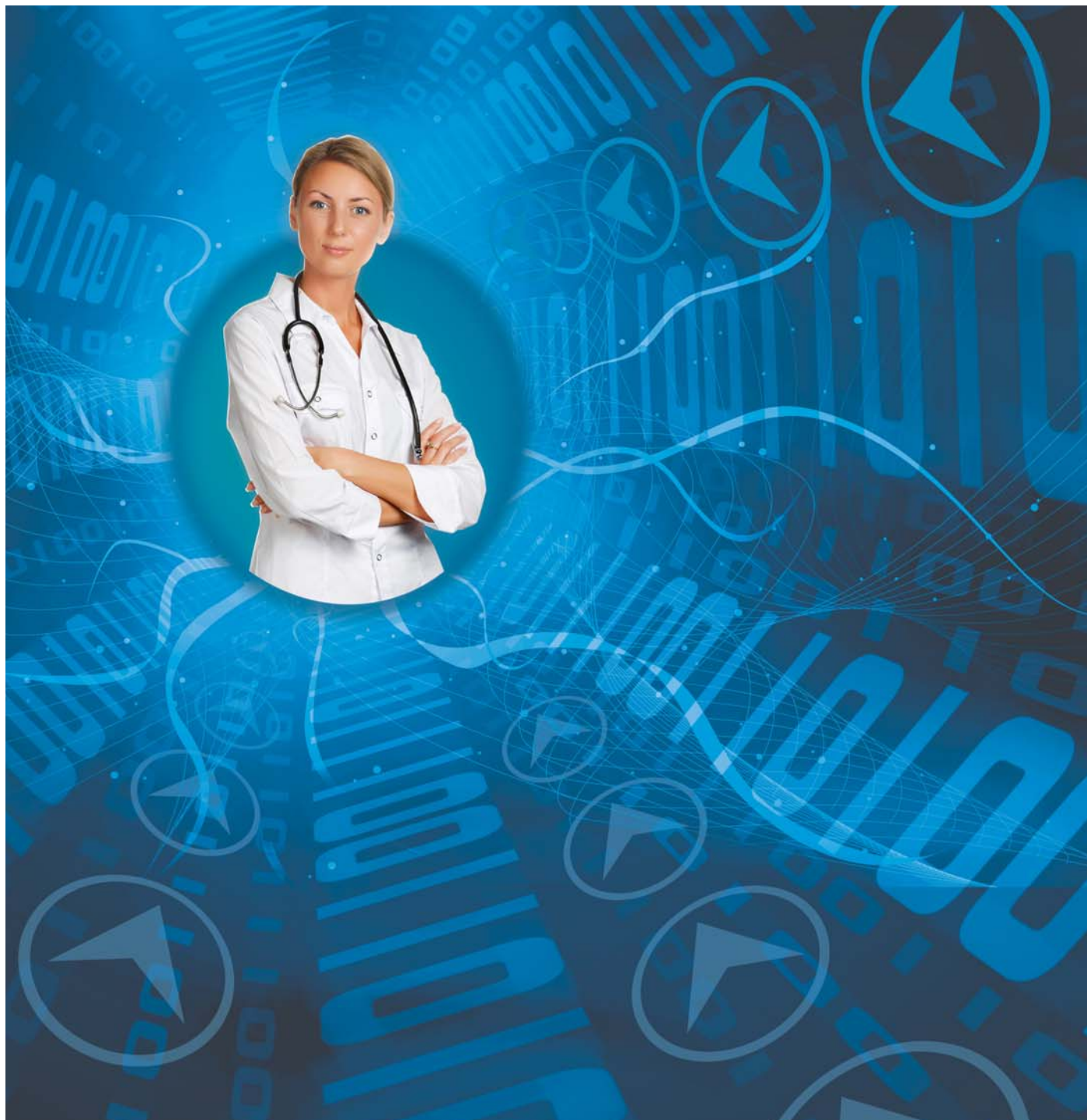




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PROFESSIONAL INFORMATION TRANSFORMING NORTH AMERICAN HEALTHCARE MARKETS™



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Transforming patient care with technology.

Best Practices for Acquiring Capital Equipment During a Recession

The reality is clear: many hospitals are in a state of financial crisis and facing both cuts and frozen budgets. It is estimated that over 37% of hospital budgets are currently frozen. Other staggering estimates surmise that one-half of hospitals are struggling and were unprofitable during Q2-2008. U.S. economic advisors point to a deeper recession and predict that the introduction of a stimulus plan may not deliver a quick turnaround. In light of these times, hospitals have an opportunity to reevaluate current relationships with their providers and optimize every aspect of procurement, delivery and after-sale service support.

For the estimated 63% of hospitals that aren't experiencing frozen budgets, a new found position in evaluating relationships with solution providers arises. For these hospitals, it's time to perform due diligence on capital equipment procurements. Practicing fiscal prudence in the purchase of capital equipment is critical at this juncture. The effects may be more pervasive than many realize — not only today, but over the next three to five years — and may take a heavy toll on operational budgets.

