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How Does Your Independent Hospital Stack Up? Conducting a Self-Analysis

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As hospital revenue shrivels amid the coronavirus pandemic, it's time for independent hospitals to look in the mirror to determine how they stack up.

Conducting a self-assessment isn't just a useful approach for evaluating your organization's capacity to survive the financial turmoil wrought by the pandemic. It's also critical for recognizing what your organization brings to the table for a partnership of any type, from a strategic partnership around key service lines to a merger.

Even as independent hospitals examine the impact of COVID-19 on their own organization, larger organizations with a growth strategy are identifying the right targets to complement their post-pandemic "new normal." That's why independent hospitals that think the move toward partnership could be in their future—near-term or long-term—should understand their strengths and their weaknesses and recognize what it would take to position themselves as an attractive partner. Undertaking a comprehensive analysis is critical: a hurried, not-fully-vetted effort to identify a suitor can result in forfeiture of a potential opportunity that might be better for the hospital in the long run than a merger or sale.

What should leaders for independent hospitals keep top of mind about as they begin the self-evaluation process? Here are four key considerations.

Size up your capital needs. Think about your capital requirements not just in the immediate aftermath of COVID-19—from the infrastructure to ramp up telehealth services to the facility improvements, supplies, and equipment needed to limit the spread of infectious disease—but also long term. For example, does your organization have the technological resources to provide remote care in the home for an aging senior population? Do you have the IT infrastructure to support data interoperability, which is delayed for now, but coming soon? Which capital projects should be fast-tracked to maintain market share, and which can be delayed—and for how long?

It's also critical to consider how much of a capital infusion it would take to avoid tripping bond covenants, especially if it has flirted with a breach of bond covenants following the financial hit of COVID-19. Such scenarios are growing increasingly common among hospitals, especially with hospital revenues declining 30 to 40 percent in the first two months of the coronavirus outbreak, a Moody's analysis shows.

Define your strategic weaknesses. It's important to understand your areas of greatest vulnerability as seen through a potential partner's eyes. For example, if your orthopedic group were to cut ties with the hospital to work with a competitor, where would that leave your organization in terms of elective surgery and diagnostic imaging revenue? What would it take to attract a new orthopedic group to your hospital—and how much of a capital infusion would be needed to support a return to service?

In assessing your organization's weaknesses, consider not just the time it would take to launch a strategic initiative that could propel the hospital forward, but also the amount of cash required. For instance, in the example involving the addition of a new orthopedic group, be sure that projections include not just the fixed equipment and staff involved, but also the length of time to reach fruition and stabilize.

Contemplate what success would look like from a partner's point of view. Success isn't solely defined by an organization's financial standing, but also by factors such as competitive positioning, market share, and payment rates, and physician and patient satisfaction. For example, if your hospital were to lose two points in market share, how would this affect your balance sheet? If a new competitor were to enter the market, how would payer contracting rates be impacted? The key is to know your strengths and weaknesses at least as well as—and preferably better than—a potential partner.

Keep your eye on the ball. With any strategic initiative, it's important to know not only the desired outcome, but also what could happen if your organization exceeds expectations. For example, one hypothetical organization opened a new facility that drove volumes far beyond projections. On the flip side, operational expenses also exceeded budget, and costs soon grew out of control. The scenario tripped debt covenants for the organization, prompting the search for a partner. But patience was critical: Finding the right partner demanded that leaders seek the right fit operationally as well as culturally for the hospital *and* its physicians.

Gaining a Comprehensive Perspective. Understanding how a potential suitor might view your organization is critical not only in finding the best fit and negotiating the right terms for partnership, but also in determining when to pull the trigger. By taking the time to carefully assess their organization's strengths and weaknesses, leaders gain a strong grasp of the value that partnership must provide to ensure their hospital remains a vital community resource.

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