



# How to Reduce Equipment Repair Costs without Impacting Quality

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## AUTHORS

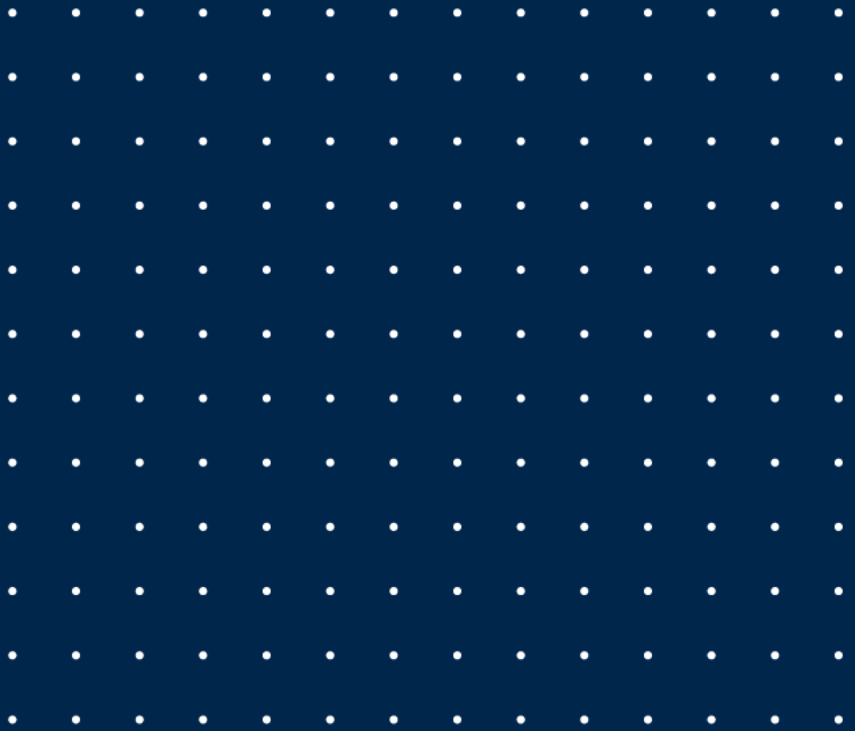
**Ken Schwarz**  
Network Director,  
Biomedical Engineering  
St. Luke's University  
Health Network

**Scott DiDonato**  
Senior Director,  
Capital Equipment & Projects,  
Materials Management  
St. Luke's University  
Health Network

**Joe Arruda**  
Director,  
Healthcare Performance  
Improvement  
BRG

**Eric Alexander**  
Consultant,  
Healthcare Performance  
Improvement  
BRG

INTELLIGENCE THAT WORKS



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Purchased services, broadly defined as any purchased, contracted, or outsourced service across all functional areas of a hospital or health system, contribute to approximately 35 percent of the total supply chain spend. When reviewing equipment service agreements, it is a challenge to determine if your rates are competitive and balanced with the quality of services you are receiving. Equipment service agreements represent a large portion of the purchased services expenses that require subject-matter expertise, benchmarking, and market trends data, as well as repair cost/consumption rates.

The below case study examines the strategy, approach, and outcome of a recent equipment repair initiative with St. Luke's University Health Network (St. Luke's), which partnered with Berkeley Research Group (BRG), that resulted in \$949,000 of savings/benefit. The organization's strategy and approach provide a blueprint for other providers to evaluate and reduce equipment repair costs and other service expenses.

# 01. Ask the Right Questions

During an initial service program, consider the following questions around pricing, service, and quality:

## Pricing

- Is the service agreement fully capitated, or are you "on the hook" once you cross a certain consumption/repair percentage? Do you receive 100 percent of all under-consumed dollars?
- What pricing is used for consumption/repair purposes?
- What pricing is used for repair per piece of equipment?
- If service is outsourced to a non-OEM vendor, does the vendor cover original equipment manufacturer (OEM) repair costs?
- Is the vendor an approved GPO vendor?

## Service

- How will you hold your vendor accountable for education, quality repairs, and turnaround time (performance metrics) during business reviews? Are there penalties if these metrics are not achieved?
- Is the vendor willing to build a dedicated loaner pool? If so, will the dedicated loaner pool be supplemented by a national loaner pool? Is the vendor willing to adjust the loaner pool as necessary throughout the agreement?
- Does the vendor have a robust information technology platform? Can it track devices out for repair, create shipping labels, run repair histories, review consumption/repair, etc.?

## Quality

- Is your vendor ISO 13485 certified?
- Does the vendor provide "white glove" service such as drop-off, pickup, etc.?
- How does the vendor target education/training based on facility or physician trends?

## 02. Identify Opportunities to Improve Current Agreements

During the equipment repair assessment, St. Luke's identified a large amount of spend with one of its preferred vendors. St. Luke's reviewed the agreement from the standpoint of financial structure (cost per equipment), service (quality of repairs, equipment turnaround times), training programs (to help minimize repair/consumption rates), pricing, and the impact on patient care.

