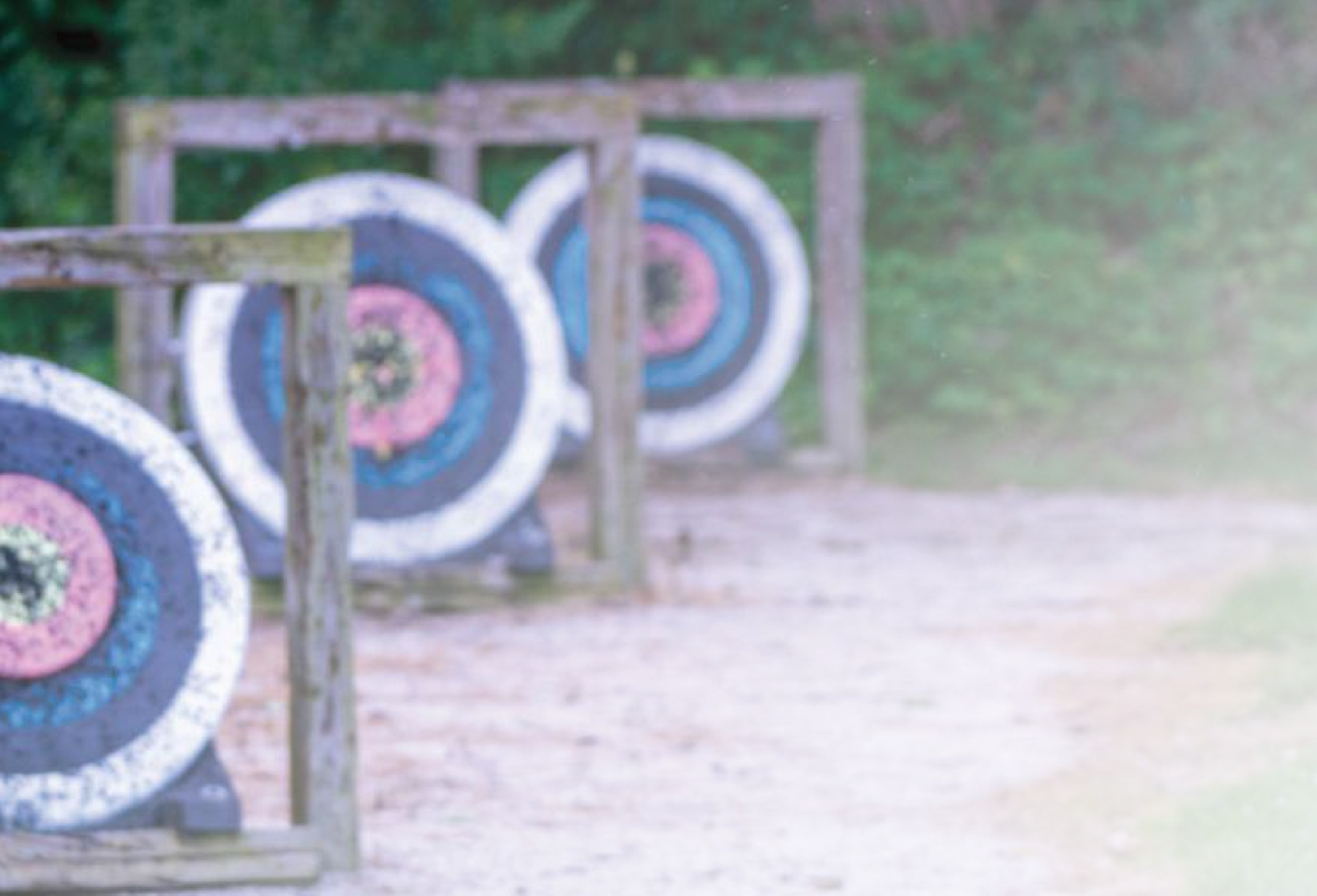

THE PATH TO PRECISION IN PURCHASING: Logic and Life-Cycle Costing

Before investing in a new piece of equipment or program, ask yourself these five questions

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IN THE THERAPY WORLD, IT SEEMS THAT AS SOON AS we adjust to a newly implemented reimbursement cut, we are faced with another. You have likely found yourself brainstorming ways to offset these cuts without compromising care delivery and clinic culture. One avenue to pursue is a new program or piece of equipment that will attract more patients and bring more revenue into your clinic. As you work through the decision-making process of selecting an investment that will help you reach your goals, ask yourself these five questions.

1) WHAT INVESTMENT WILL DIFFERENTIATE YOUR PRACTICE?

Purchasing new equipment and starting a new program can be major investments. Before making a commitment, determine what will best add value to and differentiate your practice from your competitors. Would you be offering more of the same, or would you be offering a cutting-edge or unique intervention or service? It's difficult to make a plan to stand out if you don't know what the competition is doing. This requires you to have a good understanding of your market. Ask yourself:

- Who are my competitors?
- What services do they offer that I don't?
- What services can I offer that my competitors don't?
- What can set me apart?
- What do my referral sources want or look for in a provider?
- Are there services that I refer out to competitors because I currently do not offer them?

