

Health Care Growth Strategies

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PET Scan Revenue Predicted to Reach \$900 million by 2007

Estimates indicate that more than 200,000 positron emission tomography (PET) scan procedures were performed in the United States in 2001—more than double the number performed in 1998. At an average of \$2,000 in technical component revenue per scan, total technical revenue from these procedures is estimated at approximately \$400 million for 2001.

The Center for Medicare & Medicaid Services (CMS, formerly the Health Care Financing Administration) has scheduled outpatient rate reductions to take effect in April 2002, which will lower reimbursement for PET scans. Despite these reductions, industry analysts project that PET scan revenue will reach nearly \$900 million by 2007.

Growth and Revenue Opportunities: PET Scanning

PET scanners provide significant advantages over more traditional imaging procedures. A PET scan is a noninvasive, entire-body imaging device that allows physicians to view internal organs at the cellular level in a dynamic rather than static examination. The scans produce an image by tracking the movement and concentration of radioactive tracer substances that are administered intravenously to the patient. The physician then interprets the image to detect if a disease is present and, if so, to what extent it is progressing.

Until fairly recently, PET scanners were primarily used by academic medical centers as research tools in the fields of neurosciences and oncology. Since then, technological improvements in image quality, resolution, and sensitivity combined with information systems advances have significantly enhanced the clinical utility of PET scanners. The number of PET scanners in operation in the United States has increased from less than 200 in 1999 to approximately 600 today, with many of the scanners located in community-based settings. The cost for a state-of-the-art PET scanner typically ranges from \$1.4 million to \$2 million.

Industry growth has been driven by several factors. CMS began reimbursing providers for applications in oncology beginning in 2000. Today, CMS reimburses providers for more than 20 different oncology conditions and several more conditions in other clinical service lines are awaiting reimbursement approval.

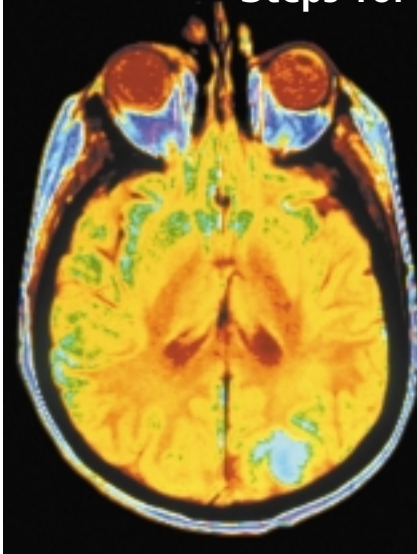
Early indications are that PET scans may facilitate more accurate diagnosis and selection of appropriate treatment of

diseases, including cancer and neurological and cardiovascular illnesses. One provider reports that in 40 percent of cases, a cancer patient's treatment process is modified (e.g., dosage, methodology of treatment) as a result of a PET scan; however, fewer than 5 percent of patients with cancer have received a PET scan.

A hospital in the Southeast contracted with a mobile PET scan

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Steps for Developing a PET Scan Service



- Assess cancer patient volume and the referral potential from your organization and market to determine feasibility
- Collaborate with physicians in service development and planning
- Seek out physician and administrative "champions" who can serve as a catalyst for generating business
- Consider partnerships with physician groups, other hospitals, and mobile PET providers
- Develop newsletters and educational material geared toward educating physicians and other health care providers

service, one day per week, within the past year. The mobile provider supplies the technology and staffs the unit. The hospital assumes responsibility for marketing, physician education, coordination of referrals and scheduling, and procurement of necessary pharmaceuticals and other supplies. The hospital reached its target of eight scans per week within six months. The hospital plans to purchase a fixed-site PET scanner within the next three years and perform approximately 1,300 procedures annually. At that point, based on a conservative estimate of net revenue per scan, the hospital expects that the service will generate a contribution margin of \$500,000 annually after direct program costs, depreciation, and interest.

Providing PET scan services can distinguish a hospital's services from competitors, enhance patient care, provide an additional source of income, and reduce the overall cost of health care through more appropriate diagnosis and treatment of illnesses.



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