



**PERFORMANCE IMPROVEMENT &
STRATEGIC OPTIONS:
SUCCESS FACTORS THAT EXPAND OPPORTUNITIES**

June 11, 2026

MEET THE SPEAKERS:



Wade Gallon, MBA, FHFMA
Senior Consultant

wgallon@stroudwater.com
(T) 207-221-8270



Clare Kelley, MPH
Senior Consultant

ckelley@stroudwater.com
(T) 207-221-8267

Stroudwater is a leading national healthcare consulting firm specializing in mission-critical **strategic, operational, and financial opportunities** for **healthcare leaders' most pressing challenges.**



WHY PERFORMANCE IMPROVEMENT MATTERS

POLLING QUESTION

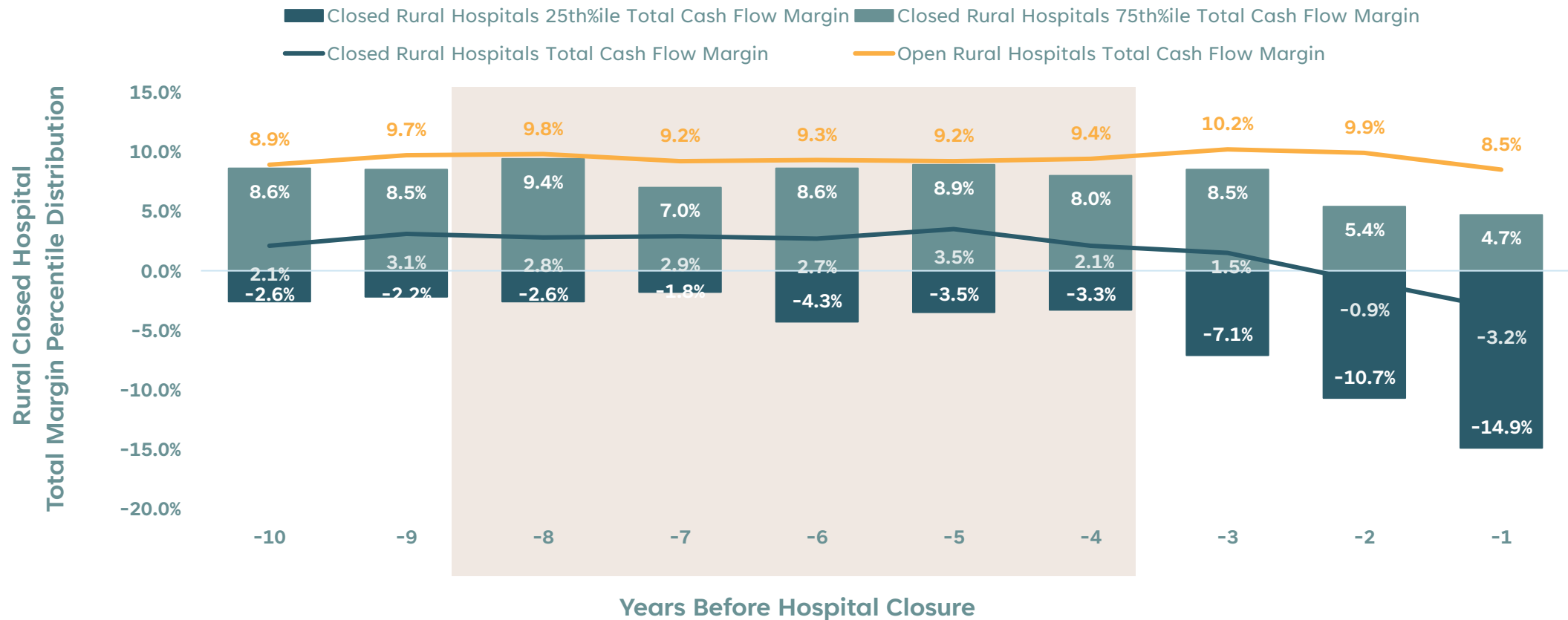
How much lead time do you believe is needed for a performance improvement plan to really take affect?

