

Urodynamics Equipment: Buy vs. Lease vs. Service Provider

See the full blog post here: <http://info.bhnco.com/blog/urodynamics-equipment-buy-vs.-lease-vs.-service-provider>. If you have any questions or comments, please email them to info@BHNCo.com

Consideration	Buy Equipment	Lease Equipment	Urodynamics Service Provider
Up-front Costs	★ Your up-front costs are certainly the highest with this option, typically costing you \$20,000 to \$100,000 depending on the configuration and number of units being purchased.	★★★★★ Leasing is less expensive up-front because you have 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.	★★★★★ There is no upfront payment at all with this option. You typically don't even pay until 30 to 60 days after you have performed your first urodynamics testing session, which makes for the best cash flow.
Long-term Costs	★★★★★ If you use the urodynamics machine consistently for many years without disruption, the long-term costs are often the lowest when buying. However, the key is "long-term consistent use".	★★★★★ You certainly pay more over the long-term with leasing than you do buying – this is why leasing companies exist. The implied interest rate in the lease determines exactly how much more.	★★★★★ If you test consistently over the long-term you will often pay slightly more for this option. However, if there are any changes to your practice (e.g. a physician leaves, the practice merges with another practice, key urodynamics staff leaves) that disrupts long-term testing then this option often ends up being the cheapest – not more expensive.
Maintenance & Maintenance Cost	★★★ Most manufacturers are very good about repairing equipment as quickly as possible. However, in the best cases this still takes quite a bit of time and headache. Most of your cost is often in not being operational, rather than direct costs for repairing the equipment.	★★★ As with buying, most manufacturers are very good about repairing and servicing leased equipment. However, the specifics of your lease can make this slightly more difficult or easier. It will depend on the lease terms. Additionally, most of your cost is often in not being	★★★★★ The service provider is responsible for maintaining their equipment, so there is nothing for you to do. You don't even have to get on the phone with anyone. Furthermore, larger service providers often have redundant equipment so they can switch over to a backup machine, which means there is no downtime.

Consideration	Buy Equipment	Lease Equipment	Urodynamics Service Provider
		operational, rather than direct costs for repairing the equipment.	
Equipment Outage/Downtime	★ The specifics of your warranty and service agreement will determine how long an equipment outage will make you non-operational. With the right level of warranty you can often get a “loaner” machine shipped to you temporarily. However, this is a major headache and you will have some down days regardless.	★ Equipment outage/downtime is the same for leasing as it is for buying.	★★★★★ Larger service providers typically have backup equipment so this is not a factor for them. They simply switch to a backup so there is no downtime. Additionally, the service provider deals with the equipment problem so you do not have to handle this problem.
Supply Costs	★★★ You will have to buy your own supplies and the volume you buy will determine your pricing.	★★★ Similar to buying, you will have to buy your own supplies and the volume you buy will determine your pricing.	★★★★★ The Service Provider often buys very large quantities of the supplies and is often able to share some of the volume discounts with your practice.
Practice and Business Flexibility	★★★★★ You own the equipment so you can do with it what you please. However, if you ever need to sell it, you would only get cents on the dollar.	★★★ You are locked into the lease and must see it through to the end or risk default. You may be able to transfer the lease, but this is often a huge pain and requires substantial paperwork and some fees. However, due to the lower upfront costs you do gain some flexibility because you can consider more equipment options – potentially those with additional features. The Flip side of this is if you sign a longer-term lease you will be locked into a piece of	★★★★★ You can cancel your contract with the service provider with a typical 30 to 90 day notice, so you have ultimate freedom with this option. You could even use the service provider for a while until you decide to buy or lease equipment. This allows you to make business changes without any negative consequences.

Consideration	Buy Equipment	Lease Equipment	Urodynamics Service Provider
		urodynamics equipment for potentially longer than you desire, which limits your flexibility.	
Upgrading	★★★★ You own the equipment so you can upgrade it whenever you like, and this is a straight forward process. However, you have to pay for or purchase the upgrades.	★★★ Having a longer-term lease (especially one that is with a Bank owned leasing company like US Bank) can make upgrading much more difficult. You will be limited in what you can do, and why would you upgrade equipment you don't own.	★★★★★ You don't have to worry about upgrades with the service provider. This is the service provider's core business and they use the equipment daily. Therefore, they will ensure everything is fully updated and upgraded.
Operational Flexibility	★★★★★ When you own your own equipment you have the freedom to test when you want. For example, you can perform a urodynamics test randomly on a walk-in patient if needed. Few practices operate like this, but you have the option to do this nonetheless.	★★★★★ Similar to owning your own equipment, if you lease your equipment you have the freedom to test when you want. For example, you can perform a urodynamics test randomly on a walk-in patient if needed. This implies you have excess staff capacity to test randomly.	★★★ With a urodynamics service provider you are somewhat limited operationally. Typically you schedule certain days of the week or days of the month to perform testing, which can be somewhat restrictive.
Operating Profit	★★★★★ Urodynamics testing can be very profitable, and owning your own equipment is less expense if you test at a high volume for the long-term. If you test intermittently or there are unforeseen disruptions then this may not be as profitable as you initially envision. Additionally, staffing is often where	★★★ Leasing equipment does cost more over the years, which lowers operational profits. However, similar to Buying, staffing is often where your real costs are for urodynamics testing – not the lease payments.	★★★★★ If you test a high volume over a long period of time, then your operating profit may be slightly lower with this option. However, if there are any changes to your practice over the years (<i>just think about the changes that have happened over the last few years</i>) your operating profit will actually be higher with this option because of the flexibility it allows. For example, you can halt testing for 6 months while a practitioner is replaced and

