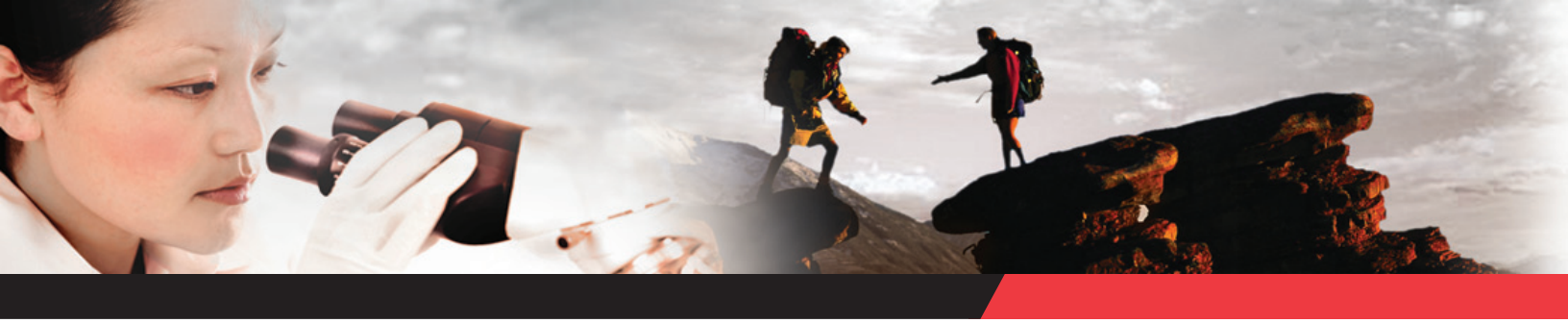

SPENDING SCARCE RESOURCES ON THE WRONG CAPITAL BUDGET REQUESTS

Not In My Hospital!

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Not In My Hospital!

Granted, hospital capital budgeting is complex. You face the onslaught of medical staff with competing capital wish lists. It gets political. And sometimes, it gets downright ugly. Consider this typical scenario:

*Competing capital wish lists—it gets ugly for **hospital leaders** who need to do more with less.*

> You're reviewing your hospital's total capital and operational budget. Your director of radiology is insisting that a new multi-slice CT scanner, costing approximately $1.5M, offers the best return on investment for the organization. He not only claims that a new CT scanner will "print money," but he actually demonstrates that it will be paid off in only a few months, and will generate high revenue for the hospital almost immediately.
>
> At the same time, the director of anesthesia is complaining that her anesthesia units have reached the end of their useful life. She claims that parts are no longer being supported by the vendor and she is extremely concerned about patient safety. There is no clear ROI that she can demonstrate for the purchase of the anesthesia units, yet they are clearly a necessary purchase.
>
> So does your hospital buy the CT scanner or the anesthesia units?
>
> Healthcare leaders need to balance winners and losers when it comes to capital expenditures. Without winners—capital expenditures with positive ROIs—hospitals will be challenged to meet future growing capital demands. However, investments in core capital needs that may **not** show hard ROIs (e.g., patient safety) are essential and can't be ignored.

As a hospital C-suite executive, you face similar issues when it comes to capital budget planning.

- **Is the data that feeds your budget accurate, reliable, and most of all, unbiased?** What actual data do you need, and how do you get it?
- **How does your healthcare organization establish priorities?** How do you determine ***necessary*** technology vs. ***nice-to-have technology***, or when your existing equipment actually has a few more years of ***safe***, useful life?

How you answer these questions can make or break your capital budget.

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GROWING WISH LISTS—SHRINKING RESOURCES

Reliable information may allow a hospital leader to budget for more than they thought possible.

Equally challenging when it comes to building the capital budget is the reality of shrinking capital. With ever-tightening margins, diminishing reimbursements, rising technology costs, and increasing regulatory demands, today's landscape is treacherous at best. Your hospital may be one of many that are tapping into what's left of investment portfolios to fund the capital budget. You might be breaking even, or even operating at a loss.

In this environment where every dollar counts, there is little room for error. But, given the right tools and advice to plan effectively, you may be able to stretch your budget dollars and uncover significant savings. You might even see your wish list grow.

The purpose of this white paper is to outline some initial steps that you can take now to ensure a smoother process and more cost-effective budget.

TWO TECHNIQUES TO HELP KEEP YOUR CAPITAL BUDGET ON TRACK

1. GET A CLEAR, COMPLETE PICTURE OF ALL YOUR REQUESTS

Without confidence that you have the ***full enterprise-wide picture*** and that the ***clinical and pricing data is objective and accurate*** —your quality of care and bottom line could be at risk.

"Normalize" device descriptions so that it is easy to see bundling and standardizing opportunities.

