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# 2019 Crowe Healthcare Virtual Symposium

Crowe Asset Optimizer - Technology-Enabled Asset Management  
AKA Smart Assets

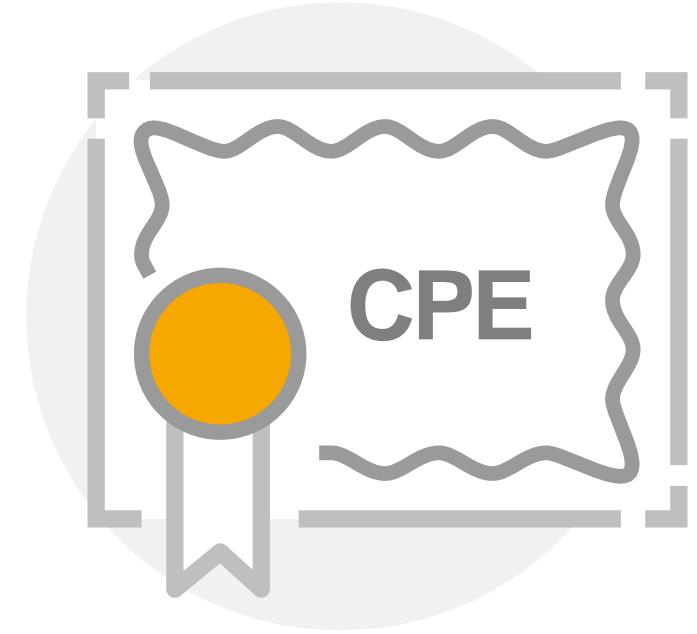
February 28, 2019

Andy Suhy

# Housekeeping

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- Please submit questions through the Q&A function on your screen.
- To download the presentation, click the resources icon at the lower part of your event console.
- CPE credit
  - Login individually to the session for at least 50 minutes
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# Today's speakers

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**Andy Suhy**  
Principal  
Crowe LLP





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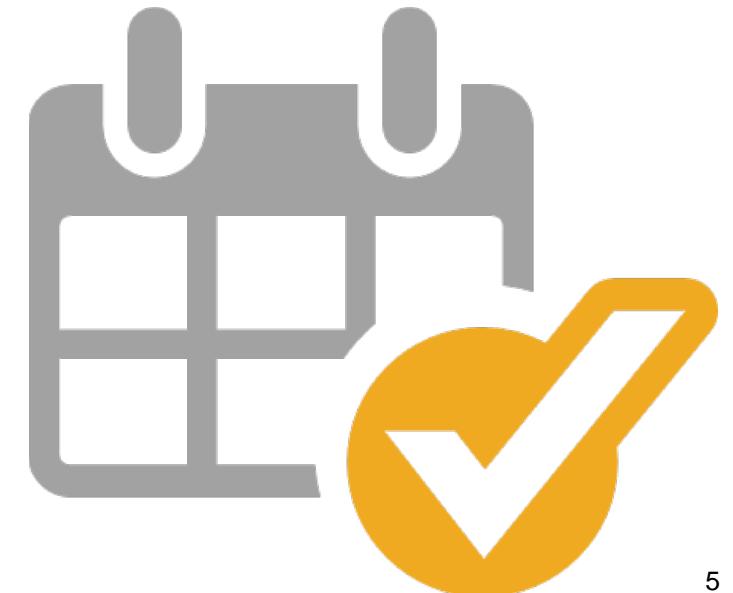
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# Agenda

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- Asset Optimization Objectives
- Economic Realities
- Optimization, The Bottom Line, and Opportunities
- Case Study Reviews



# Opening: Asset Optimization Objectives

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1. Tangible Cost Reduction
2. Through the deployment of data-driven asset-level performance metrics
3. That produces simple, relevant and actionable analytics that allow for the identification of achievable cost reduction opportunities
4. Fundamentally change the way in which the health system cost structure is managed

# Why Is Cost Structure So Bloated?

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1. Volumes and reimbursement rates historically good
2. Not-for-profit perspective (mission focused)
3. Field of Dreams (build it and they will come, clinically-driven spend)(phantom correlation between # of assets and top line revenue)

## **The result:**

- Too many assets
- Too much capacity
- Too much technology

## **Financial Beneficiaries of Overspend: (resistant to change)(“lobbyists”)**

- Equipment manufacturers (fleet mgmt.)
- Equipment lessors
- Equipment service/repair providers

## Polling Question: Vendor Programs

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Is your organization currently engaged in “fleet management” agreements for assets?

