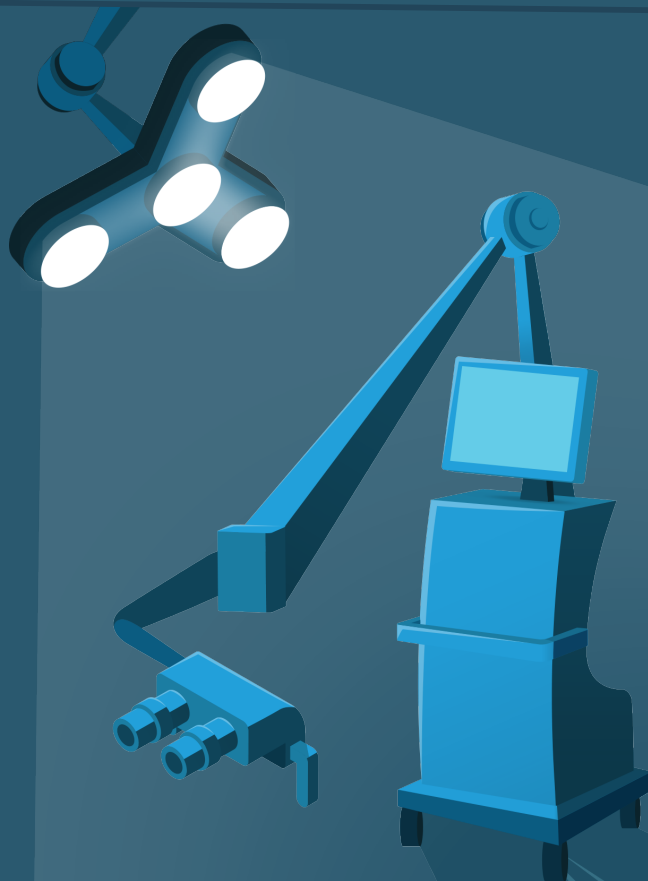


Taking Aim At A Multi-Million Dollar Blind Spot

How Underutilized Medical Equipment is Shrinking Hospital Margins



Introduction: Health Systems Must Do More, Better, With Less

Health systems and hospitals are under pressure to improve financial performance in a challenging and, at times, unpredictable environment. In fact, no priority ranks higher for the leaders of these organizations today.¹

Why? **Revenue streams have become increasingly volatile**, amid structural changes to traditional payment and reimbursement sources. The shift from fee-for-service to fee-for-value models such as capitation tends to grab headlines, and rightly so. But many C-level executives point to more immediate concerns, including downward pressure on reimbursements and unreliable collections from patients who shoulder increasing financial responsibility for their care.²

These pressures, among others, have led to three years of **record industry consolidation**.³ M&A activity adds another dimension – executives in acquiring entities are tasked with **delivering organizational synergies** while their peers elsewhere may be focused on **sustaining financial viability**.⁴

However, the end game in either scenario is about more than cutting costs. Health systems and hospitals must still **invest selectively** to improve outcomes and thrive in an increasingly competitive environment.

1 American College of Healthcare Executives

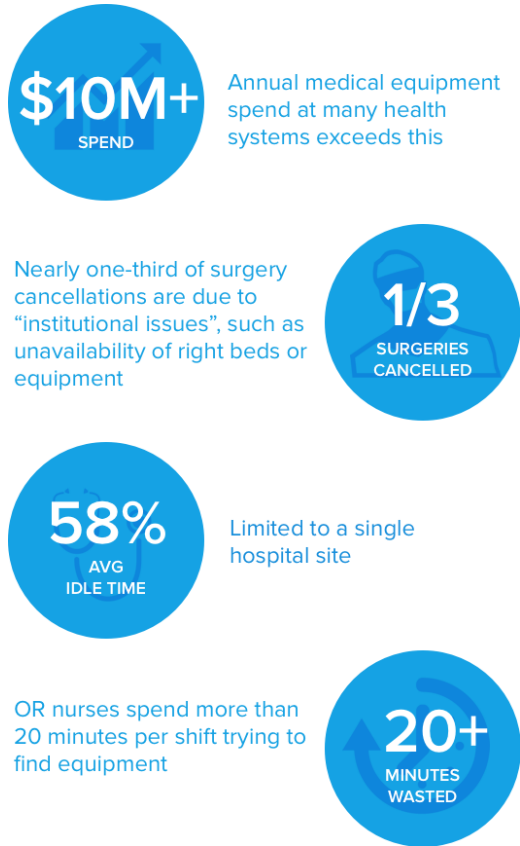
2 Ibid.

3 Kaufman Hall

4 Becker's Hospital Review



Medical Equipment: A Multi-Million Dollar Blind Spot



In their efforts to optimize spend, C-level executives hone in on labor and facilities costs. But **one of the largest cost items – tens of millions annually for a typical health system – is too often unaddressed:** medical equipment (see Figure 1). There is no question that medical equipment is essential to quality patient care. However, executives who investigate further will find **rampant inefficiency**. Medical equipment is often:

- **Underutilized**, with even the most expensive equipment sitting idle an average of 58% of the time.⁵
- **Disorganized**, with only some assets recorded centrally – and rarely tracked in real-time. Small wonder that OR nurses typically spend more than 20 minutes per shift simply looking for needed equipment.⁶
- **Disconnected** from central planning processes. Significant equipment rental and purchase activity can happen off the system-level radar, as OR teams do “what it takes” to accommodate procedures. Meanwhile, insights that can help plug revenue leaks or expand service lines rarely reach management levels that can utilize the data.
- **Fragmented**, undermining system-wide economies of scale. Many health systems still manage supply and demand of medical equipment on a facility level. Duplicate spending results, as do missed opportunities to pool procedure demand across sites.

