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Hospitals and outpatient imaging: Are they ready?

Steven R. Renard

Two months ago, a seasoned vendor told me that he hadn't sold a single piece of equipment in six months. He had built his business serving entrepreneurs within the medical imaging marketplace. As a long-time friend, I could tell he was frustrated and at the same time, scared of the unknown.

I offered him some advice that helped him to sell three magnets in the past month alone: Go after the hospital market and assist them in joint venturing with outpatient centers. A year ago, I would never have thought those words could come from my mouth. But this is the only market fostering any sales.

During the past four years, I can count on one hand the number of times a hospital has inquired about opening its own outpatient imaging center or expanding current operations. Since January of this year, I have been using an abacus to keep track of the number of inquiries hospital administrators have made about expanding into the outpatient arena and ways to ease their backlogs. Last year, I used that same abacus to count the number of physicians desiring to open their own imaging centers. This year, I'm back to counting on one hand for that number. Last year, manufacturers often sponsored conferences or focused their energies on selling to subspecialties such as orthopedics; oncology; or ear, nose, and throat.

Soon after the Deficit Reduction Act was put into law, there must have been a national convention of hospital administrators about the need to enter the outpatient market or expand current operations. The advice was to do it quickly. In any event, the DRA may be repealed under the Access to Imaging Act (SR 3795), based on inpatient backlog.

According to the lenders with whom I consult, outpatient centers are starting to fall behind on their payments, are selling off, or are just exiting what was once a sustainable and predictable business model. New sales to the outpatient market have slowed drastically, to a point where vendors are slashing their sales forces and not back-filling positions. The threat of new regulations and the continuing decline in reimbursement are making it harder and harder for small centers to make a go of it.

This is why we are beginning to witness industry consolidation among the bigger players, while the smaller centers are struggling -- in some cases selling for debt only. Stronger competitors seek these purchases for market coverage or to simply eliminate competition and shifts in business. The stronger outpatient centers are also being bought and sold up since they were considered the prized possession prior to the current DRA environment. Centers with a low Medicare mix and high volumes are fetching premium prices, forcing more consolidation and potentially less outpatient entrepreneurial growth.

Most of the growth our company, Liberty Pacific Medical Imaging, is realizing stems from the hospital side. Why? Market opportunity, regulatory changes, timing, and financial leverage.

First, established outpatient centers are facing the Consistency, Accuracy, Responsibility and Excellence (CARE) Act. This act, an amendment to the Public Health Service Act, directs the Secretary of Health and Human Services to establish standards that assure the safety and accuracy of medical imaging or radiation therapies. It focuses not on the equipment, like American College of Radiology accreditation does, but rather on the quality of the personnel operating the modality. Standards would apply to those employees who perform, plan, evaluate, or verify patient dose for medical imaging studies and radiation therapy procedures.

The CARE Act sets minimum standards for technologists in imaging and radiation therapy and corresponds well to the current standards required in most hospital environments. This long overdue legislation lends itself nicely to many hospital policies and forces some quality standards amongst outpatient centers.

Second is timing. This will be the year of the hospital. Hospitals have long agonized over revenues they were consistently losing to outpatient imaging centers. But now vendors and finance lenders alike are refocusing their efforts on the hospital-owned segment.

Last, hospitals want providers and the Centers for Medicare and Medicaid Services to know they can handle the outpatient imaging growth and that they have planned to manage excess capacity. Hedging their bets against the shrinking supply and growing demand curve has many in the House and Senate pondering the moratorium. In short, hospitals are thrilled that doctors are not spending millions to put MRIs in their offices and in shopping malls.

However, hospitals face major challenges. Can they offer the level of service outpatient centers have provided? The community perception is that they cannot. Hospitals entering the outpatient market should know that there is more to operating a center than simply adding a modality or opening a new site. Service is the key and a true distinguishing factor. Service, both to patients and to referring physicians, is necessary to achieve any success. Customer service should not just be part of a mission statement, but rather a way of doing business, if hospitals are to truly succeed in the outpatient world.

Vendors should focus their time and efforts on offering more than just equipment. They should reinforce the level of service that has fueled the growth of the outpatient imaging arena to date, making it the billion-dollar industry it is today. Vision, technology, quality, and risk acceptance are themes that hospital administrators and their respective boards must ponder when seizing this moment. Vendors should be matchmakers, bringing together outpatient imaging experts and hospitals to open centers that maintain the high levels of customer service to which this industry -- and its customers -- have grown accustomed. This way hospitals can dive in feet first instead of head first and have some solid ground to stand on.

Steven R. Renard is president and chief operating officer Liberty Pacific Medical Imaging, based in Encino, CA, an owner and operator of diagnostic imaging centers, primarily in California. The company also provides third-party management, consulting and medical development services.