- A. Yes
- B. No
- C. Don’t Know
- D. N/A



# Current State: Economic Realities

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## **Bloated cost structure bumping into....**

- Declining volumes
- Declining reimbursement rates
- A single payer (patient) that bears more cost burden and is therefore a better steward of their healthcare spend

### **The result:**

- Low margins (or losses)
- Weak operating performance
- Panicked and flawed reactive decision-making (death spiral)

**CAO Solution:** Simplify a major finance and operating problem (cost management) by applying a manufacturing mindset in a healthcare setting

# Outdated Cost Management Methodology

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1

Capital Freeze

2

FTE Reduction

3

Purchased Services Attack

## **The result:**

- All done with little data
- The Irony: Often actually increases spend  
(Capex to Opex transfer)

**NO LONGER SUSTAINABLE**

**There's A Better Way**



## Polling Question: Traditional Cost Management

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Are Capital Freezes, FTE Reductions and an Attack of Purchased Services your system's primary tools to reduce cost? (and are they effective?)

- A. Yes
- B. No
- C. Don't Know
- D. N/A



Assets are the #1 Cost Driver

Assets are Leading Economic Indicators



Overspend at the asset level is going to produce overspend in many other parts of the business

## Polling Question: Batting Average?

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How well do your organization understand the financial performance of the assets it has deployed?

- A. Cost and profitability of devices is well documented and understood
- B. Financial performance is somewhat tracked and understood
- C. It is more of a gut feeling than quantified data
- D. Could not tell you which assets make money or cost us money
- D. N/A