- Less than 6 months
- 6-12 months
- 12-18 months
- 18+ months
- Some impacts felt in each time period above



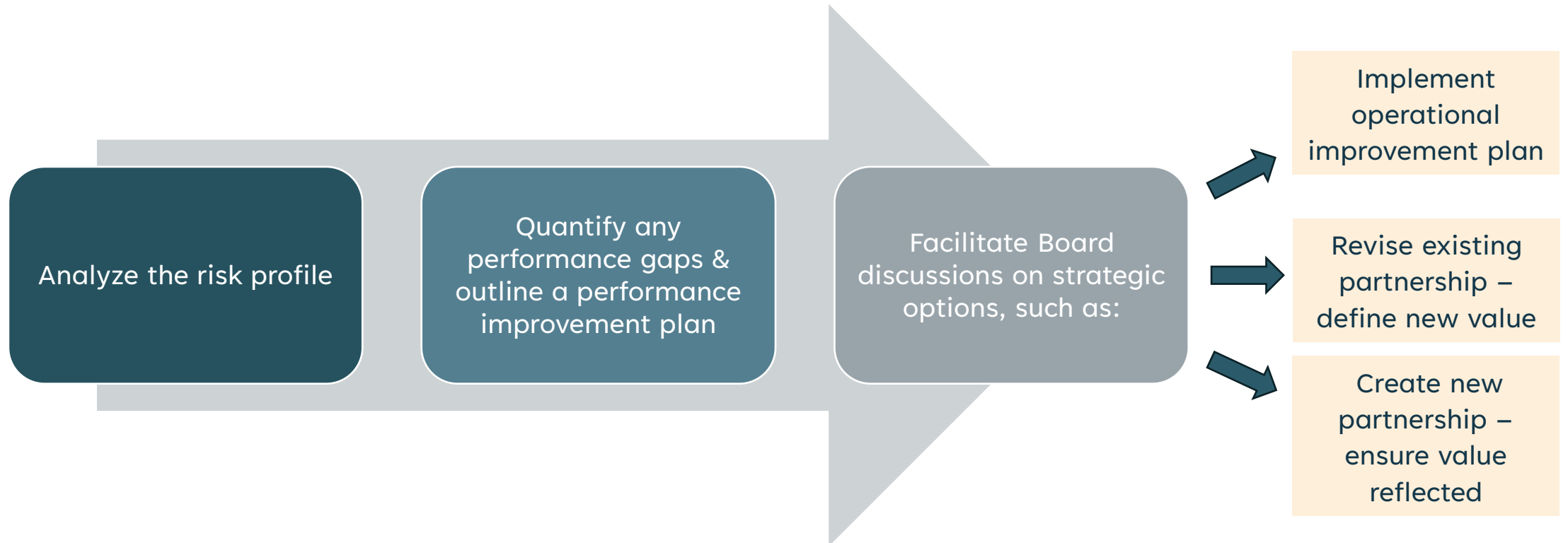
RURAL HOSPITAL TOTAL CASH FLOW MARGIN - CRITICAL ACTION ZONE CLOSED VS. OPEN HOSPITALS

- The years between -8 and -4 years prior to rural hospital closure become a critical time for taking action prior to negative trends accelerating
- **Time lags in data availability require proactive management of multi-year trends, including cash flow**
- **Waiting to act on declining trends reduces latitude to maneuver and increases the magnitude of required turnaround**



KEY POINT: SOUND OPERATIONS UNDERPIN ALL OPTIONS

When we discuss strategic options with a rural client, we focus on mitigating strategic risks. Sound operating results are foundational to those efforts, regardless of the strategic option selected. From there, we can evaluate strategic options to determine the right strategy for the organization's risk profile.



