

Service Contract Management



By Joe Haduch

As the Affordable Care Act appears less and less affordable, the value of service contract management takes on an even higher level of importance within the supply chain management department.



In the new world of healthcare, effective service contract management can save your organization money while increasing the quality and value of your equipment services. No longer can a one-size-fits-all solution be accepted as adequately managed service.

Sourcing agents and clinical engineering personnel are faced with a daunting array of service offerings from both OEMs and independent service organizations. Today's challenge is recognizing the program or

service offering that satisfies not only your needs on a macro level, but also on a micro level – the individual piece of equipment – all while minimizing your fiscal risk and maintaining your ability to meet the demands of this dynamic environment.

Service contract management is seldom a bottom-line decision. The total cost of service goes beyond the number on the last page. There are a variety of service aspects that must be taken into consideration when determining the value of a service contract. Among these are parts costs, labor, upgrades, glassware (tubes, image intensifiers), and digital detectors. Poor service contract management can lead to increased costs, extended downtime, poor diagnosis, legal and liability issues, and employee inefficiency.

Risk assessment

One of the first considerations when determining the level of service best suited for your organization is risk assessment. Risk assessment is defined as

the level of risk or responsibility your institution is willing to take in regard to your equipment's service.

Typically, risk is inversely proportional to contract cost. If your primary fiscal goal is to maintain some level of cost certainty with minimal financial risk, you will most likely be purchasing a high-cost, high-coverage contract. However, if your strategy is to minimize, if not eliminate, contract expenses, you risk the potential of paying high out-of-pocket costs for critical, if not catastrophic, repairs.

You can minimize your level of risk while maintaining a level of coverage appropriate for your equipment by taking into consideration the following:

- The service requirements of your department or facility.
- The equipment's service history.
- All levels of service contract coverages.

Evaluate the service requirements of your department or facility.

As you begin to evaluate the needs of your department, consider the time the equipment is in use. Equipment schedules will affect the availability and the necessity of adding overtime hours to your service agreements' principal hours of coverage. The redundancy of your equipment – whether it's a CT scanner or an infusion pump – will very often dictate the urgency of equipment repair. Take this into consideration when determining response time or priority parts delivery in your service contract. Very often, a smaller community hospital may lack equipment redundancy, thus creating a greater need to minimize downtime. Patient volumes and the number of studies can affect contract and certain parts costs.

Review equipment service history. A comprehensive analysis of equipment's service history is critical to minimizing risk. Past performance may not be an exact indicator of future results, but it is still an important guide. Determine your previous labor and parts spend based on normal time and materials. (This would be your costs, if you didn't have a service contract.) How do those costs compare to the coverage costs of the service agreement? Has the service engineer spent a lot of labor diagnosing software issues or user errors and replaced very few parts? How much of the labor has been done

during overtime hours, and can the hospital department accommodate service during normal business hours? Equipment service history should be available from your current service provider or the OEM if the equipment is still under warranty. A comprehensive review of service histories will help you better identify the service needs of individual pieces of equipment.

Evaluate all levels of service contract coverages.

Though your facility may only have minimal in-house capability, it is still important to review all levels of service coverage offered by your service

“As you enter into future service agreements, you must have the ability to increase or decrease service coverages, as you and your organization see fit.”

provider. Many contracts can be customized to meet your specific needs. If your equipment is older and has a high amount of parts replacement, then some level of parts coverage should strongly be considered. A contract may only include service support and remote diagnostics to support your in-house group. These agreements are normally available for minimal cost compared to full service contracts. No matter the coverage, review all available options. Your organization may not currently be in a position to take on additional risk and responsibility, based on either fiscal restraints

Why you need to be aware of glassware

Glassware typically refers to x-ray tubes and image intensifiers, commonly called IIs. These are high-cost items that are not normally covered under a base service agreement. In addition, not all x-ray tubes are created equal. A tube on a portable or general x-ray room may only cost a few thousand dollars, however a CT tube may list for a few hundred thousand dollars. There are usually a number of ways service organizations offer tube coverage, from pay-as-you-go, to annual tube coverage programs, to discounted tube costs based on patient volumes. As with all service coverage, decide what offering is best for you.

You may also want to be on the lookout for these other high-cost parts, not normally covered in your service agreement:

- Digital detector coverage.
- Magnet monitoring and cryogen replacement.
- Ultrasound probes.

or in-house service competences, but reviewing all levels of costs and coverages will show you the potential value of other service models and allow you to reduce future contracts. Due diligence is the key to minimizing contract risk.

Don't be a conformist

With healthcare moving from a volume-based delivery model to that of a quality-based

needs of your facility as equipment ages and in-house repair capabilities expand or contract.

Effective service contract management that includes a thorough analysis of your clinical needs, equipment service histories and available service options will be a key component in ensuring your facility's best service value. Flexibility, with respect to both cost and service offerings, will afford you the ability to change as your fiscal and service needs warrant. Preparing today for the challenges of tomorrow will better position your organization for future success. **JHC**

Joseph A. Haduch, MBA, MS is the director of imaging services for UPMC Biotronics, Pittsburgh, Pa. He is responsible for the operational and administrative duties associated with UPMC's imaging and radiology equipment service division, which comprises nearly \$500 million of equipment inventory. He manages a staff of 25 radiology and oncology service engineers, parts procurement and service contract negotiations.

Haduch has 25-plus years of experience in the repair, installation, management and procurement of imaging equipment and service. He began his career with Mercy Hospital of Pittsburgh (now UPMC Mercy) as an entry-level imaging engineer, and soon moved through the ranks until becoming technical specialist for the Imaging Services group. With UPMC, he worked as a radiology engineer specialist before becoming director in 2008.

He received both his MBA and M.S. in Management and Technology from Carlow University in Pittsburgh. He graduated from Point Park University with a B.S. in Electrical Engineering Technology, and received his A.A.S in Biomedical Equipment Technology from Penn State University.

approach, you will be faced with fiscal and operational challenges not seen since the changes in the steel and auto industries of the last century. Your ability to adapt to these changes will be key not only to your personal success, but the success of your organization. A key element to successfully meeting these challenges will be negotiating contracts that permit a large degree of coverage flexibility. Most service organizations will gladly permit you to increase service coverage; however, it's vital that these same agreements allow you to lower coverages, and lower contract costs, to meet any organizational changes you may encounter.

Administrators will look to you for lower costs and a more effective and value-driven service plan. As you enter into future service agreements, you must have the ability to increase or decrease service coverages, as you and your organization see fit. This will also allow you to more effectively meet the service