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Demystifying CT Service Contracts

Is investing in a
Service Contract the
right choice for me?

Every imaging department decision maker faces this question. Some have an adequate answer, but many remain unsure. Perhaps a more useful question is: Am I getting the best possible service from my current service arrangement? This article provides tools to answer these questions and determine the best option for your department or practice. This edition analyzes the question as it relates to CT service. Future editions will spotlight other imaging equipment, but most of the same principles discussed here will apply. Regardless of equipment type, one "Rule of Thumb" always applies: All complex equipment needs maintenance and will break down. A CT scanner is complex and therefore needs maintenance and will eventually break down.

There are two ways to cover the cost of this necessary equipment maintenance and repair:

1. Time and Materials
2. Service Contracts



Time and Materials

Time and Materials (T & M) is easier to explain because it means exactly what it says: When your equipment needs service you are charged for the Field Service Engineer's service time (hourly rate of pay multiplied by number of hours worked) plus the cost of any parts needed to service or repair the scanner. There is generally no long-term agreement that needs to be signed in a Time and Materials arrangement, so you have the freedom to call any CT Service Provider you choose when your equipment needs service.

Service Contracts

Service contracts justify more complexity than informal Time and Materials service arrangements. Service contracts are written agreements, formed between you and your CT Service Company. The agreement may cover planned maintenance, emergency service, parts, tubes or any combination of these items. The cost for this unlimited and agreed upon service is amortized in the form of a set premium, payable monthly for the life of the agreement. This method is useful, provided you have invested the time necessary with your service provider to negotiate a contract that suits your situation. Negotiating the right contract begins with asking the right questions.

What are the Right Questions:

1. What service is covered by the service contract?

On a CT service contract, services can include: Planned Maintenance, Parts, Labor, and X-ray Tubes. You can have a contract that includes some, or all of these items.

2. Should I purchase X-ray tube coverage?

In order to adequately answer this question, your CT Service Company will need to answer three questions:

- When was the last time my tube was replaced?
- How often should I have to replace my tube?
- What is the cost to replace my tube if I decline tube coverage under the service contract?

Your CT Service Company will determine this information based on your current usage rate of your scanner and a quick inspection of the machine. This is the information that CT Service Companies use to calculate the cost of tube coverage. You can use the same information to make an informed decision on whether or not to take tube coverage. The following example illustrates how you would do this:

Assume you are going through 1-tube every 2-years and your last tube was replaced 1-year ago. In this example, you can expect to use 3-tubes over a 5-year contract term. If your CT Service Provider replaces each tube for \$50,000 in the absence of a contract, your total expenditure on tubes would cost you \$150,000 over 5-years or \$30,000 per

year. If your service company is charging you \$40,000 per year for tube coverage, this could be an area where you decide to save yourself some money and decline the tube coverage. CAUTION: Calculation of tube life is based on AVERAGES and there is a lot of VARIABILITY in the life of a tube; so predicted life span may not determine actual life span. In the above example, if you have a tube that fails prematurely you might end up buying 4-tubes over the 5-year term rather than 3-tubes. Conversely, it can go the other way and you might have a tube that lasts much longer than the average and you might only end up buying 2-tubes over the 5-year period. Just know that your exposure increases if you do not purchase tube coverage. However, this variability in tube life can also increase your CT Service Provider's exposure if you purchase tube coverage and your tube fails prematurely.

3. What is the guaranteed on-site response time?

This is the amount of time it will take for your Field Service Engineer to arrive on site to begin repair. Guaranteed response time generally ranges from 1-hour to 24-hours. A 1-hour response time costs more than a 24-hour response time, so it is up to the imaging department to determine the appropriate response time best suited to their needs.

4. What are the hours of coverage?

Service calls that occur outside of the contract's standard hours of coverage are billed at the service provider's hourly rate. Common hours of coverage are 24/7 coverage or Monday through Friday 8:00AM – 5:00PM, but any specific hours can be negotiated in the agreement. 24 x 7 coverage is more expensive than Monday through Friday 8:00AM – 5:00PM. It is up to the imaging department management to determine what is best for business and include it in the service contract.

5. What is the hourly rate for service provided outside of coverage hours?

These rates should be negotiated and written into the contract, in order to prevent escalations of service fees during these instances.

6. Is on-site service guaranteed outside of the hours of coverage?

This is an important question to ask if you plan on utilizing after hours service. If coverage is guaranteed, it should be written into the contract.

The Case For and Against Service Contracts

While a Service Contract might not be right for everyone, many imaging departments and practices view them as crucial for the continuous, efficient operation of their business.

Arguments in favor of Service Contracts include:

- **Less down time:** The main advantage in favor of a service contract is that you will get better service from your CT Service Provider. When your machine breaks down, you will receive higher priority than you would receive without a contract. You have paid for a guaranteed response time, and your CT Service Provider will honor it. At the end of the day, what this means to you is that your CT will experience less downtime if you have a service contract.