COMMON PERFORMANCE IMPROVEMENT INITIATIVES

Key areas to examine for potential performance improvement opportunities include:



**REVENUE CYCLE
IMPROVEMENT**



**340B
ENHANCEMENT**



**ED
OPTIMIZATION**



**COST REPORT
OPTIMIZATION**



SWING BEDS



**CLINIC
DESIGNATION**

PERFORMANCE IMPROVEMENT INITIATIVES: KEY AREAS TO EXPLORE

| | |
|------------------------------------|---|
| Revenue Cycle Improvement | Establish a Key Performance Indicator (KPI) measurement system, setting targets for all KPIs and implementing strategies to meet targets (i.e., establishing a “measurement culture”) |
| 340B Enhancement | Maximize 340B benefit: track pharmacy capture rate, evaluate contract pharmacy opportunities, evaluate outpatient clinic designations, etc. |
| ED Optimization | Partner with providers and hospital staff to improve ED throughput and patient experience, recognizing it as one of the “front doors” to the hospital/health system |
| Cost Report Optimization | Ensure Medicare cost report accurately reflects operational reality |
| Swing Beds | Elevate the development and promotion of the swing bed program as a strategic priority |
| Clinic Designation Strategy | Evaluate alternative designations for existing clinics; there may be opportunity to realize additional financial benefit and improve patient care |



POLLING QUESTION

What is the biggest barrier to performance improvement at your hospital?

- Too little time to realize benefits
- No consensus on what is needed
- Expertise required is not present
- Costs of developing a plan
- Inadequate bandwidth
- Lack of staffing
- None of the above



BARRIERS OR CHALLENGES TO IMPLEMENTATION



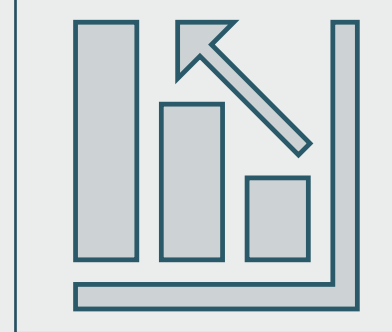
Lack of implementation experience



Staff and leadership turnover



Lack of buy-in



Inadequate systems to effectively measure progress



Limited bandwidth



Lack of prioritization



Time Constraints



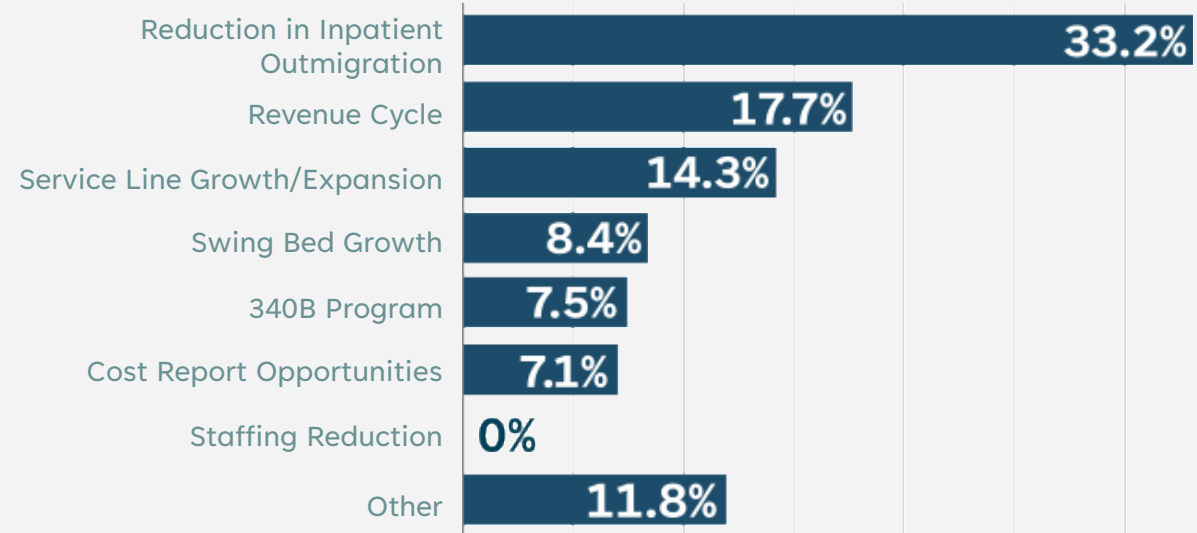
RISK MITIGATION VIA IMPROVED PERFORMANCE