With IHI initiatives and CMS and JCAHO “national patient safety goals” setting new standards that require improved quality for reimbursement and accreditation, fiscal prudence isn't the only challenge facing hospital administrators. Quality is imperative and it may be time to perform a “sanity check” to see if your current suppli-

ers are truly focused on helping you to improve quality and reduce total life cycle costs. How do you best address all these challenges when considering new capital equipment acquisitions? Here are some recommended best practices when you are considering new solution providers.

Examine Total Cost of Ownership

Determine the true total cost of ownership of the lifetime of the product. For example, are software upgrades included with the product's list price and during the entire warranty period? How long is the warranty period? Is service a cost or a profit center for your suppliers? Many solution providers build their revenue streams on service and upgrades. That can translate into hundreds of thousands of dollars over the useful lifetime of a product. When you look at new technology purchases, are you looking at all costs over the life of the equipment, and not just initial procurement cost, when making capital equipment acquisitions?

1. Technologies that Enable Transformation

Evaluate the innovations that each provider brings to the table. What is their recent track record of innovation? Have they brought something new or innovative to the market in the last 5 years, or does their reputation rest on innovations made 2 or 3 decades ago? How are they responding to current healthcare safety, efficiency and regulatory issues? Where do they plan to go in the future? Which ones exhibit thought

leadership that is being followed by others? Look for innovative technologies and technology partners that are more focused on helping you meet your challenges than their stockholders' short-term expectations. An innovative partner will seek your input and advice on products they are developing.

2. Features and Benefits Review — What's Really Included?

Beyond innovations, what is the cost equation for the features and benefits you receive in the solution proposal? Are you paying for excess features, or are you not getting essential features in some products? This often happens when a product feature set is configured and related to a monitor size and price point. You get minimal features in the smallest monitors and more features than you may need in monitors with larger screens and module racks. Why not have all features available in all size monitors — from the smallest to the largest? Why not divorce features from screen size? Why should the quality of monitoring a patient receives depend upon which monitor happens to be mounted on the wall in the room they are being cared for?

3. Training and Clinical Education

How easy are devices to use? What training program for users does each technology supplier offer? Is that an extra cost item or included in the initial price? What about 6 months or a year later? Compare the cost of training among the vendors, both initial cost and what happens when the equip-



The TR-6000 family of bedside monitors employ Smart Modular Cable technology which plugs into any of the 7 multi-connectors on the monitor.



Nihon Kohden's NTX™ wireless telemetry patient worn transmitter connected to Prefense™ Early Detection and Notification System™

ment is out of warranty. Does your business partner want a purchase order every time you call or is clinical support an integrated benefit at no extra charge? Today we know that there are many methods of learning, some more effective than others. Does the vendor that conducts the continuing education provide you with a competency report after training is completed? What kind of after sale service and training support is provided? Will you be speaking to support that is outsourced to some foreign country, and dealing with people you don't understand? These kinds of questions should be examined before you decide on a partner.

4. IT and Systems Integration

Today, no one company provides an end-to-end (patient-to-caregiver) solution, so systems and networks have to be integrated together. Collection of patient vital signs and alert data should be automatic. Can it be seamlessly integrated into your information system without proprietary software? Does your vital sign monitoring vendor include remote access software that allows physicians to connect and check in on patient conditions — improving their workflow? How does your partner work with you to ensure IT and EMR integration before and after the sale?

Who Offers the Best Value Proposition? As we have looked at these questions, we find differences in the

answers to such issues. Some suppliers offer everything discussed, but at a huge cost. Other vendors don't offer some of these critical capabilities, but have a low price. One company that seems to offer all the capabilities but at an attractive price, is Nihon Kohden. Nihon Kohden has developed its share of novel product innovations, and continues as a thought leader among well-established patient monitoring vendors. The company is

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well respected among their customers for offering quality, value and service — this year again as in the past. In our 2009 Reality Monitoring Service Quality Benchmark, for the fourth consecutive year, Nihon Kohden has finished as the number one vendor in the emerging vendor category in overall service quality. Interestingly, about 70% of hospitals we contacted for this year's Reality Monitoring Service Quality Benchmark that had Nihon Kohden equipment were committed

to purchase more of the company's systems in the future. That is a good sign for their future and a testament to Nihon Kohden's true value proposition and customer support. Service quality is becoming an increasingly important part of the overall monitoring value proposition. Nihon Kohden also has its share of innovations.

Track Record of Cost-Saving Innovations Nihon Kohden was the first company to introduce "Smart Modular Cable" technology that miniaturizes circuits found in traditional modules and embeds the circuitry into the cable. All that is needed to begin monitoring is to plug the Smart Cable into any of the 7 multi-connectors on the monitor. Full modular flexibility is thus provided, but at a significantly reduced cost and without the inconvenience (and size/bulk) associated with traditional modular systems. Smart Cables are already available for practically all monitoring parameters.

