

Your Outpatient Practice

MAY 2009 – THIRD OF FOUR

Refurbished equipment market gets fatter in a lean economy

More and more imaging centers turn to vendor-maintained modalities given new life to maintain quality of care as they cope with cut-to-the-bone budgets

BY DOUGLAS PAGE

Old imaging equipment never dies, it just falls into the hands of refurbishers. The practice of refurbishing imaging equipment is not new. A U.S. market study conducted in 2006 by IMV showed that 30% of all hospitals and 39% of nonhospital imaging facilities had at least one refurbished modality. Those percentages are likely to rise as the demand for refurbished units grows while the national economy shrinks.

Every healthcare facility now faces the same dilemma: how to deliver more efficient healthcare with less money. But hospitals keen on investing in new high-end imaging equipment find that budgetary constraints compounded by a staggering national economy are obstructing new purchases. Traditional sources of financing have dried up with the collapse of the bond market, and buying behavior has therefore changed. Sites are looking at what they can afford, not just what they need.

A growing number of facilities desperate to upgrade are finding refurbished medical imaging equipment to be a good alternative. Customers who before the crisis may have wanted a 64-slice CT now see that a refurbished 16-slice system is a better financial fit.

Stand-alone imaging centers and outpatient clinics, along with hospitals of 300 beds or less, provide the target market for refurbished equip-

ment companies. In the U.S., GE, Philips, and Siemens run some of the largest refurbishing operations.

Bread-and-butter imaging centers not engaged in demanding research activities often find that it makes more sense to go with refurbished equipment, rather than the more expensive new modalities favored by large tertiary hospitals and academic medical centers. Even those elite institutions often obtain one or two refurbished scanners to serve as backup during maintenance on production units or to augment front-line modalities during periods of peak patient flow. As a result, refurbished equipment vendors see the market expanding even in the largest hospitals.

ATTRACTIVE OPTION

Blue Star Imaging of Flower Mound, TX, the official imager of the Dallas Cowboys, recently acquired a refurbished Siemens MR (RS Magnetom Espree) and a Siemens CT (RS Sensation 16) to augment six other imaging modalities



A Siemens technician works on a 64-slice CT scanner that will be refurbished for resale. Refurbished scanners are proving to be a reliable and popular option in today's challenging economic environment. (Provided by Siemens)

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Published as a supplement to
Diagnostic Imaging and
Diagnostic Imaging Europe
May 2009 issues.

spread over two sites. Rae McGarrity, Blue Mound's director of operations, called the decision to go with refurbished equipment price-driven.

"The equipment was only a couple of years old and completely refurbished," McGarrity said. "To us, it was almost like buying a brand new piece of equipment."

Any stigma attached to refurbished imaging equipment is largely unwarranted. Buying pieces sold as-is may be risky, but refurbished equipment comes with the same warranties and supports the same clinical applications as new units. Refurbished equipment customers get the same clinical functionality, throughput, performance, and service uptime as new equipment customers receive.

Encompass Medical Group/Premier Imaging in Kansas City, MO, bought three refurbished scanners when the facility opened for business in 2004. The group considered reliability as much a factor in its decision as lower cost.

Price was what ultimately drove the decision to purchase refurbished equipment, but the group also understood that this equipment performs the same high-quality imaging as newer modalities, according to Susan Stidham, director of radiology.

Refurbished equipment provides a cost-effective option for imaging facilities that need to adhere to a strict budget to maintain profitability without sacrificing quality of care, Stidham said. She characterized the savings possible with refurbished equipment to be greater than 25%. Encompass-Premier also carries service contracts on all its equipment.

"The service contracts ensure that we can continue to maintain the equipment properly and also provides options for computer software and hardware upgrades," she said.

A variety of purchase or lease financing options were available to the Encompass-Premier group, which used a combination (see accompanying article). For the refurbished Siemens Sensation 64-slice CT, the group chose a lease option instead of pur-

chase because CT technology changes so rapidly, Stidham said. Leasing gives the group more flexibility in terms of equipment upgrade. The 1.5T GE MR, on the other hand, was a capital purchase. The group also owns two refurbished ultrasound scanners, one from Siemens and one from Philips.



Encompass Medical Group in Kansas City, MO, brought in three refurbished scanners when facility opened for business in 2004. From left: Dr. Mark Lavin, Rodney Lightner, Dana Hodgden, CEO, and Susan Stidham, director of radiology. (Provided by Encompass Medical Group)

Used imaging equipment sales and auctions can be found even in cyberspace. Plenty of bargains exist on the as-is market, but as-is equipment comes just as it says. As-is usually means no warranty and no vendor to stand behind the product. Let the buyer beware.

The first week of each month, however, government surplus medical imaging equipment goes up for auction at GovLiquidation.com. The auctions are typically well stocked with radiographic and ultrasound equipment. While the equipment is not refurbished and is sold on an as-is basis, some extraordinary bargains can be found.

"The bidder sets the price," said Tom Burton, president of Government Liquidation. "It's not unusual for items to sell for the \$150 minimum bid."

In March, a \$32,000 Siemens Mobilet Plus HP radiographic unit sold for \$4755.

The refurbished imaging equipment market operates differently. Not every used modality is a candidate for refurbishing. Refurbished equipment vendors are typically highly selective

in the units they choose to revamp. Vendors will look at the service history and performance of the unit, then determine if it can be upgraded.

Most units selected for refurbishing are about halfway through their useful life. Manufacturers of new imaging equipment are required to provide service and support for a minimum of 10 years. The sweet spot for most refurbishers is used equipment they can refurbish and still guarantee at least five years of service to the customer.