- Nearly 30 rural performance improvement projects led by Stroudwater over 30 months delivered a median of \$1.7M in financial improvement per organization, equating to nearly 8% of net patient revenue per organization
- These engagements spanned an array of functional areas, with the average share of total improvement realized broken out as follows:

| Impact % of Net Pt Revenue | |
|----------------------------|-------|
| 25th | 4.1% |
| Median | 7.8% |
| 75th | 11.1% |

| Total Estimated Impact | |
|------------------------|--------------|
| 25th | \$ 1,300,000 |
| Median | \$ 1,700,919 |
| 75th | \$ 3,727,000 |

The improvements were identified across several functional areas – expressed as a percentage of the total improvements identified:





HOW PERFORMANCE IMPROVEMENT CAN IMPACT STRATEGIC OPTIONS

VALUE LEVERS FOR RURAL HEALTH SYSTEMS IN EXISTING OR POTENTIAL PARTNERSHIPS



- If the organization elects to explore partnership options while pursuing performance improvement initiatives, there are various value levers that can be estimated and tend to be undervalued by both existing and potential partners:
 - *Reimbursement methodologies*
 - *Home office cost allocations*
 - *Leveraging sites of service*
 - *The value of attributed lives and a primary care base that is cash flow positive*
 - *The “true” value of incremental referrals*

These value levers, combined with performance improvement initiatives, can change the financial profile of an affiliate to a partner



THE IMPACT OF VALUE LEVERS

Advantageous reimbursement methodologies

- Cost-based reimbursement if rural hospital is a CAH, 340B and clinic designation strategies

Home office cost allocations

- A cost-sharing methodology that may allow a partner to allocate overhead costs incurred for providing administrative services to a CAH, which would allow for potentially enhanced system reimbursement

Leveraged sites of service

- Lower acuity patients can remain closer to home, preserving partner hospital beds for higher acuity patients
- For example, utilizing a CAH as a relief valve for swing bed patients to refer patients finishing an acute stay in need of post-acute care could:
 - Free up an occupied bed for the next complex acute patient
 - Reduce variable costs of care incurred from keeping patients longer under DRGs

The value of attributed lives and a primary care base that is cash flow positive

- Access to additional covered / attributed lives as well as an enhanced primary care base which serves as the backbone for many rural hospitals

The “true” value of incremental referrals

- Estimated contribution margin benefit based on a change in referral patterns due to the partnership



POLLING QUESTION

How likely do you believe it is that your hospital can avoid closure, conversion or partnering from an adverse position with an actionable performance improvement plan?

- Very likely
- Somewhat likely
- Not very likely
- Very Unlikely
- Unsure



COMMON STRATEGIC OPTIONS

| Option 1 | Option 2 | Option 3 |
|---|---|--|
| <p style="text-align: center;">Remain Independent and Pursue Performance Improvement Initiatives</p> | <p style="text-align: center;">Pursue Performance Improvement Initiatives and Explore Strategic Partnership Options with Value Levers</p> | <p style="text-align: center;">Pursue Performance Improvement Initiatives in an Existing Partnership with Value Levers</p> |
| <p style="text-align: center;">Benefits</p> <ul style="list-style-type: none"> • Enhanced operations and market position through focused performance improvement initiatives • Operational improvements to generate improved cash flow | <p style="text-align: center;">Benefits</p> <ul style="list-style-type: none"> • Enhanced operations and market position through focused performance improvement initiatives • Operational improvements to generate improved cash flow • Due to the ongoing partnership process, competitor response is delayed and or “frozen” in place • Greater leverage in negotiations through enhanced operations and market position as a result of performance improvement initiatives | <p style="text-align: center;">Benefits</p> <ul style="list-style-type: none"> • Enhanced operations and market position through focused performance improvement initiatives • Operational improvements to generate improved cash flow • Greater leverage in negotiations through enhanced operations and market position as a result of performance improvement initiatives |