Monitors that Include Everything and Offer Lifetime Software Upgrades In 2007, Nihon Kohden introduced a new series of ICU monitors — the TR-6000 bedside patient monitoring system. The TR-6000 family of bedside monitors employ Smart Modular Cable technology. With Nihon Kohden, software options are included at no extra price. Regardless of the size monitor you buy, you receive the full capa-

bilities of the software including full disclosure, integrated into the bedside monitors, not dependent upon the central station. You don't have to sacrifice performance to obtain lower cost. In our V10N2 issue we discussed the TR-6000 series because they redefine the value-performance proposition for monitoring systems. That is the real story — price versus performance — highlighted in the introduction to this issue. Hospitals face unprecedented financial challenges to stretch their capital equipment budgets.

Establishing New Markets that Improve Quality Also in 2007, linking pivotal technology with best of breed innovation, Nihon Kohden established a new market for patient safety monitoring in the general ward with its Defensive Monitoring™. Using Nihon Kohden's Prefense™ Early Detection and Notification System™, Rapid Response Teams now have an even better chance of making timely interventions to prevent adverse events. Patients benefit from being safer during their hospital stay regardless of which ward they are admitted to and cared for. A side benefit of the Defensive Monitoring™ strategy is the automated collection of vital signs that seamlessly integrates into your hospital's electronic records. The Prefense™ System consists of

- 1) A low acuity detection system interface that is simple, easy to use and cost effective;
- 2) NTX™ wireless telemetry transmitters connected to Prefense and;
- 3) Pagers for nurses, Rapid Response Team members and other caregivers in need of notification.

Improving Outcomes, Reducing Costs The total cost is simply the purchase price plus the life-cycle operating and accessory costs. Let's assume the useful life of medical technology is 10 years. With products like their new TR-6000 series and NTX patient-worn monitors, Nihon Kohden (in general) has an initial cost typically about 25-30% below quotes from larger companies.

Check it out, ask them for a quote the next time you are budgeting for a new monitoring system. Then take a look at their operating costs.

Review the initial price and the 5-10 year service cost. Since Nihon Kohden offers a 5-year standard parts and warranty, hospitals will pay for service only during the last 5 years of the 10-year life-cycle. Compare that to other monitoring companies typically offering a 1-year warranty. In that case, hospitals pay for 9 years of additional service at a cost of perhaps 10% of a 30% higher initial purchase price. During the first 10-years of ownership with a Nihon Kohden system, however, hospitals pay for 4 fewer years of service. Combining the first two items demonstrates that Nihon Kohden is likely to be 50-60% less expensive over the 10-year life of comparable equipment.

In the past, many hospitals haven't taken the time to compare 10-year operating costs and therefore missed the significant value proposition that Nihon Kohden represents. Many group purchasing organizations, whose very existence is predicated on obtaining quality equipment at low cost, have missed it too. Hospitals that do the math are increasingly standardizing on Nihon Kohden as a hospital-wide supplier.

The design of many of the components of the Nihon Kohden system helps to reduce daily operating costs. The automatic collection of patient vital signs frees up nursing from doing this, creating precious minutes to focus on more direct patient care. By alerting the staff to intervene earlier, fewer patients need to be transferred to more expensive critical care areas and length of stay may be shortened as well. It's difficult to put a cost on this type of design, but it is easy to look at real purchase and maintenance costs.

Minimizing Accessory Costs That leaves only the category of accessory costs to consider. Perhaps the part of the monitoring system that has the highest accessory costs is the telemetry component. Battery costs can add up

quickly. Nihon Kohden offers three different models — a 920, 930 and the NTX described in this article. Both of the 900-series devices use two AA batteries. The NTX uses three AA batteries. If you assume that AA batteries can be purchased at the same cost for any telemetry system, then the cost becomes proportional to the operating time achieved. For example, comparing data from ECRI regarding battery cost and requirements, Nihon Kohden has the lowest cost of ownership. Contact ECRI for details.

Gone are the days of purchasing well-known brands simply based on their past reputation. In our current economic environment, the most pertinent questions are: What can a vendor do for my hospital today? What support quality do they offer me? Judging from our Reality Monitoring Service Quality Benchmark, Nihon Kohden may not be the "biggest of breed" company, but many of their customers attest to the fact that they are the "best of breed."

MSP takes service quality data from our survey of all hospitals and all vendors in a blind fashion, paid for by MSP. Our Reality Monitoring Service Quality Benchmark showed that Nihon Kohden at 8.2, compared to a median score for all vendors of 6.77. A sample for the largest vendor in the industry (with over 91,344 monitored beds in the survey) showed a score of 6.41 (out of 10) at a confidence level of 95%, generating a confidence interval (margin of error) of only +/- 0.3%.

Back to the subject of lifetime technology system costs. If you are finding your budget tight this year, it's time to spend what remains of your budget wisely. We have provided a virtual cost check list in this article. We encourage hospitals to turn that into a purchase cost analysis spreadsheet and do some math for all the technology you will buy this year. If that happens to include patient monitoring systems, ask yourself, "What has my current vendor done for me lately," and give a new vendor or two a call. The worst you can do is save some serious money. Δ