# How Does Utilization Impact P&L?

| Utilization Rate                       |                     |              |         |                              |             |               |               |            |       |  |
|--|---------------------|--------------|---------|------------------------------|-------------|---------------|---------------|------------|-------|--|
| Platinum Health (Demo)                 |                     |              |         |                              |             |               |               |            |       |  |
| Data Period: Full Year 2018            |                     |              |         |                              |             |               |               |            |       |  |
| Building                               | Department          | Modality     | Make    | Model                        | In Svc Date | Age (yrs)     | Vol/mo        | Max Cap/mo | Util% |  |
| Platinum Hospital - Northeast          | Radiation Oncology  | CT-Simulator | Siemens | Somatom Senation Open        | 3-1-04      | 15.0          | 10            | 207        | 5%    |  |
| Platinum Hospital - Main               | South Tower Imaging | CT-Fixed     | Siemens | Somatom Definition AS 128    | 6-4-06      | 12.7          | 202           | 2,311      | 9%    |  |
| Platinum Hospital - Northwest          | CT                  | CT-Fixed     | GE      | Lightspeed QXI 4             | 12-8-04     | 14.2          | 17            | 184        | 9%    |  |
| Platinum Imaging Center - Westgate     | Imaging             | CT-Fixed     | GE      | Lightspeed 16                | 10-31-06    | 12.3          | 61            | 582        | 11%   |  |
| Platinum Health Center - Westgate      | Radiology           | CT-Fixed     | Toshiba | Aquilion 64                  | 9-1-12      | 6.5           | 163           | 1,065      | 15%   |  |
| Platinum Imaging Center - South        | Imaging             | CT-Fixed     | Toshiba | Aquilion 32                  | 8-1-05      | 13.6          | 99            | 438        | 23%   |  |
| Platinum Northeast Cancer Center       | Radiation Oncology  | CT-Simulator | Philips | BRILLIANCE BIG BORE          | 6-1-12      | 6.7           | 49            | 207        | 24%   |  |
| Platinum Hospital - Central            | Radiology           | CT-Fixed     | Siemens | Somatom Definition AS 128    | 9-8-15      | 3.5           | 355           | 1,446      | 25%   |  |
| Platinum Hospital - Southwest          | Radiology           | CT-Fixed     | GE      | Lightspeed VCT 64            | 2-27-07     | 12.0          | 571           | 2,160      | 26%   |  |
| Platinum Hospital - Northeast          | CT                  | CT-Fixed     | Siemens | Somatom Definition Flash 320 | 10-15-12    | 6.3           | 956           | 2,880      | 33%   |  |
| Platinum Hospital - Main               | CT                  | CT-Fixed     | Siemens | Somatom Definition AS 64     | 9-24-04     | 14.4          | 384           | 1,041      | 37%   |  |
| Platinum Hospital - Main               | EC                  | CT-Fixed     | GE      | Revolution EVO 128           | 8-28-17     | 1.5           | 1,102         | 2,880      | 38%   |  |
| Platinum Imaging Center - West         | Imaging             | CT-Fixed     | Toshiba | Aquilion Prime 160           | 1-7-10      | 9.1           | 233           | 588        | 40%   |  |
| Platinum Hospital - Southwest          | Radiology           | CT-Fixed     | Siemens | Somatom Definition AS 64     | 6-25-17     | 1.7           | 983           | 2,160      | 45%   |  |
| Platinum Hospital - Main               | EC                  | CT-Fixed     | GE      | Revolution EVO 128           | 7-1-17      | 1.6           | 1,411         | 2,880      | 49%   |  |
| Platinum Medical Center - Comer        | Imaging             | CT-Fixed     | Siemens | Somatom Definition AS 64     | 7-1-07      | 11.6          | 367           | 747        | 49%   |  |
| Platinum Hospital - Central            | Radiation Oncology  | CT-Simulator | Philips | Brilliance 16                | 4-29-10     | 8.8           | 109           | 207        | 52%   |  |
| Platinum Hospital - Northwest          | CT                  | CT-Fixed     | Siemens | Somatom Definition AS+ 128   | 4-1-10      | 8.9           | 534           | 987        | 54%   |  |
| Platinum Medical Center - Bloomington  | Imaging             | CT-Fixed     | Siemens | Somatom Definition AS 64     | 6-6-07      | 11.7          | 322           | 587        | 55%   |  |
| Platinum Imaging Center - Central      | Imaging             | CT-Fixed     | GE      | Lightspeed VCT 64            | 7-1-05      | 13.6          | 613           | 1,077      | 57%   |  |
| Platinum Outpatient Center - Northeast | Imaging             | CT-Fixed     | Siemens | Somatom Definition AS 64     | 8-19-05     | 13.5          | 593           | 1,035      | 57%   |  |
| Platinum Cancer Center - Northeast     | Radiation Oncology  | CT-Fixed     | GE      | Lightspeed 16                | 3-1-08      | 11.0          | 151           | 260        | 58%   |  |
| Platinum Hospital - Main               | CT                  | CT-Fixed     | Siemens | Somatom Sensation 10         | 5-1-04      | 14.8          | 385           | 656        | 59%   |  |
| Platinum Hospital - East               | CT                  | CT-Fixed     | GE      | Lightspeed VCT 64            | 1-8-07      | 12.1          | 370           | 621        | 60%   |  |
| Platinum Hospital - South              | EC                  | CT-Fixed     | GE      | Lightspeed VCT 64            | 10-4-10     | 8.4           | 1,287         | 2,160      | 60%   |  |
| Platinum Hospital - South              | Imaging             | CT-Fixed     | GE      | Lightspeed VCT 64            | 10-25-06    | 12.3          | 683           | 1,080      | 63%   |  |
| Platinum Hospital - Central            | Radiology           | CT-Fixed     | GE      | Lightspeed QXI 4             | 3-4-05      | 14.0          | 159           | 230        | 69%   |  |
| Platinum Hospital - Central Imaging    | Imaging             | CT-Fixed     | Siemens | Somatom Sensation 16         | 3-26-04     | 14.9          | 550           | 690        | 80%   |  |
| Platinum Hospital - East               | CT                  | CT-Fixed     | Siemens | Somatom Definition Flash 320 | 11-19-09    | 9.3           | 1,820         | 2,160      | 84%   |  |
| <b>Totals and Averages</b>             |                     |              |         |                              | <b>9.7</b>  | <b>14,539</b> | <b>33,526</b> | <b>43%</b> |       |  |