CASE STUDY

INCREMENTAL CASH FLOW OPPORTUNITIES AT HOSPITAL A

| Performance Improvement Initiatives | Client |
|---|---------------------|
| Swing Bed Estimate | \$ 120,000 |
| 340b Opportunity | \$ 250,000 |
| Cost Report Opportunity | \$ 170,610 |
| Home Office Cost Allocation Low Estimate | \$ 470,000 |
| Home Office Cost Allocation High Estimate | \$ 780,000 |
| Total Savings Low Estimate | \$ 1,010,610 |
| Total Savings High Estimate | \$ 1,320,610 |

| Required Investment Over 5 Years | |
|----------------------------------|-----------|
| Required Investment | 3,587,639 |
| Percentage Debt Financing | 100% |
| Cost Based Reimbursement | 40% |

- Through the strategic performance initiatives and partnership, Hospital A would, on a conservative level, be able to fund its required investments and increase operating performance by about \$670,000 annually, per the Net Change in Operating Performance – Low Estimate below
- Performance improvement initiatives require minimal investment from a partner other than the affiliation process and negotiation of the pharmacy contract

| Projection Estimate | | | | | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Year 1 | Year 5 | Year 10 | Year 15 | Year 20 | Year 25 | Year 30 | Year 35 | |
| Principal Balance Outstanding | \$ 3,587,639 | \$ 3,114,290 | \$ 2,491,503 | \$ 1,684,434 | \$ 777,344 | \$ 350,054 | \$ (0) | | |
| Annual Depreciation Expense | \$ (160,148) | \$ (160,148) | \$ (160,148) | \$ (158,498) | \$ (140,165) | \$ (59,315) | \$ (39,254) | \$ - | |
| Annual Interest Expense | \$ (195,209) | \$ (174,450) | \$ (141,196) | \$ (98,039) | \$ (48,818) | \$ (22,109) | \$ (2,340) | \$ - | |
| Total Annual Depreciation Plus Interest | \$ (355,357) | \$ (334,598) | \$ (301,344) | \$ (256,537) | \$ (188,983) | \$ (81,424) | \$ (41,594) | \$ - | |
| Incremental Cost-Based Payments | \$ 141,041 | \$ 132,802 | \$ 119,603 | \$ 101,820 | \$ 75,007 | \$ 32,317 | \$ 16,509 | \$ - | |
| Net Interest and Depreciation Cost | \$ (214,316) | \$ (201,796) | \$ (181,741) | \$ (154,718) | \$ (113,975) | \$ (49,107) | \$ (25,086) | \$ - | |
| Annual Principal Payment | \$ (84,575) | \$ (105,334) | \$ (138,588) | \$ (179,596) | \$ (201,854) | \$ (95,084) | \$ (77,897) | \$ - | |
| Total Annual Cost tc (after Cost Based Payment) | \$ (298,891) | \$ (307,130) | \$ (320,329) | \$ (334,314) | \$ (315,829) | \$ (144,191) | \$ (102,983) | \$ - | |
| Projection Low Estimate | | | | | | | | | |
| Total Annual Operating Improvements | \$ 1,010,610 | \$ 1,010,610 | \$ 1,010,610 | \$ 1,010,610 | \$ 1,010,610 | \$ 1,010,610 | \$ 1,010,610 | \$ 1,010,610 | \$ 1,010,610 |
| Net Change In Operating Performance - Low Estimate | \$ 711,719 | \$ 703,480 | \$ 690,281 | \$ 676,296 | \$ 694,781 | \$ 866,419 | \$ 907,627 | \$ 1,010,610 | |
| Projection High Estimate | | | | | | | | | |
| Total Savings High Estimate | \$ 1,320,610 | \$ 1,320,610 | \$ 1,320,610 | \$ 1,320,610 | \$ 1,320,610 | \$ 1,320,610 | \$ 1,320,610 | \$ 1,320,610 | \$ 1,320,610 |
| Net Change In Operating Performance - High Estimate | \$ 1,021,719 | \$ 1,013,480 | \$ 1,000,281 | \$ 986,296 | \$ 1,004,781 | \$ 1,176,419 | \$ 1,217,627 | \$ 1,320,610 | |