- **More efficient service:** A contract minimizes the need for administrative overhead in dealing with CT service issues. When the scanner breaks down, your service company has already been empowered to repair it, without much input from imaging department management. In the Time and Materials scenario, all charges require prior approval and a purchase order must be generated before service on the scanner can begin. How exact these purchase orders must be, will determine the level of administrative burden and the length of the delay in repairing the equipment.

- **Exposure to risk is minimized:** From a financial standpoint, service contracts serve to minimize exposure. In other words, you know exactly what you are going to pay for service, over the term of the contract. In the above example about the X-ray tube coverage, we discussed how the variability of tube life can impact how much money is spent on service. The same is true for the parts and labor portion of the contract. This means that the amount of money spent on non-contract service, over a term can vary significantly from one machine to the next. Some machines can cost you more to maintain on a time-and-materials basis than they would under a service contract and some can cost you less.

- **Easier to budget:** Because service costs can vary wildly from one month to the next, a Time & Materials arrangement can make adhering to a budget challenging. While some months might have no service costs, a single month could yield a \$100,000 service cost. Paying a set fee every month, regardless of service activity, can make budgeting a less challenging process.

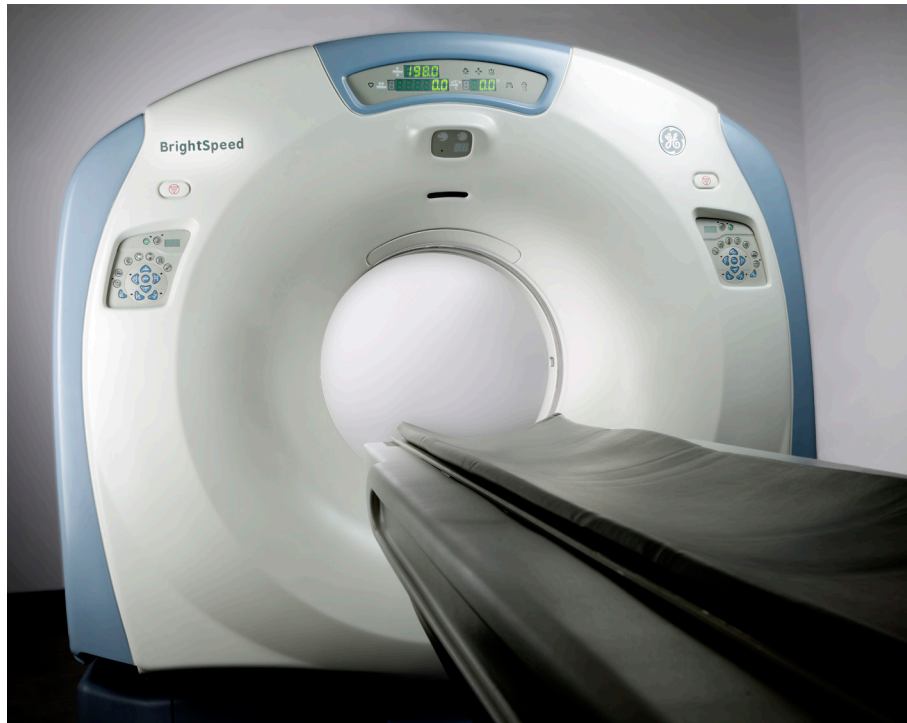


The Case For and Against Service Contracts

Arguments Against a Service Contract include:

- It is a binding contract: A service contract is a partnership, and sometimes partnerships do not go as planned. What if your service company does not live up to their end of the partnership? No one wants to be in a contract with a partner who may not live up to their side of the agreement. Are you going to be stuck with this company for the term of the contract? The time to ask and answer this question is before you sign the contract. In addition to checking references, have a clause written into the contract regarding what will happen, in the event your CT Service Provider does not live up to their side of the agreement.

- A service contract can be more expensive than Time & Materials: While you receive better service, a guaranteed on-site response time, and less exposure, you pay for these benefits in your monthly service contract premium. This is why you should invest the time to determine your requirements and only then negotiate a contract for what you need. For example, if you have two scanners and use one of them for backup and overflow only, you do not need a 24x7 contract with 1-hour response time for the backup scanner. In this example, you would be paying for a level of service that you simply do not need. In instances like this, you would look at a minimal contract and spend your money on your primary scanner.



Conclusion

The Time & Materials basis may be right for you, if you are a practice that is not afraid of risk and has plenty of cash on hand. The current climate of healthcare reimbursement challenges and economic forces have caused many to become more conscious of a monthly budget and of the need to limit risk. If your imaging business falls into this category, your next step is to take out a contract that makes sense for you. In my experience, the most common reason imaging administrators feel like service contracts cost too much is that they have made the mistake of allowing themselves to pay for unnecessary services in those contracts. There are only three variables that control the pricing of CT service contracts: guaranteed on-site response time, hours of coverage, and services provided (parts, labor, PM's, tubes). To make a service contract right for you, you should only pay for what you need and nothing more.



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