To start, insist on a clear picture of what is being requested across your organization so you can find opportunities for bundling and "group buys" across departments and facilities.

A good capital budget includes consistent or "normalized" device descriptions. Normalizing your device descriptions helps you group purchases if you are in a health system, or achieve volume discounts, whether a health system or a stand-alone hospital.

A good normalizing process "cleans" your data and identifies discrepancies in the naming of like items across different departments. Match the device descriptions you provide in your capital budget requests to those listed in an accepted classification system, like ECRI Institute's publicly available Universal Medical Device Nomenclature System™ (UMDNS™). This standard nomenclature and computer coding system for medical devices is accepted and used worldwide by thousands of healthcare institutions. Once identified, the disparate names/descriptions can be standardized and "de-duped."

For instance, **Illustration A** below shows four items on a facility's budget list, two of which use conflicting names for the same item—"Steam Autoclave" and "Steam Sterilizer." By matching the disparate names to an accepted classification system, these items are bundled and standardized to "Sterilizing Units."

Illustration A

Hospital's Original Budget Item | **Cleaned Budget Item**

Dept	Description	Qty	Budgeted	UMDNS Term
A	Ultrasound	2	$ 300,000	Scanning Systems, Ultrasonic, General-Purpose
B	Fluoscopic System	1	$ 230,000	Radiographic/Fluoroscopic Systems, General-Purpose
C	Steam Autoclave	4	$ 320,000	Sterilizing Units, Steam
D	Steam Sterilizer	2	$ 170,000	Sterilizing Units, Steam

Once your data is clean and standardized, you can match each item on your wish list to a more accurate budget estimate, as in **Illustration B**, which shows average pricing on three separate manufacturer's sterilizing products.

Illustration B

Cleaned Budget Item Matched to Recommended Models

Manufacturer	Model	Avg List/Unit	Avg Quoted/Unit	AvgDisc
Company 1	Model X	$ 67,280.43	$ 33,294.88	50.50%
Company 2	Model Y	$ 65,660.23	$ 43,199.83	34.20%
Company 3	Model Z	$ 57,118.04	$ 34,638.96	39.40%

A best practice is to benchmark items against an "actual prices paid" database and compare items, apples-to-apples, to top models per device. Then, benchmark against the national average list price, quoted price, and discounted prices paid by other hospitals nationwide. This process enables you to plan with confidence and later, negotiate the best deal with your manufacturers.

Having a clear picture of all requests and accurate data to estimate costs can uncover significant cost-savings and allow your budget dollars to go farther. It is not unusual to find you can afford more items on your wish list than you initially expected.

2. PRIORITIZE—BY ASKING THE DIFFICULT QUESTIONS

Now that you clearly know what products and investments are being requested, you can start to ask the difficult questions. The most important is, "*How will this requested item improve patient safety, clinical care, or operations?*" To answer that, you'll need to ask:

- Is the new technology really more clinically effective than your existing technology?
- Do you have all the pieces (physicians, facilities) in place to successfully implement this technology?
- Are there codes in place and reimbursement rates established for the technology?
- What is the "true" cost of ownership to acquire and maintain the technology, including training, staffing, and facility requirements?
- Will this request have a positive return on investment? And when?
- Will this technology integrate with your electronic health record system (EHR)?

Is this particular technology a "need-to-have" or a "nice-to-have"?

Prepare the right questions and strategies using expert support behind the scenes or at budget review meetings.

Data-driven clinical information and an unbiased review of your budget will improve quality of care and safety, helping you and your staff cut through the sales hype and guide your capital budget planning. It will help reveal unnecessary expenditures on new technologies, components, or options.

A "best practices" model for capital budgeting includes:

- Engaging key stakeholders with an objective, evidence-based management approach
- Adopting a process and enforcing deadlines
- Communicating criteria for prioritizing and justifying capital expenditures
- Proactively assessing needs by department based on current trends, market pressures, and demographics.

Department heads should submit essential details related to their budget requests, including device names and descriptions, model selections, rationale for the purchase, life expectancy, financial and clinical impact, and reimbursement rates.

Then, the hard work begins—determining *necessary* technology versus *nice-to-have* technology. A typical scenario follows.

DA VINCI ROBOT OR THE GAMMA KNIFE?

An unexpected, but avoidable, capital outlay that disrupted the original three-year budget.

Choosing between two competing requests for expensive, high-tech solutions can be very difficult. Do you buy the Mercedes or the BMW? The da Vinci® robot may be the answer for your urologic, gynecologic, and thoracic surgeons who are looking to perform less-invasive surgery, resulting in faster recovery times and shorter hospital stays. You know that the robot is a hot emerging technology that is attracting patients and recruiting surgeons.

