

## BOTTOM LINE

### Healthcare Vendor Leasing Programs Cut Risks for Customers, Bolster Profits for Manufacturers

Even with a great sales campaign, an enthusiastic customer with an identified need, and a suitable product, it can be difficult to complete a sale. Customers react to uncertainty by reducing risk. There are two ways to decrease the risk of equipment ownership: acquiring a less expensive product or leasing the equipment. Non-healthcare enterprises have steadily embraced the latter solution for the past 20 years. Lacking reimbursement for capital costs and seeing the tax benefits erode during the 1980s, these businesses turned to equipment leasing as a tool for acquiring assets—particularly high-tech assets—while shedding the attendant risks of ownership. **Leasing accounts for approximately two-thirds of all high-tech equipment acquisitions by U.S. businesses.**

Healthcare equipment providers can offer lease financing packages in order to distinguish themselves from the competition and to fully realize potential gains in market share. Historically, the equipment leasing market in the U.S. healthcare industry has focused on two types of high-cost equipment: computerized axial transverse tomography (CT scan) systems and magnetic resonance imaging (MRI) technology. These machines can cost up to \$2 million each and represent the major source of the large-ticket healthcare equipment business for many leasing companies.

Notwithstanding the historical focus on large-ticket items, the small to medium-sized healthcare equipment market can greatly benefit from vendor leasing programs. Successful vendor leasing programs have been established for items that retail for as little as \$295 per unit or approximately \$10 per month.

Healthcare equipment providers and their customers are increasingly relying on third-party financial resources to complete a transaction, since only those providers generating more than \$20 million in lease business a year can comfortably justify the cost of maintaining an internal finance company. **With vendor-provided leasing programs, healthcare equipment manufacturers can be in the financing business without incurring overhead expenses and can thus benefit from sales profits immediately. Vendor leasing programs can also assist with market control, market enhancement, cash-flow management, and ancillary income.**

The mechanics of the typical vendor lease transaction are simple. The healthcare equipment provider offers the financing package as part of the sales process. If the customer chooses the financing option, the leasing company runs the appropriate credit analysis. When the lease is approved and signed, the healthcare equipment provider is paid in full by the leasing company upon

delivery of the equipment to the customer, who is responsible for paying the leasing company over the term of the lease. This system eliminates any cash-flow concerns or collection worries for the manufacturer.

There are a number of important factors that a healthcare equipment provider should evaluate while looking at a potential vendor leasing partner.

**Product Variety.** A leasing company should have available a broad range of financial packages that exhibit creativity toward customizing the transaction. Most healthcare options are one- to five-year operating leases geared toward hospitals and offering off-balance-sheet accounting, which is an asset to institutions bound by debt covenants or for those administrators concerned about showing a major capital expense on their balance sheets. Capital leases, which offer a fixed purchase option at the end of the lease, make up the balance of healthcare leases.

Progressive equipment-leasing companies offer flexible leases that allow the lessee to upgrade to more sophisticated equipment during the lease term. This option enables an end-user customer to avoid the risks associated with technological obsolescence, while ensuring an existing marketplace both for upgrades and for the next generation of machines.

Competitive vendor finance programs will incorporate service and maintenance contracts into the equipment lease, allowing the provider to realize additional profit from add-on service offerings.

The partner should also be able to create lease packages that accommodate a hospital's financial condition and cash-flow requirements. Similarly, the financing partner should understand the needs of specific market segments such as healthcare practitioners, who are affected not only by rapid, unexpected changes in technology but by everyday business concerns such as the 90-day billing cycle.

**Industry Knowledge.** To respond to market opportunities most efficiently, a financing partner must know the health-care equipment provider's position in the marketplace. The leasing company must also be aware of the manufacturer's sensitivities, its strong and weak points, and the credit profile of its customers. When a provider introduces a leasing company to its customers, it should expect the leasing company to represent the manufacturer in a professional manner and assist in closing the transaction. A financing specialist will be able to submit more competitive proposals if it has an in-depth knowledge of industry trends, customer credits, and equipment aftermarkets.

**Solid Reputation.** The Equipment Leasing Association, an industry trade group, will identify current and active members, who are required to maintain up-to-date accounting, financial, and trade practices. The association also provides details

on current trends and legislation affecting the industry. Many leasing companies are publicly traded, and information on them can be found by accessing Securities and Exchange Commission filings and news releases.

**Financial Stability.** A leasing firm should have continuous access to capital to ensure its stability and longevity. Once a healthcare equipment provider establishes a leasing relationship, the vendor must be able to continuously offer its customers a leasing product without interruption caused by lack of financial strength.

**Quick Credit Approval and Invoice Payments.** When, under what conditions, and at what cost will money be available from the leasing company? Some forward-thinking finance companies are focusing their efforts on providing rapid service through the implementation of electronic commerce and other technological innovations. Credit approvals that used to take days can now be processed in a few hours. Turnaround time can be critical to closing a deal, and the financing partner must be able to respond accordingly.

Once a lease transaction is completed and the equipment is delivered to the customer, the leasing partner should pay the provider's invoice within 48 hours. **Consistent turnaround also improves cash flow, making it easier to manage the business.**

**Training the Provider's Sales Force.** Healthcare equipment providers should expect an increase in sales volume with the proper use of a financing program. However, in order to achieve this objective, the provider's salespeople must be trained regarding how to most effectively present the lease option. The leasing company should be prepared to deliver a **training program and be available to assist in ongoing training as questions arise from the sales force.**

**Clear Documentation.** Overly complex or confusing leasing documentation can potentially delay a sale. Providers should select a financing partner whose documentation is short, simple, and presented in an easily read typeface. Moreover, the leasing documentation should contain reasonable terms and conditions.

**Competitive Rates.** Competitive rates do not necessarily mean the absolute lowest rates possible—in fact, this is rarely the case. Rock-bottom rates usually indicate that the leasing company will be too tight with credit approval, and rates that are too low make it difficult to achieve the satisfactory returns needed to make a profit. However, if rates are too high, the customer will balk at the deal. Lease rates should be competitive and should never be the element that prevents a deal from being finalized. **The leasing company must be flexible, able to respond to market rate fluctuations so as to keep the healthcare equipment provider in a competitive position.**

## CONCLUSION

A sound vendor leasing program can represent a competitive edge for manufacturers in today's demanding healthcare marketplace, and companies with the foresight and initiative to establish effective programs will prosper accordingly. Because a vendor leasing program is a business partnership, the parties must strive to maintain an active, open relationship that can react efficiently to changing market conditions. A properly arranged vendor leasing program can enable an equipment provider's sales force to close more deals, in essence shortening the sales cycle by **making customer financing and purchasing decisions concurrent.**