INCREMENTAL REFERRAL OPPORTUNITY FOR PARTNER

- Since the potential partner currently maintains market share capture within Hospital A's service area, a conservative market share growth percentage of 2.5% was used to estimate the incremental referral opportunity benefit to the potential partner as a result of a partnership with Hospital A
- The potential partner would realize a conservative estimated contribution margin benefit of \$1.05M, after consideration for incremental variable costs associated with increased patient volumes, from increased market share within Hospital A's service area as a result of a partnership with Hospital A

| Market Share Transfer Benefits | |
|--|---------------------|
| Total 2020 Est. Discharges for Rural Affiliate Service Area (Source: Truven Health) | 1,333.36 |
| Current Partner Medicare Market Share (Source: 2019 CMS Data) | 2.1% |
| Estimated Partner Discharges from Rural Affiliate Service Area | 27.73 |
| Estimated Partner Net Revenue Per Discharge (Source: costreportdata.com) | \$ 9,424 |
| Estimated Partner Net Inpatient Revenue from Rural Affiliate Service Area | \$ 261,364 |
| Partner OP Rev relative to IP Revenue (2020 Cost Report WS G-2) | 318.53% |
| Estimated Net OP Rev From Rural Affiliate Service Area | \$ 832,523 |
| Total Net Transfer / Referral Dollars to Partner from Rural Affiliates | \$ 1,093,887 |
| Estimated Contribution Margin % (Source: Estimated) | 80% |
| Estimated Contribution Margin on Net Revenue from Rural Affiliate Service Area | \$ 875,110 |
| Contribution Margin Per 1% of Inpatient Market Share | \$ 420,726 |
| Estimated Change in Market Share % with Competitive Entry into Rural Affiliate | 2.5% |
| CM from Loss of existing or potential gain of Rural Affiliate SA Market Share | \$ 1,051,815 |





KEY TAKEAWAYS

KEY TAKEAWAYS



A strong performance improvement plan is an asset to any strategic option, including for rural hospitals evaluating partnership opportunities



Many performance improvement opportunities, if realized, can have a substantial financial benefit for a rural hospital



Improved financial and operational performance will increase the options available to rural hospitals to pursue their strategic objectives



It is important to recognize and address potential barriers when pursuing performance improvement work



Performance improvement options combined with value levers can benefit both the rural hospital and potential partner, and positively influence deal terms





COMMITTED TO INCREASING THE IMPACT OF RURAL AND COMMUNITY HEALTHCARE.

Our team of rural and community healthcare experts support the leadership of hospitals, health systems with a rural footprint, and the groups and clinics that form an essential care network across the 97% of the US that is defined as rural.



Clare Kelley, Senior Consultant

ckelley@stroudwater.com

(T) 207-221-8267



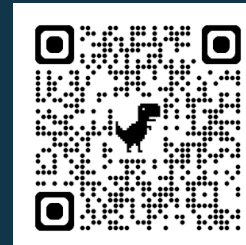
Let's Connect!
Scan my QR Code



Wade Gallon, Senior Consultant

wgallon@stroudwater.com

(T) 207-221-8270



Let's Connect!
Scan my QR Code