Deinstallation at the present site comes after selection. This consists of inspection and packaging. Packaging is usually done in the original shipping material so nothing is damaged in transit. Deinstallation and packaging are usually done by the same vendor technicians who installed the modality when it was new. Once repacked, the old unit is transported to a refurbishing facility. Siemens has two, one in Germany and one outside Chicago.

Refurbishing at these facilities begins with a thorough cleaning and disinfecting process. Refurbishers like Siemens replace up to 70 worn parts with original spares on a CT scanner. The unit is then painted. Next, the software is upgraded to the most recent versions.

Customization based on special requests, if any, is next. If the customer is acquiring a CT scanner and plans to offer lung care, this option is installed on the system. The unit is put through the same complete system check and quality assurance review as new equipment. It is then ready to deliver. Lead times for refurbished systems vary by modality, but refurbishing generally takes less than a week.

After packaging and shipment to the customer, the unit is installed and certified by the same technicians who install new units. Use of trained technicians is one of the advantages of dealing with major brand name refurbished equipment vendors.

TRUST FACTOR

Brand identification sometimes plays just as important a role in an imaging

center's decision to choose refurbished equipment as economic considerations.

"You have to trust the vendor," said Dr. Mark Lopiano, medical director at Medical Imaging Center of Fairfax in Virginia.

Lopiano's facility of six radiologists acquired a refurbished Siemens RS Sensation 16-slice CT scanner in 2007. Since then, the center has used the machine to perform six or eight studies a day without incident.

CT and MR scanners are the most popular items in the refurbished market. This is perhaps predictable, since turnaround is faster for these units. Most CTs or MRs are replaced every six or seven years, if not sooner due to lease options. Cardiology, on the other hand, might keep its angiography equipment for eight to 10 years.

If customers contemplating the purchase or lease of refurbished imaging equipment stay with any of the big vendors, they'll be fine, Lopiano said. Buying used equipment can present uncertainties, but what attracted Lopiano to the refurbished deal with Siemens was the company's seal of approval that the equipment could be trusted. It came with a one-year warranty. In addition to the warranty, spare parts availability is guaranteed for a minimum of five years.

"Siemens took the unit back to the factory and completely refurbished it, so what you get, essentially, is a brand new machine for something like half the price," Lopiano said.

In Lopiano's case, he got more than that. His acquisition of the refurbished scanner resulted in more feature flexibility than he might have expected acquiring a new unit.

"I didn't want the tube that comes standard on a 16-slice CT scanner," he said. "I wanted an upgrade to the Straton tube that comes standard in a 64-slice machine, so we could be in a position to do cardiac imaging."

The Straton tube yields finer cardiac and vascular detail. Siemens agreed to the swap. That's not all. Lopiano was able to negotiate other features.

"I got more bells and whistles in the form of software, plus I got a workstation with it," he said.

INDUSTRY TRENDS

Even though refurbished equipment is previously owned, vendors are showing growing interest in increasing customer satisfaction. The major equipment refurbishers are collaborating on a set of industry standards, specifying, for example, just what refurbishing means. Right now, refurbishers such as Siemens adhere to international manu-

facturing quality standards as specified in Medical Device Requirements ISO 9001, ISO 13485, and ISO 14001.

Refurbishing vendors want standards to help ensure continued market growth. Industry experts see a previously untapped refurbished market of thousands of private physician practices and veterinary establishments. Vendors believe this market segment is a perfect fit for refurbished equipment, since costs have reached a price point making it affordable for independent cardiologists, orthopedists, podiatrists, and veterinarians to obtain imaging equipment for their own offices.

One interesting trend to have surfaced in the past two years is the green aspect of refurbished systems. By choosing refurbished equipment, buyers extend the life of a product and thereby save resources. Vendors have noticed that the greening of healthcare can be a selling point. Customers like the idea they may have saved a modality from ending up in landfill.

One refurbisher estimates that the sale of refurbished systems prevents the release of an average of 10,400 tons of CO₂ annually, an energy savings that corresponds to the energy needs of about 3000 three-person households per year. ■

Economy buyers follow path of lease resistance

The machines bought by refurbished imaging equipment customers may be preowned, but the financing options available are identical to those used by clients buying new equipment. These options include \$1PO finance leases, fair market value leases, and tax-exempt leases. Each option has its advantages.

The \$1 purchase option, also called \$1PO or dollar PO, is a leasing structure that allows customers to own the equipment at the end of the lease term for \$1, provided terms of the lease have been fulfilled. This choice typically appeals to sites that want to own the equipment or wish to acquire equipment that will not

quickly become obsolete.

The fair market value lease offers more flexibility at a lower monthly payment. At the end of the lease term—typically 24 or 36 months—customers may either purchase the equipment for its fair market value, return it to the lessor or replace it with new equipment under a new lease, or extend or renew the original lease. This option not only costs less, it provides a hedge against technology changes.

The split between those who prefer the dollar PO and fair market value lease is about 50-50, according to financial services experts.

Tax-exempt leases are generally avail-

able only to not-for-profit entities that qualify under IRS Section 103-C, which includes 85% of U.S. hospitals. Since the majority of stand-alone imaging centers and outpatient clinics are for-profit entities, they are not typically eligible for tax-exempt lease financing. The exceptions are the growing number of joint ventures being established between hospitals and imaging centers. Depending on how these ventures between hospitals and imaging entities are legally structured, independent imaging centers and outpatient treatment facilities may actually qualify for tax-exempt financing. Generally, however, most imaging centers do not qualify. —DP



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