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# With hospital supply chain, leasing often better option than buying

Unless you have a lot of cash, the often-upgrading world of hospital equipment makes leasing the better option.

Chuck Green

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You can lease, but don't buy. That seems to be best advice for hospitals and health systems without piles of cash on hand, since they are better served leasing specialized or technical equipment rather than purchasing it.

While low interest rates might make it much more economical for hospitals to purchase, leasing often remains the better option, said David Lips, a healthcare transactions attorney with Hall Render Killian Heath & Lyman in Indianapolis.

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When buying, you can get stuck with equipment that tends to become obsolete fairly quickly. Leasing, on the other hand, makes it easier to navigate regular equipment upgrades.

Lips said it makes more sense to rent or lease tools like copiers. After all, if the machine breaks down, the leasing company provides service. However, should a copier purchased by a facility require repair, the cost is covered under a separate service maintenance contract, "which may be fairly pricey," he said.

Healthcare consultant Elizabeth Knollmeyer is also partial to leasing, since it means hospitals can leave their money in their investments. If capital isn't a problem, buying might be better, but that's an accountant's decision, she said. Department heads should have input in the process, since they have direct knowledge of the durability and anticipated length of effectiveness of equipment used there, she said.

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"If you're going to be stuck with a piece of equipment, since it's difficult to get rid of at the end of a 60 month term ... then leasing's the best way to go," said Knollmeyer, who added she would purchase equipment with potentially longer shelf lives, like microscopes.

In any event, many organizations, especially nonprofits, are better off leasing much of their equipment since they must contend with cash flow issues due to various circumstances, including the recent conversion to electronic health records, which represented a large capital investment, said Lips. Upfront costs for a lease often are small, allowing organizations to conserve capital, he said.

Knollmeyer largely downplays the distinction between leasing and buying in for-profit organizations versus nonprofits. "For-profit versus nonprofit is really an accounting term, but all hospitals need to be as efficient as possible with their money."

Purchasing may be their least expensive option, but doing so also means using their own money, or borrowing it from a bank, instead of leasing. Bottom line: hospital CFOs should base their decision on "what they want their books to look like."

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Unlike leasing, large-scale purchasing may require board of directors' approval, which could delay a facility's ability to secure a new piece of equipment, said Lips.

Another advantage of leasing over purchasing – at least as it applies to lab equipment – is a leasing company's willingness to offer an interest-free passthrough for the cost of the service contract associated with a lease, said Knollmeyer. Ordinarily, a facility will receive a renewal notification around the first of the year.

"I don't care if they're anticipating it or not, it still hurts. However, if you can divide that into 12-month payments and pass the cost through to the equipment manufacturer, you won't get that large bill. That's much easier to digest," said Knollmeyer.

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(<http://pages.healthcareitnews.com/content/visibility-control-is-your-organization-adequately-preparing-for-icd-10.html?topic=coding>)

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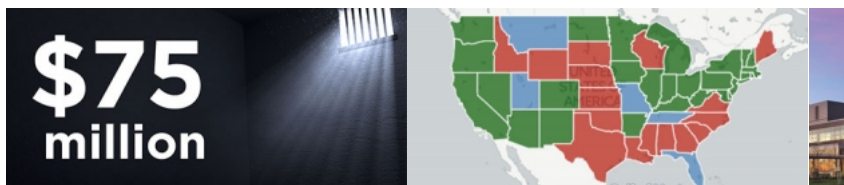
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(http://pages.healthcareitnews.com/Credible-Defensible-Estimates.html?topic=revcycle)

In healthcare, every interaction with the patient matters. Especially in today's environment of continuous improvement, efforts have been concentrated on coordination among providers, the patient care experience and quality outcomes – all laudable goals.

### Clinical Quality Measures 101

(http://pages.healthcareitnews.com/Clinical-Quality-Measures-101.html?topic=revcycle%26budgeting%26capital)

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