Figure 1

Four Steps To Bring Control To Medical Equipment Chaos

Whether a health system is growing and integrating new hospitals, or simply streamlining existing ones, executives are commonly championing greater efficiency through centralization, standardization and transparency. Significant progress has occurred in areas from staffing models to bed sheet purchases. Now, the same discipline must be brought to medical equipment management.

The key? Centralize supply and demand, then begin to make data-driven decisions from the resulting insights.

⁵ Out of Control: How Clinical Asset Proliferation and Low Utilization Are Draining Healthcare Budgets (2012). GE Healthcare white paper

⁶ Ibid

High-level steps include:

1. **Develop a complete inventory of medical equipment**, on both individual facility and system-wide levels. The inventory should contain which assets are located where, the supporting components needed to operate them, maintenance and warranty records, and details on the staff with appropriate training and/or credentialing for their use.
2. **Begin tracking utilization**. Health systems should think of equipment utilization along two dimensions: time utilization and dollar utilization. The first considers whether an asset is sitting idle too frequently, while the second focuses on the untapped economic potential of that asset – whether it is being used to its greatest benefit. To develop a complete picture, systems should also **catalogue all rental activity across sites**.
3. **Foster collaboration among OR staff** to further improve operational performance. Ensure, for example, that equipment is in appropriate circulation rather than “hoarded” by specific teams – and that purchase or rental decisions are captured transparently via a standard approval process.
4. **Capture net new procedure/equipment demand in real-time**, so the health system is more effectively minimizing revenue leakage and pursuing opportunities to provide patient populations with the treatment they need. While health systems often have a “top-down” planning process, it is important to create a forum for OR teams to surface needs in real-time.

How The Sharing Economy Can Help

Centralizing supply and demand provides health systems with important insights to make better equipment purchasing and rental decisions. However, **it falls one step short of enabling breakthrough improvements – because it does not provide an actual mechanism to increase utilization meaningfully.**

In other industries, a new model has emerged in the past few years that has changed the economics of underutilized capital assets dramatically. Often referred to as “the sharing economy” or even “collaborative consumption”, it reflects a simple but powerful concept: make assets available to a wider community of people who need them, for the benefit of both sides.

? Five Questions To Benchmark Your Readiness

Is your health system ready to take its medical equipment management to the next level? These five questions can help shed light on the immediacy of the potential benefits.

1. **How much of our medical equipment inventory is tracked and managed centrally?** For most health systems, the answer is “very little”. Fact is, a lot of expensive equipment sits gathering dust in closets.
2. **What is our utilization rate, at a facility and system level?** In this case, the industry average of 42% is not a benchmark to strive for – but it is a starting point for understanding how you relate to industry norms.
3. **Is our rental activity justified?** Rentals can be an important part of your medical equipment mix. But investigate whether your facilities are frequently renting items that are already available elsewhere in the system.
4. **How much revenue is leaking, because we don’t have the right assets in the right locations?** Surgeons sending cases to competing systems in the same geography because they don’t have the right equipment available are one area to inspect.
5. **How effectively do we evaluate net new purchasing and rental decisions?** Many health systems have a gap between top-down, cyclical planning processes and the ongoing needs of their OR teams. Expensive inefficiencies can reside in that gap.

The most famous examples today are Airbnb and Uber. In the case of Airbnb, people with idle real estate capacity – spare rooms, apartments or homes – make their spaces available to others who need a place to stay, for a time period and price agreeable to both sides. Meanwhile, Uber has allowed people whose cars would otherwise sit in driveways to earn money by providing rides to others who need them – resulting in a leap in utilization and economic value creation.

In healthcare, medical equipment utilization cannot grow until facilities that need something – such as a laser or a Jackson table – can easily find, schedule, borrow it from, and return it to a peer facility.

The system-wide benefits of sharing are substantial (see Figure 2):

- **Optimize equipment spend**, as growing utilization immediately reduces unnecessary purchases and rentals. In addition, future equipment acquisitions can be informed by documented demand from clinicians and patients.
- **Accelerate cash flow**, by increasing OR productivity while expanding service lines with greater speed and agility.

7 Kevin O'Marah, "Uber: Resistance Is Futile," *Forbes*, August 5, 2015.

- **Improve access to care**, by equalizing treatment offered across facilities and orienting care delivery around the location of your clinicians and patients – not your medical equipment.

It is important to note that health systems will only capture these benefits when they involve sufficient supply and demand from the start. **The sharing economy runs on a network effect.** In other words, enough OR teams must be sharing and borrowing enough medical equipment to enable a rich and beneficial exchange within the system



Figure 2: Benefits of medical equipment sharing

Conclusion

Health system executives know that they can leave no stone unturned in their efforts to optimize their organizations while improving patient care. Medical equipment, representing tens of millions in annual spend, dwarfs many other cost items – but the tools to bring it under control have not existed until recently. The rise of “sharing economy” models enables health systems to centralize and pool supply of, and demand for, equipment across every facility in their network. The result: sharp increases in utilization, accompanied by the transparency to drive better decision-making moving forward. Perhaps most importantly, medical equipment sharing furthers health system missions to better orient care around clinicians and their patients – no matter where they are located.



Based in Boston, Cohealo Inc. enables health systems to centrally manage and share medical equipment across all their facilities. It provides a technology platform, complementary logistics, and analytics to support on-demand access to equipment for clinical teams – improving access to care while also optimizing spend and cash flow. Cohealo is named to Fast Company’s Most Innovative Companies List and CNBC’s Disruptor 50.

To learn more about Cohealo, visit www.cohealo.com.