



Green cash flow

Manufacturer financing for immediate cash flow boost.

By FRANCESCO POMPEI



Francesco Pompei is Founder and CEO of Exergen Corporation, and holds 60 US patents in non-invasive thermometry for medical and industrial applications. Earning BS and MS degrees from MIT, and an SM and a PhD from Harvard, Pompei also holds an appointment as Research Scholar in the Department of Physics at Harvard in cancer research.

How does manufacturer-financed new technology increase immediate cash flow for cash-short hospitals?

Francesco Pompei. First, a new technology must cost less and deliver improved patient care. In the current climate, unless both criteria are met, a new technology may not be a good deal for the hospital, or for the patient. Second, out-of-pocket cost of acquisition of the new technology must be lower than what it replaces on day one. This means that effective new technology must be financed in some way to allow the hospital to gain its benefits immediate-



ly, even if there is no readily available cash or financing. The best ready source of this financing may be the manufacturer, who even in the toughest of times always has the lowest financing costs of anyone in the supply chain. This is because its cost of producing any product is always the lowest in the supply chain.

An example of this is temporal artery (TA) thermometry, a new technology that both improves patient care and substantially reduces costs. Patient care improvement results from the increased speed and accuracy of measurement, with the inherent patient appeal of a gentle forehead scan. This replaces other methods, which are slower and less accurate, and require an unwelcome probe insertion into a body cavity. The scan of the forehead, like the use of a stethoscope, lightly touches skin with no mucous membranes and requires no disposable – simple cleaning between patients is adequate. Since disposables account for about 90 percent of thermometry costs, this saving is very substantial.

How does the manufacturer financing work?

FP. The hospital conducts its evaluations, purchase and acquisition in the normal manner, but the pay-

ment method is a monthly credit card charge by the manufacturer. No complexity of leases, compliancy or contracts. The hospital owns the instruments and pays on an installment basis financed by the manufacturer. For TA thermometers, this charge is less than \$15/month per thermometer for 24 months for most GPO pricing. A typical cost for disposables alone for other types of thermometers is about \$21/month, thus immediately improving cash flow by \$6/month per thermometer. A further cash flow improvement is from elimination of probe replacement and repair charges, which typically are about \$100/yr per thermometer. This brings the total immediate cash flow gain to approximately \$14/month per thermometer. After the thermometers are paid for, the total cash flow improvement is then 100 percent of the previous cost, or \$29/month per thermometer. For a hospital with 500 thermometers, over five years this adds up to nearly a million dollars of free cash flow.

What makes this green?

FP. Elimination of waste – particularly non-biodegradable plastics used in thermometer probe covers. One medium-sized hospital estimated that it eliminated 2.2 tons of waste per year due to thermometer probe covers when converting to TA thermometry. Other thermometers are easily broken due to their design requirement for a probe insertion into a body cavity. Because TA thermometers are entirely non-invasive instruments, they can be designed to be nearly indestructible. This allows the manufacturer to offer a lifetime warranty, eliminating the cost and associated waste for replacing thermometer probes as well as disposables.

Why would a manufacturer provide this type of financing?

FP. If the manufacturer has the financial strength to offer this service to its hospital customers, then it is an excellent use of resources to help improve the financial health of its customers, which ultimately results in increased sales for the manufacturer. In addition, the manufacturer, together with its hospital customers, makes a significant improvement in care for our patients and care for our planet. ■