Connect with your referral sources. Are there specialty therapy services they would find beneficial for their patients, such as an antigravity treadmill, musculoskeletal ultrasound, Functional Capacity Evaluations (FCEs), EMG and nerve conduction diagnostic testing, or aquatic therapy?

Not only will offering certain services attract patients, but it can also help with recruiting talent to your clinic.

Take Action:

Look around your clinic. Is there equipment you don't use? If so, why is it there? Why aren't you using it? Could new equipment or technology that would help build your practice and revenue take its place?

2) WHAT IS THE PURPOSE OF THE PURCHASE? DOES THE INVESTMENT ALIGN WITH YOUR GOALS AND BUSINESS STRATEGY?

No matter how large or small, you should carefully evaluate the purpose of the purchase and ensure it aligns with your business goals and strategy.

Is your business goal to:

- Increase referrals from current and/or new sources?
- Increase your patient base by attracting new patients by offering cash-based interventions?
- Reach a new market?
- Diversify your service lines?
- Maintain revenue by replacing a piece of equipment that provides steady revenue?
- Recruit and retain talent?

Perhaps the purpose is to add a new business line to grow your clinic and referrals by reaching a new market. For example, our company, Alliance Physical Therapy Partners, purchased a standardized FCE program and equipment at the end of 2020 with the intent of offering a continuum of care to Workers' Compensation and auto accident patients. Our goal was to grow this payor mix. Previously, we referred these patients away from our practice for FCEs following the acute episode of physical therapy. This FCE program not only provides direct revenue from the FCEs, but it has also become an additional source of patients for our Work Conditioning program. In another market, we purchased an anti-gravity treadmill allowing us to better reach and serve athletes.

Perhaps the purpose is not to generate new income and instead it is to ensure steady revenue by replacing an item. Would not replacing it negatively impact patient care or the business? Or maybe the purpose is to save money by improving clinician efficiency, satisfaction, or safety. Higher efficiency drives higher volumes of patient care and likely staff satisfaction, as no one likes to waste time. Staff satisfaction often drives patient satisfaction and is a major factor in staff retention, which saves precious recruitment dollars and avoids long patient waiting lists and subsequent loss of patients. Enhancing staff safety minimizes potential for injury and thus expensive workers' compensation claims.

Large acquisitions should be well-thought-out and planned. A written proposal using the same template each time assists with a systematic approach and helps to avoid emotional purchases. Make sure the investment aligns with your goals and business strategy — in other words, that it serves its purpose. If it does not, you may end up with a shiny new piece of equipment that will soon collect dust and take up precious space in your clinic.

Take Action:

Set aside some time to determine what information you need to decide on purchases for your clinic. Create a template document that you can fill out anytime you are considering investing in a new piece of equipment.

3) WHAT ARE THE OPTIONS ON THE MARKET? WHICH OPTION BEST MEETS YOUR NEEDS?

Once you settle on which type of program or what equipment to invest in, it is time to do your due diligence, researching the options to decide which is best for your business, clinicians, and patients. Often there are multiple possibilities, each with different bells and whistles. An efficient way to start your research is to attend the annual meeting of CSM or PPS (including the Buyers Guide: www.ppsbuyers.guide/buyers-guide/search) and learn about and demo equipment in the exhibit hall. Once you have narrowed down your choices, find practices outside of your service area that are using the equipment and ask to talk with them about their experience. They might even invite you to come demo it in their clinic! PPS discussion boards are another great resource for garnering information as you make purchasing decisions.

Take the following into consideration when deciding which brand and model of equipment to purchase. It may be helpful to make a list of pros and cons to help you evaluate the best fit for your clinic.

- **Space.** Determine which option will best fit your clinic while maintaining overall clinic functionality. Remember: it is not just the footprint of the equipment that you need to consider, but the entire space required to safely operationalize the equipment.
- **Features**. Create a list of which features are nonnegotiable. Don't settle for a piece that isn't going to be able to do exactly what you need it to do.
- **Warranty, service, and maintenance costs**. Are these included in the purchase price? Do they reoccur yearly?
- **Customer reviews.** Is there a high percentage of positive reviews? Have any reputable product review magazines or organizations given their stamp of approval?
- **Payment options.** Is leasing, financing, or a payment plan available, or is buying outright the only option?

