

## A Crystal Ball for Health Care: Feasibility Studies Can Help Elucidate Major Decisions

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Making major decisions in business can (and frankly should) be a complex process. In health care, added complexity arises by virtue of the fact that the industry is highly regulated and margins are thin compared to many other industries. This means it's more challenging to make big decisions in health care—and a heightened level of diligence is warranted when you're considering change.

In many situations the payback period and return on investment (ROI) are simple calculations. However, calculating revenue

in health care is complicated, since many factors drive the bottom line. Most often, health care organizations will conduct a feasibility study to determine the economic and operational impact of a significant strategic business decision. Ideally, these studies provide an overview of any potential issues related to the proposed business decision, allowing executives to fully assess the effect of any major change before a decision is made.

Let's take a closer look at what feasibility studies are, what kinds

of insight they can provide, and how their results can be used.

### What Constitutes a Feasibility Study?

Feasibility studies can take many forms, ranging from simple ROI calculations to more in-depth studies; the form really depends on the audience. For example:

- A simple financial analysis can be used to document a small project and help secure stakeholder support.
- A sensitivity analysis that explores and compares multiple project scenarios can help managers understand variables in a project.
- Detailed market assessments are conducted to understand demand for a service or product and can be used by internal management to determine whether to bring a proposal to a board of directors.
- Official reports are usually required for complicated projects that require external fund-raising. (In such cases, feasibility studies from third-party entities can provide lenders with increased confidence in a project.)

It's important to remember that a feasibility study refers to a disciplined approach to analyzing the potential success of a project. As such, it's as much a tool for management to determine whether a project makes sense as it is a tool to convince other key constituents that a project is viable or feasible.

Note that these studies are time consuming, require the knowledge of internal management, and can be costly. However, they should provide information needed to make good decisions, including a clear understanding of:

- The project and its potential impact
- Resources needed, including financial, human, and technological support
- Key assumptions and drivers of success
- Organizational strengths and weaknesses that may impact success
- External forces, including related opportunities and threats
- Costs (important especially if there are competing projects)

### **Key Elements of a Feasibility Study**

The purpose of the study is to provide decision makers with the information needed to determine if the proposed business venture or project is viable. The results need to be assessed carefully before determining if the project has sufficient merit to move forward. Key elements of any feasibility study include a situation assessment, market assessment, reasons behind assumptions for success, and how investors and lenders will make a return on their investments. More

in-depth studies may also include:

- **Landscape analysis.** This analysis looks at the marketplace and identifies any threats, including competition and current demand, to give decision makers a more comprehensive understanding of factors to consider.
- **Financial forecasts.** The study assesses the prior three years of the organization's historical financial results and the forecast of future operating results, financial position, and cash flow during the forecast period. Understanding future financial performance permits the organization and interested parties to better assess assumptions, including potential construction or operating costs.
- **Future demand.** It's important to quantitatively and qualitatively evaluate any factors that affect the utilization of the new venture. For a health care system, the study will look at (among other factors) utilization records, financial and medical staff records, population data from state agencies, local economic information, surveys and interviews conducted with medical staff, and an assessment of admissions to all competing providers in the primary service area.

### **How to Prepare for a Feasibility Study**

Before initiating a feasibility study, clearly define the goals of the project and articulate what success looks like both operationally and financially. Consider what factors, in addition to ROI, are

most important. And don't forget about the stakeholders: Remember to identify all key stakeholders in advance of starting a feasibility study to ensure their primary goals are included in the study. Having buy-in from key stakeholders and the company's board will be helpful in making the study successful and deriving the most benefit from it. Additional considerations in a feasibility study include:

- Project alignment with broader company mission statement
- Technology and system assessments
- Legal ramifications
- Market trends
- Human capital

### **Understanding the Results of a Feasibility Study**

Depending on the type of study, the results can be quite comprehensive. Generally, study results are described in an executive summary, which includes the project background, key findings, an assessment of external forces impacting the project, and a discussion of why the project will be successful.

This discussion typically covers the internal strengths that will drive success, forecasted financial statements based on the detailed analytics, a summary of the forecast assumptions, and a broad discussion of the risks associated with the project. Sometimes it will also include a discussion about the potential impact of failure.

This information will be critical in helping management determine whether moving forward with the project is a viable decision for the organization.

## **We're Here to Help**

A feasibility study is a great tool to help answer whether a business idea makes economic sense because it provides a thorough analysis of the opportunity and insight into all potential roadblocks. Because feasibility studies require time and financial resources, affiliate your organization with carefully selected partners who will carry out the analysis in an efficient and effective manner. Contact a Moss Adams professional to learn more

about what a feasibility study can do for your health care organization and how you can attain the greatest benefit from conducting one.

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