# What is True Asset Optimization?

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## **INDEPENDENT** Data-Driven Asset Optimization:

- Apply financial, clinical and operational performance analytics to each asset
- Identify and eliminate waste/bloat
- Understand, protect and preserve top line

## **Transform the decision-making and financial management process:**

| BEFORE                      | AFTER                                  |
|-----------------------------|--|
| Vendor and physician driven | Data-driven                            |
| Anecdotal                   | Fact-based                             |
| Reactive                    | Proactive                              |
| Expensive                   | Sustainable                            |
| Fragmented view of assets   | Centralized system-wide view of assets |
| Arbitrary capital planning  | Best practice capital planning         |

## Polling Question: Asset Leasing

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How well would you say your organization understands its current asset lease agreements (status, amount, financing costs, economic appropriateness, T&C's, etc.)?

- A. Well managed and understood
- B. Well documented, but not monitored or updated regularly
- C. Not sure
- D. Hot mess
- D. N/A



## Case Studies (qualifiers..)

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These are real examples

- They have not been embellished
- Yes, it's that bad
- Yes, it's likely happening at your system

# A Major Threat: Predatory Lending in Healthcare

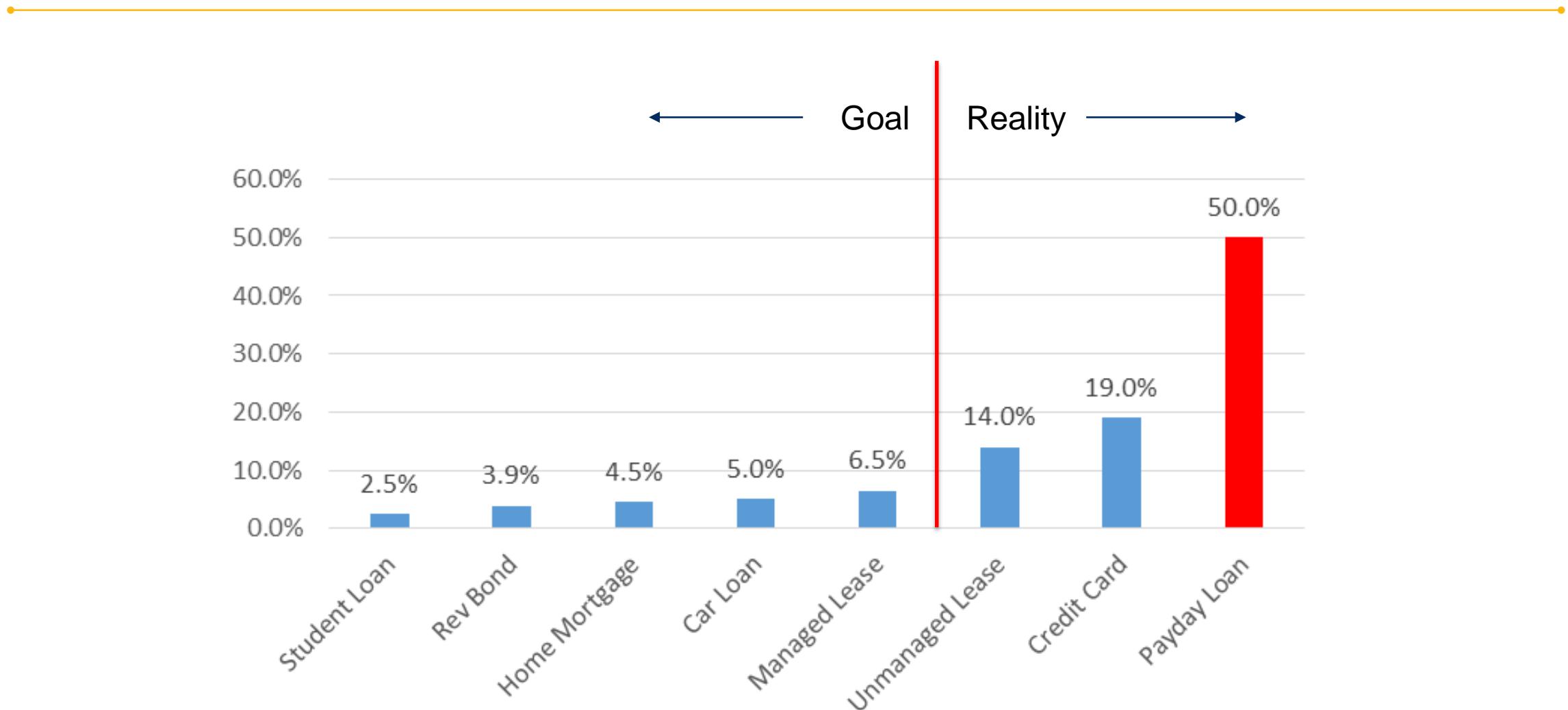
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## **Unintended consequences of a capital freeze**