And then there is the matter of cost. What works for your budget and entire financial picture? The cost goes way beyond the purchase price, and to get all of the information that you need to make an educated decision often requires some digging. "The process of estimating how much money you will spend on an asset over the course of its useful life" is known as life cycle costing (LCC), or whole life costing, and incorporates the total cost of ownership.[1] This includes, but is not limited to, initial purchase, taxes, delivery, installation, warranty, training, space requirements, staff training time, maintenance, license/user fees, and disposal, among other costs. (Table 1.) If you purchase an aquatic therapy tank, include utility costs, such as electricity and water. If you acquire a piece of equipment that stores data about patients, you may have a cost for security of the protected health information and data migration at the time of disposal. The objective of LCC analysis is two-fold: 1) initially, to select the most cost-effective approach among various alternatives to achieve the lowest long-term cost of ownership; and then 2) to calculate your return on investment accurately.

Table 1. Life Cycle Costing Checklist[2]

INITIAL PRICE	Initial or "sticker" price (purchase vs lease)
	Licensing fees
	Installation
	Business associate agreements development costs
	Initial staff training
	Loss of revenue/expense of staffing coverage during training
USAGE	Warranty
	Maintenance
	Upgrades and subsequent staff training
	Consumables
	Labor, including time for cleaning and setup
	Space
	Security of PHI
	Financing costs
DISPOSAL	Physical removal of equipment
	Decommissioning or destruction
	Data mitigation or migration

That said, don't make your decision solely based on cost. Quality and projected "useful life" are critical considerations. High-quality equipment and programs can increase staff productivity and, therefore, revenue. Poor quality can decrease staff involvement and participation, leading to avoidance of use and under-utilization. Although a quality product may cost more initially, it may be less expensive overall. A less expensive alternative may initially be cheaper because it is not made as well, the training is not comprehensive, or the incremental costs are very high. Think of an inexpensive printer whose cartridges break the bank or an electrotherapy unit that

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requires very expensive disposable electrodes. Consider "useful life" not only in terms of how long the equipment will last but also in terms of how quickly it will become obsolete as a result of the rapid pace at which equipment and technology are changing and improving. Combine this information with a financial analysis to determine whether you should lease or purchase outright and, if purchasing, whether you should buy new or used.

Take Action:

To narrow the scope of your search for new equipment, ask other physical therapists what they use, and conduct an online search, as well. Use this information to create a list of brands and models to research in detail.

> The right investment can significantly benefit your physical therapy practice.

4) WHAT IS THE EXPECTED RETURN ON INVESTMENT (ROI)?

Now crunch the numbers for the potential revenue the investment will generate. Understand the reimbursement for each source of your payer mix. Build a Revenue Projection Spreadsheet, listing real referral sources, downstream revenue, and service and billing quantities. This will help create your marketing plan at the same time. The result will be more accurate assumptions, especially should you need to build presentations for financing.

Take Action:

Determine which piece of equipment is best suited to help you achieve your goals for your practice by analyzing the ROI. This will yield net margin (profit) generated per unit produced and your break-even point. (Table 2.)

5) WHAT ARE THE INDIRECT BENEFITS OF YOUR INVESTMENT?

These can be difficult to quantify but should be considered in your decision-making and included in your ROI calculation if possible. For instance, offering a cash-pay service, such as cryo-compression to enhance recovery and performance, gets clients into your clinic who will likely convert to patients. Performing Prior-to-Hire functional assessments and other services for employers on-site gives your clinic valuable visibility and your clinicians the opportunity to create relationships with employees, who might then choose your clinic for their own and their

Table 2. Return on Investment

REVENUE	
Estimated total number of units produced per year	24
Average net revenue received per unit produced	$700
Useful life (total number of years equipment expected to operate)	10
Total Net Revenue on investment	$168,000
CAPITAL EXPENSE	
Initial cost of equipment, delivery and installation, fees	$20,000
Cost of training associated with equipment *(if applicable)*	$2,000
Total Set Up Cost*	$22,000
Total set up cost per unit produced (amortized, principle only)	$92
OPERATING EXPENSE	
Labor cost per unit produced ($*hr)	$200
Operating cost (non-labor — e.g., medical consumable equipment)*	$20
Equipment maintenance cost (Annual cost/ number of units produced per year)	$12.50
Total operating expense per unit produced	$233
TOTAL EXPENSE PER UNIT PRODUCED (capital & operating)	$324
Total Expense on investment	$77,800
Total Net Revenue on investment	$168,000
Total Return on Investment (Ratio of net income: investment cost)	2.2
Net margin (profit) generated per unit produced	46%
Total number of units produced to achieve positive ROI	112

*may include additional expenses listed in Table 1.

family's therapy needs. And as noted earlier, purchasing equipment that decreases injuries to staff enhances your bottom line by decreasing workers' compensation claims.

The right investment can significantly benefit your physical therapy practice. It can provide expanded treatment options for patients; meet referral sources' unmet needs; improve staff retention, efficiency, and safety; and give you a competitive edge that results in increased patient volume. By asking the right questions, understanding what you hope to achieve before investing your resources, and implementing life cycle costing, you will be able to purchase with precision and make the best decision for your business.

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Give us your feedback!

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ACTION ITEM

Review the action steps listed in the article and TAKE ACTION!