Engineer (CSE), Area Clinical Technology Manager (ACTM), and SUS PM during installation of systems
- Compare equipment delivered with equipment list sent to purchasing, creating a punch list of outstanding items
- Review punch list with SUS PM, CSE, KPIT, and Project Manager
  - Identifying who is responsible to resolve outstanding items
- Review any discrepancies with a department representative to obtain sign off
Clinical Technology: Medical Equipment Planning –

Architects

Contractors

Manufactures and Vendors

KP Information Technology

Facility Administration

Clinicians and Department Managers

KP Purchasing (B2P)

Clinical Systems Engineers
Assessment Continued:  Additional data requested October 24, 2016

- Northern California has 575 projects with equipment budgets developed or estimated
  - 9 equipment planning positions staffed
  - 186 MLF
  - 389 PMR

- Southern California has 435 projects (provided by Michele Sepeda, Regional Mgr MEC)
  - 12 --- 11 equipment planning positions staffed plus 1 equipment planning consultant
  - 143 MLF
  - 292 PMR

- Approximately 60,200 pieces of equipment in the pipeline in active projects
  - MEC’s specify equipment, ensure proper mechanical/electrical/plumbing infrastructure is coordinated with the architect and integrated with KPIT. Additionally, they work closely with the end user client to specify equipment that supports departmental operations.

- This count does not represent equipment counts for:
  - Future MLF or PMR projects,
  - Projects in scoping
  - Projects which do not have the equipment list developed
    - Example: Sacramento and San Jose Replacement Hospitals