- Leasing used to circumvent capital appropriations (does not encumber capital)
- Lenders are exploiting this structural flaw
- Asset leases are poorly structured and poorly managed
- Cost resides in a perpetual opex line item (low visibility)

The result:  
high cost “hidden” payday loans!

# Financing Cost Perspective



# Case Study 1: World's Most Expensive Chemistry Analyzer

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## SUMMARY OVERVIEW

- Chemistry analyzer Assets sourced locally (\$54,000 cost)
- Did not go through formal supply chain or finance process
- Vendor presented as a favorable 24 month lease (No Capital Required)
- Turned into a 72 month lease (auto renewal, no management, perpetual Opex line item, path of least resistance)
- Documents are confusing, misleading, and difficult to assess
- Asset values (basis of finance vehicle) were intentionally misrepresented

### **The result:**

- **55% implicit interest rate per year for 6 years!**
- **\$142,000 in financing costs (interest) on a \$54,000 asset**

# Case Study 2: The Pyxis System ‘Rental Rope-A-Dope’

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## SUMMARY OVERVIEW

- Health system – “we do not have capital”
- Vendor – “that’s ok, we can “rent” to you”

### **The reality:**

- Was a 60mo lease in disguise
- Horribly structured
- Cost system an extra \$1M in Personal Property Tax (PPT) on a \$10M asset

### **What you’re up against:**

“we agree to lease the rental equipment”

# Case Study 3: That Scary Thing In The Basement

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## SUMMARY OVERVIEW

- Physician group installed an MRI in the basement of building, and leased it (note—never do this!)
- Health system acquired imaging practice, but not building (took assignment of all leases)
- MRI was upgraded several times, and the lease payment kept getting smaller (good optics)
- Poor performance led to closure of site

## The result:

- MRI landlocked in basement, eliminating all return leverage with lessor
- \$200k in construction costs to remove MRI and return
- Health system Forced to buyout and liquidate on own
- After all cash flows considered, interest rate on financing was 13%/yr for 9 years!
- That's \$500,000 of excess financing costs on a \$1.2M asset

# Summary Asset Optimization Results

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- TANGIBLE Cost Savings is #1
- Data-Driven Capital planning
- Capacity optimization (right size)
- Service structuring
- Finance structuring and management
- Supply chain acquisition intelligence
- Technology alignment
- CMS regulation management
- Staffing optimization
- Provider analytics (trends, payer mix, etc.)
- Vendor management and assessment
- 100% visibility (Centralized Command and Control)
- Better Align Revenues w/ Expenses

# Program Implementation Process:

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- 1 Develop Comprehensive Asset Inventory and Profiles
- 2 Develop ongoing rich data acquisition
- 3 Follow the data..... (you will be amazed with the story it tells)

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# Thank you

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