

# Survive The Market And Thrive

*Management consultants offer help to owners and operators who need solutions to recession-induced financial troubles.*

**T**HE CURRENT STATE OF THE CREDIT market has some long term care companies concerned about the future of their businesses. Executives, directors, and shareholders are already losing sleep these days over a plethora of problems, such as growing competition from investor-owned chains, aging physical plants, the growing cost and complexity of technology and its infrastructure, continuing shortages in the labor supply, and the continuation of federal and state pressure to cut Medicare and Medicaid reimbursement for an increasingly aging and unhealthy population.

Although some seniors housing experts see a light at the end of the tunnel, others remain concerned about increased revenue uncertainty and cost pressures, reduced access to capital, and a continued erosion of public and political support.

They say that without such support, indications are that many independent owner-operated facilities and small nursing and assisted living chains could face financial troubles ahead.

Yet, all is not lost.

## Consider Outside Help

Nursing facilities may have a longer journey to recovery than other long term care housing sectors, but there are some things owners and operators can do to prevent a major financial crisis.

Many providers at various stages of distress are looking to outside counsel for assistance and solutions. Management consultant firms can serve as advisors for exploring options that could include seeking an exit strategy, securing

funding for an operation turnaround, or selling properties.

When selecting a consultant, it is vital to ensure that the company possesses the necessary industry experience and expertise to resolve a range of issues—and do it quickly.

A reputable advisory firm should be

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expected to gain a general understanding of the business operations, with the intent to recommend improvements where warranted. This could include a review of operating expenses, financial statements, contract labor expenses, overtime, staffing patterns, recruitment plans, and corporate leadership.

Consultant firms should also be expected to do the following:

- Review the processes for developing and executing marketing programs that lead to referral generation;
- Review and assess the strength of the operation's internal controls, including a review of selected operating and financial reports such as overhead costs, supplies, leased equipment, labor costs, and alternative revenue sources;
- Interview key management personnel and perform an organizational evaluation;
- Review and assess the organi-

zational and management reporting structure;

- Prepare a report that includes observations and recommendations;
- Conduct conference calls during the field work in order to keep the lender apprised of progress so that no surprises arise; and
- Meet with representatives of the company, as appropriate, to review the findings, offer recommendations, and begin the implementation of operational strategies.

## Write A Game Plan

Once the evaluation is complete, management may decide to forward the findings to the lender in order to keep the lender apprised of any issues and plans to improve operations and profitability. Many lenders—as a result of the current state of the lending environment—truly appreciate positive communication from clients, especially if they are in a distressed situation.

Lenders also appreciate a game plan aimed at moving the organization forward. This may involve a number of options, such as an exit strategy and the search for additional funding to turn the operations around in preparation for a sale.

A consultant should have the insight to spearhead this process, creating a

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win for both the company and the lender. More and more lenders view this as the preferred choice over a bankruptcy reorganization.

## A Case In Point

A leading bank lender for senior living and long term care companies went through a detailed review of its health care portfolio and found out that one of its client organizations, a chain of five continuing care retirement communities (CCRCs), had entered into a new venture to purchase two free-standing 250-bed nursing facilities in northern Pennsylvania and New York state. The two facilities were cross-collateralized with the five centers' real estate value, but they were very distressed operations and in great need of turnaround services.

The lender issued a default notice because of breach loan covenants and

requested that a financial advisory firm perform a viability assessment.

The consulting firm examined the management capabilities, clinical and operational systems, quality indicators, environmental issues, billing and collection practices, marketing referrals, medical staff, and survey history.

After a seven-day evaluation of the facilities, the consultant completed a report with some tough recommendations for the new owner. Based on the report, the lender decided that the owner lacked the experience and resources internally to accomplish a turnaround.

The advisory firm, as a result, found an interested party, who, by agreeing to purchase the facilities, would provide financing or arrange for a management agreement. This solution presented a "win-win" situation for the owner. But, in the end, the owner chose to sell the

entities in order to focus on his five other facilities.

Increased Chapter 11 filings could be a common occurrence in high-cost health care delivery states like New York, New Jersey, California, Texas, and Hawaii.

The nursing facility industry has experienced its up and downs, but reimbursement will continue to decrease and affect margins. The recent bankruptcy filing by Haven Eldercare, with 55 locations in three states, is an example.

The assisted living care industry will continue to exist under competitive pressure for private-pay patients and increased market competition. Sunrise Senior Living, McLean, Va., is an example of a company experiencing increased competition and tight cash flow, which affects margins.

Expect continued growth and opportunities in CCRCs. The ideal model is a small nursing facility, assisted living center, apartments, and outpatient center all offered on one large campus.

## Demand Will Return

The demand for skilled nursing and assisted living facilities will remain high as result of aging baby boomers. This will create enormous opportunity for skilled and savvy long term care executives to create new business models that address this need. There is no shortage of operators wanting to expand market share and business lines, which will create high demand for acquiring more facilities and services.

The present environment is certainly not for the faint of heart. But acknowledging the adverse conditions and identifying opportunities to turn around the situation offer hope. Despite the turmoil, savvy and experienced long term care providers will not only survive but thrive in 2009 and 2010. ■

## For More Information

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