On the other hand, you know that by fulfilling the request submitted by your radiation oncology department for the Gamma Knife®, also a popular technology, you may recruit more surgeons and attract more patients, possibly garnering increased market share. Oncology departments today are proven revenue generators.

Whether you have the data-driven clinical research capability in-house or use an unbiased third party, using accurate, timely, and reliable research will help you to weigh the pros and cons of such alternatives and will help you make a more informed decision.

EXPECT THE UNEXPECTED

Emerging technologies are often at the top of every hospital's capital budget wish list. But, what about the less glamorous budget priorities, such as maintaining your hospital's infrastructure and, consequently, the safety of your patients? The following example illustrates what may happen when a capital budget plan fails to address such key factors.

ECRI Institute's strict conflict-of-interest rules help ensure objectivity.

The High Cost of Underfunding Your Infrastructure

A community hospital, having already established its three-year capital budget, experienced some close calls related to patient bedrail entrapment issues with the older beds in its facility. When the director of nursing and the chief medical officer met with the hospital's risk managers to review current patient safety data, it became apparent that the number of entrapment incidents was, in fact, increasing. In addition, the hospital administrative staff knew that FDA has been bringing these bed and bedrail entrapment issues to light, reporting that, in the past 15 years, there had been more than 700 reports of incidents of patients caught, trapped, entangled or strangled in hospital bedrails.(1)

Hospital administrators had to develop a plan for the installation of 200 replacement beds that meet new bed safety guidelines or standards, over a 2- to 3-year period, **an unexpected capital outlay of millions of dollars that disrupted the original three-year budget.**

(1) FDA U.S. Food and Drug Administration website, Hospital Beds, http://www.fda.gov/MedicalDevices/ProductsandMedicalProcedures/MedicalToolsandSupplies/HospitalBeds/default.htm, retrieved August 25, 2009.

AN INDEPENDENT VOICE CAN HELP YOU BRING STAKEHOLDERS TOGETHER

Even if you have clean, accurate, and reliable data upon which to base your capital budget decisions, an independent capital technology advisor can help you bring order to an often contentious process, and even plan for unexpected contingencies that could potentially derail your budget. Objective, expert support behind the scenes, or at your budget review meeting, can help you and your team get smart about the issues and prepare to ask technology-specific validation questions that will help develop budget optimization strategies around your key requests.

Tap ECRI Institute's independence, integrity, and 40 years of experience supporting thousands of hospitals worldwide.

Likewise, an independent voice provides objective reviews with an eye on adoption, business, and implementation considerations. Understanding the financial and patient-safety implications of delaying replacements or honoring specific requests for new medical equipment will better prepare you to deal with conflicting budget requests within your organization.

SO WHERE IS YOUR CAPITAL PLANNING PROCESS?

Each organization is different. But at the end of the day, you'll rest easier when your capital budget is built on solid ground—having a clear picture of all requests, accurate objective clinical and pricing data, and a prioritized list of investments finalized after asking—and answering—the difficult questions.

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SPENDING SCARCE RESOURCES ON THE WRONG CAPITAL BUDGET REQUESTS

ECRI Institute can help you end what needs to be ended.

When it comes to planning a new capital budget, or implementing an existing one, don't go it alone. Get advice from an objective, third-party industry expert—with one of the strictest conflict-of-interest policies in the field of healthcare research. ECRI Institute accepts no grants, gifts, finder's fees, or consulting fees from, and employees are not permitted to own stock shares in, medical device or pharmaceutical firms. To make sure that is the case, we actually examine each employee's federal income tax return after it is filed. ECRI Institute accepts no advertising from any source.

ECRI Institute offers more than 40 years of experience helping 5,000 hospitals and health systems worldwide get the most from their capital equipment budget dollars. Our experts can offer informed, executive-level data to help you make evidence-based capital budget decisions, deal with conflicting departmental needs, and better allocate funds.

- Capital budget review
- Real-time price paid data
- Capital expenditures consulting support
- Capital equipment decision and database support

Contact ECRI Institute's technology acquisition and capital planning experts:

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ABOUT ECRI INSTITUTE

ECRI Institute (www.ecri.org), a nonprofit organization, dedicates itself to bringing the discipline of applied scientific research to healthcare to uncover the best approaches to improving patient care. As a pioneer in this science for more than 40 years, ECRI Institute marries experience and independence with the objectivity of evidence-based research. To maintain objectivity in its reporting, ECRI Institute has one of the strictest conflict of interest guidelines in the healthcare industry, for all its employees. ECRI Institute is designated a Collaborating Center of the World Health Organization and an Evidence-based Practice Center by the U.S. Agency for Healthcare Research and Quality (AHRQ). ECRI Institute PSO is listed as a Patient Safety Organization by the U.S. Department of Health and Human Services under the Patient Safety and Quality Improvement Act of 2005.

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