Consideration	Buy Equipment	Lease Equipment	Urodynamics Service Provider
	your real cost lie for urodynamics testing – not the equipment costs.		there is no impact on your business (no lease payments to make, no equipment sitting idle, etc.)
Training Needs	★★ New equipment always means additional training, which equates to more costs. Even if the manufacturer provides this free, there is cost. There is the cost of your staff's time for attending the training. There is also the costs associated with your staff not performing at peak levels while they master a new system. Finally, the average tenure of a urodynamicist is less than 3 years so training costs are recurring.	★★ Training needs are the same when leasing as when buying.	★★★★★ There is a major difference when using a service provider, because you have no training cost or headaches. There are no direct training costs and none of your staff's time is needed.
Long-term Staffing	★★ Similar to training you have to provide the long-term staffing to support your urodynamics operations. You should also factor an average 3-year turnover, which is the norm for most urodynamacists.	★★ Long-term staffing is the same for leasing as it is for buying.	★★★★★ Similar to training, with a urodynamics service provider you don't have to deal with the long-term staffing issues or any turn-over problems.
Tax Benefits	★★★ If you work for a taxable entity, then you can only deduct the depreciation and this will depend on your depreciation policies. Typically you would perform a straight line depreciation over 5 years, allowing you to deduct one	★★★★★ Leasing is often 100% tax-deductible as an operational expense under the 179 IRS Tax Code. However, deductibility is a function of the least type so you should consult your accountants on this.	★★★★★ Using a service provider is an operating expense so this would always be 100% deductible.

Consideration	Buy Equipment	Lease Equipment	Urodynamics Service Provider
	fifth of the up-front cost each year for five years. However, Section 179 does allow small business to write off the entire amount if certain requirements are met.		
Below are a few items that come into play for only certain entities.			
Buying, Selling, Merging of Practices	★★ If your practice has a chance of being bought, sold, or merged in the near future, then capital investments are typically not wise. A buyer often already has the equipment and does not want it and therefore the equipment is discounted to near zero. A Seller typically is going to take a drastic haircut on any owned equipment.	★★ Leases are a major head ache in any merger or acquisition. They often create large amounts of paperwork to have the lease transferred, or the buyer often ends up having to pay out the lease, which can affect the seller's valuation.	★★★★★ Service Providers offer a very easy solution. Typically the service agreement is simply transferred or it can simply be canceled.
Capital Budgeting in Large Organizations	★★ In large organizations, significant capital acquisitions can be quite problematic, requiring multiple levels of approval and requiring substantial advanced planning. This in effect drives up the cost and complexity of the purchase.	★★ Similar to buying, in large organizations capital leases often also require multiple levels of approval. Additionally, the lease often has numerous property insurance provisions that will need additional review and approval making it even more complicated.	★★★★★ For a Service Provider, this does not require an upfront investment so most capital budgeting paperwork and approvals can be avoided.
HR Approval in Large Organizations	★★★★★ There typically no HR approvals required for equipment purchases.	★★★★★ There are typically no HR approvals required for equipment leases.	★★★ The service provider will be putting nurses on site, which often requires HR approval and possibly some credentialing. This is usually never a problem, but one must go through the process to begin the work.

Consideration	Buy Equipment	Lease Equipment	Urodynamics Service Provider
Malpractice and Other Legal Concerns	★★ If your practice is subject to and loses a malpractice case, then you could potentially lose the equipment or have it subject to a resulting lien.	★★★★★ Since you don't own the equipment, there is really no malpractice impact with a lease.	★★★★★ You do want to ensure your service provider carries the proper level of professional liability insurance so you are covered. Assuming the service provider does have the proper professional liability insurance in place, this adds another layer of insurance protection for your practice which is beneficial. If the service provider does not carry the proper professional liability insurance, then this could be a serious concern and would lower the star rating above.