Next, St. Luke's obtained an accurate equipment inventory and determined if there were opportunities to improve the current agreement. This exercise sought to:

- Evaluate the current equipment repair costs
- Identify a vendor that could provide quality service with a primary focus of avoiding infection control breaches through repairs that meet or exceed the OEM standards
- Identify a vendor willing to develop a true risk/reward program by training staff to reduce risk and share data to promote transparency and lower consumption/repair rates

St. Luke's existing capitated service agreement structure did not incentivize the current vendor to educate and train St. Luke's staff to lower consumption rates.

### **Contract Findings**

- Incentives were not aligned: "The more you break, the more the vendor makes."
- Capitated agreements contain "guardrails": Vendors have no incentive or risk to lower repair costs through training aimed at achieving savings, qualifying for rebates, and preventing budget fluctuations.
- The vendor applied overinflated repair costs (consumption rates) to justify higher capitated expenses per item of equipment.

St. Luke's met with its current vendor to create a more collaborative and transparent partnership, obtain lower capitated pricing, and implement proactive staff training. However, the vendor was unwilling to adjust the existing agreement.

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*There is not a one-size-fits-all approach; a blend of services are required. Both Patient and Provider satisfaction are extremely important. We all want the highest quality at the lowest (or at least reasonable) cost. Much like any project or initiative, you need a defined goal and process to keep your focus. We need companies to truly partner with us, so we are both on the journey together.*

**Ken Schwarz, Network Director**  
Network Director, Biomedical Engineering,  
St. Luke's University Health Network



## 03. Define Your Organization's Contract Needs

St. Luke's then decided to approach other vendors to find a partner that could meet the organization's needs and priorities in order to:

- Establish a capitated agreement per equipment type that was in line with market pricing
- Develop a list of consumption/repair costs per equipment type that was not overinflated
- Develop transparency (trust) and a willingness to implement a shared risk/reward program while offering high-quality services (on-site loaners and turnaround times)
- Provide proactive staff training to reduce financial and quality risk and a willingness to share data to promote transparency and lower consumption/repair rates

St. Luke's received proposals from three other vendors and grouped like equipment into categories to better understand how the organization compared to vendor-submitted pricing. This enabled St. Luke's to pinpoint the largest opportunities for price negotiations and to compare the pricing of the vendors in a simplified fashion. Following preliminary assessment and meetings, St. Luke's sent counterproposals—including details surrounding negotiations on price, on-site loaners, turnaround time, rebates on unused consumption/repair dollars, training, and online data tracking—to the chosen vendors. Through additional conversations, St. Luke's selected a new preferred vendor that was willing to meet all of the health system's objectives and partner in a long-term relationship.

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*When discussing with the team, the question really came down to how much risk we were willing to absorb by moving away from our current vendor. While we agreed that the utilization of their equipment and service may have been preferred, it was not worth the additional \$900,000 per year extra we were paying. For this reason, we sought bids from companies specializing in this type of equipment repair, and not selling new technology.*

**Scott DiDonato, Senior Director**  
Senior Director, Capital Equipment & Projects, St. Luke's University Health Network



# Benefits Achieved

St. Luke's equipment repair initiative delivered numerous benefits to the organization:

## **Financial Approach**

- Developed a capitated expense per item of equipment that is locked in for the term of the agreement, provides a 100 percent rebate on unconsumed dollars, and ensures budget assurance (in excess of \$949,000 in annual savings, 47 percent of previous expenses).
- Established realistic repair/consumption rates per item of equipment that provided incentives and alignment between the vendor and health system to promote cost savings collaboratively through education and training.

## **Trusted Partnership**

- Developed trust and transparency with the vendor (shared risk/reward), including instituting periodic business reviews with transparent, real-time data and bidirectional feedback, with the goal of achieving mutually agreed-upon objectives.

## **Service Excellence**

- Service/repair continuity, quantity/proximity of repair centers, and agreed-upon repair turnaround times.
- A dedicated loaner pool to assist par levels during repairs. Willingness to work individually to determine critical loaner needs and provide dedicated on-site loaners, as necessary.

## **Training and Transparency**

- Robust training and education to truly partner in avoiding the root cause of repairs to drive down occurrence levels of repair/consumption rates.
- A customized IT platform that allows for real-time tracking, reporting, and complete transparency.

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*I have worked for manufacturers, third parties, and in-house organizations, and finding the right balance at a reasonable cost can be challenging. We strive for quality and push for a better price, but our cost and service comparison may not be as comprehensive as we would like. Biomedical Engineering worked with materials management to ensure we would make the best selection. BRG was able to improve the process by putting additional time, expertise, and resources into the initiative and by looking at additional data and options, so that we could move forward with a better solution.*

**Ken Schwarz, Network Director**  
Network Director, Biomedical Engineering,  
St. Luke's University Health Network



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### **Ken Schwarz**

Network Director, Biomedical Engineering  
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### **Scott DiDonato**

Senior Director, Capital Equipment  
& Projects, Materials Management  
St. Luke's University Health Network

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Director, Healthcare Performance  
Improvement  
BRG

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Consultant, Healthcare Performance  
Improvement  
BRG



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