

5 Steps to Catch a Hospital Buyer's Eye

Written by Molly Gamble | December 20, 2010

It takes hard work to catch buyers' attention amid the current flurry of M&A activity. Hospitals need to muster an enormous amount of initiative and consider the following strategies to boost their attractiveness. Marisa Manley, president of Healthcare Real Estate Advisors in New York City, and Robert Guenther, partner of SNR Denton in Chicago, share tips on how hospitals can shift into high gear and garner buyer interest.

1. Be proactive. With a boom in healthcare consolidation, hospitals need to be strategic — not reactive. "If you wait until you're in a position where you're cash-strapped and physicians are fleeing the facility, that's a guaranteed recipe for disaster," says Mr. Guenther. He recommends exploring different possibilities, including affiliations, joint-partnerships, mergers and acquisitions.

Part of being attractive is simply being available. Mr. Guenther stresses the importance of an open mind. "After the round of hospital consolidation we saw in the 1990s, a lot of people thought standalone was the way to go. 'Big systems are evil, we're never going to do that.' That's not a good business mentality. Keep an open mind about the many types of affiliations that may be available." Ms. Manley also recommends an assertive attitude when looking for a partner or sale. "You should be able to say, 'Here's our plan. We haven't done it yet, but if you put money in us, we know how we want to use that money. Here's our timeline, here's the cost, here are the results.' Get in the front as much as you can."

2. Look at your hospital-physician relationships. Physician loyalty to a hospital has a remarkable effect on its marketability. Any hospital buyer is going to examine a hospital's relationships with physicians, according to Mr. Guenther. "Look at those relationships and have a recruiting plan for any specialties that may have weak spots or holes," says Mr. Guenther. Human resources and marketing support will help the attempt to recruit specialists. Administration's responsiveness is a huge factor in hospital-physician relationships. Hospital administrators and executives should have a physician-outreach plan, exercise flexibility with physicians and remain informed of any aspects of the hospital which may be sources of dissatisfaction to physicians.

3. Hone your operational efficiency. When investing in a hospital, buyers want to see stability of operations. Examine the layout of the structure and how it affects the number of patients a provider is able to see within a certain period of time. Small tweaks can lead to noticeable improvements. An adjustment in layout is doable without a complete hospital overhaul. "There are 1950's hospital buildings that can still have an efficient layout," says Ms. Manley.

Look for problems that can easily be eliminated, such as wasted space or redundancy. Small, evidence-based design changes may have a significant impact on operational efficiency. For instance, does the hospital have decentralized work stations? Facilities with EBD components are extremely attractive to healthcare professionals, since the design plays such a heavy hand in workflow and workplace satisfaction.

If you know facility changes are required, be proactive. These should be part of the plan you present to any potential acquirer or partner. Be prepared to document how the changes will improve your operations in terms of patient flow and revenue, the likely cost and how long it will take to complete improvements. In connection with any improvements, consider the possibility of "green" upgrades, particularly in connection with heating, ventilating, air conditioning or electrical systems. These appeal to investors, patients and regulators, and may reduce your operating costs, says Ms. Manley.

4. Explore relationships with other healthcare providers. Hospitals will no longer be able to thrive as standalone, autonomous organizations. "Today, every hospital needs to be thinking about the whole continuum of care," says Mr. Guenther. Ask how your hospital can best fit into a model of care delivery. Of course, it may seem suspicious if a hospital suddenly starts reaching out to other providers for partnerships. "Do what you can internally to put yourself in the best position, along with subtle inquiries," says Mr. Guenther. Expand into specialties not currently offered at the hospital, such as assisted living or rehabilitation facilities. Joint-ventures or the expansion of services can be accomplished with fairly low degrees of attention.

5. Shape up your payor mix. An attractive payor mix is a key driver for acquisitions. This cannot be tackled overnight, but hospitals should implement strategies to build towards an ideal balance. "No one wants a hospital with a horrible payor mix," says Mr. Guenther. Even if the mix is not ideal, a potential buyer may consider a hospital more attractive if it has taken initiative to improve it and established a variety of strategies to do so. Steps to do this may include recruiting top physicians or expanding into service lines that are more lucrative. Even if buyers see an opportunity, the hospital may seem more attractive and worth the pursuit. "In a lot of hospital M&A activity, this is something a buyer may look at and say, 'I think I can improve this payor mix,'" says Mr. Guenther.