

The challenges of providing care

20% productivity improvement secures company profitability



Soon after Bruce Baude joined Long Term Care Group as Chief Operating Officer, events took a turn for the worse, requiring firm action and some tough business decisions.

Providing long term care to the USA's increasingly ageing population is already a big business and is set to grow much larger (see over page). With state funded help limited and aimed squarely at those on low incomes, a series of both private and government campaigns has encouraged millions of better-off people to take out insurance policies to cover the considerable costs for this kind of help (see Figure 1). Due to the unique nature of long-term care insurance, many insurance carriers have chosen to outsource their administration services to companies such as Long Term Care Group (LTCG), the clear industry leader in this business.

When Bruce Baude arrived at LTCG as Chief Operating Officer, he was joining a business that had experienced eight consecutive years of growth, with a client list that read like an 'A-list' of established health and life insurance companies. The business had a good reputation for tailoring its services to customers' precise needs and a strong focus on top line growth. But both characteristics meant trouble was being stored up should sales growth stall, as it unfortunately did soon after Baude's arrival.

"When I joined LTCG, the business was accustomed to having all the growth it could handle. As a result, management was less- focused on tackling a growing accumulation of operational and IT issues that would inevitably have to be addressed at some point. We had little in the way of meaningful performance measures and only a vague notion of productivity or what our optimum 'right' size ought to be. Of course, these weaknesses were masked by the persistent growth that made precision less important. But when sales at one of our biggest customers slowed dramatically, those weaknesses were revealed quickly," he explains.

The insurance policies LTCG's customers sell are complex and expensive, with brokers acting as one of the primary distribution channels. Brokers are extremely price sensitive and when LTCG's largest customer raised premiums on its in-market product, many of them defected to other, less expensive products offered by another carrier.

Average long-term care costs in the USA
\$171 per day for a semi-private room in a nursing home
\$194 per day for a private room in a nursing home
\$2,691 per month for care in an Assisted Living Facility (for a one bedroom unit)
\$25 per hour for a Home Health Aide
\$17 per hour for a Homemaker services
\$56 per day for care in an adult day health care centre

Figure 1

Project Decade-Summary Results

- 5% cost reduction
- 20% productivity improvement
- Underwriting speed up by 40%, plus faster application processing and claims handling
- \$6.3m in annualised, ongoing financial benefits
- LTCG leaders now have a new understanding of what is possible and how to manage the business
- Managers and supervisors capable of delivering results, developing employees and handling change
- Processes in place to remove barriers to LTCG's strategic objectives
- Business knowledge 'institutionalised' instead of 'tribal'
- IT projects are predictable and manageable

Unfortunately for LTCG, that company wasn't one of its full service clients. The shift in volume was dramatic, and in just a few days, LTCG's revenue dropped noticeably. Baude, by now chief executive, found himself having to respond to financial pressures brought on by this unforeseen change in volume.

"Margins were substantially off and there's nothing quite like that to focus the mind," says Baude.

"Furthermore, we have a very high touch business model with our bluechip insurance clients. Getting our margins back to normal level was critical for us to continue with our strategy of making significant investments to support clients' future needs, Baude continues.

"One of our private equity backers, Advent International, had previously worked with Proudfoot and introduced them to me. I was also able to reference Proudfoot from several executives I'd previously worked with in the credit card processing and banking industries."

Calling in Proudfoot to conduct a business review was seen as not just an opportunity for LTCG to 'rightsized' but also to deal with the legacy of inherited operating issues Baude knew had to be tackled, and to emerge much more capable to respond to anticipated market growth.

"The Proudfoot team did a three week business review and then presented some startling findings. It's not an overstatement to say we were incredulous. I'm from an operational background, and I stay pretty close to operations at LTCG, so to be told we could expect as much as 15-20% productivity improvement in some areas and an overall cost reduction of over 5% of operating expenses – without

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any capital investment in technology and in just over 4 months – seemed almost impossible," explains Baude.

This expectation was all the more astounding because Proudfoot had reviewed a business that was not considered 'virgin territory'; LTCG had already taken many prudent cost- saving measures of its own.

So what was it that Proudfoot was recommending that would make such an extraordinary impact? Baude, describes it as nothing more than efficient people, process and performance management.

"I may be doing them an injustice but it really was that straight-forward. However, like many things in business that are simple to say, it's much harder to actually do. The difference Proudfoot brought was an infectious belief that we could deliver the stated benefits, a strong sense of urgency and a vast legacy of experience from many different companies and business sectors; changing the way people work and fixing our kind of problem is their stock in trade," he says.

During the business review, Proudfoot's project team quickly realized that accurate business performance management information needed by executives to make timely and informed decisions either didn't exist or arrived too late. For example, key metrics for any given month would not be available until near the end of the following month – way too late for management to react and prevent small issues escalating into much larger ones. A related issue was that LTCG supervisors were spending a disproportionate amount of time 'fire-fighting' instead of performing their proper role.

But for Baude, the greatest challenge was cultural – how to convince sceptical managers and supervisors that the project could achieve its aims.



“We had some strongly-held beliefs woven into the fabric of the company that we couldn’t make resource savings without a serious, negative impact on service levels and our clients. Challenging that thinking and dispelling those myths, using Proudfoot as the catalyst, was the hardest yet most important thing to achieve,” he explains.

“We knew that change this significant was going to be disruptive and it’s easy to see how pride and defensiveness could have undermined the whole project. But I’ve been incredibly impressed by the attitude of the management team in this effort. A critical success factor was the environment created by our senior management team. They focused the organisation on how efficient we could make the business going forward, instead of dwelling on how inefficient the business had been under the old management processes. “They encouraged front-line supervisors and middle managers to let go of the way they were doing things and embrace the notion that things could, in fact, be done differently, contrary to their original perceptions.

Five months later, LTCG was a transformed company and one that is now much better positioned for growth. All it took was a willingness to be open to new ideas and new ways of doing things. Baude admits it was a very intense and demanding period, so would he go through it all again?

“When you’re doing this kind of thing for the first time, it takes a real leap of faith. I can see why some people might be tempted to try and go it alone but the likelihood is that they’d just end up

“The whole experience has been a humbling reminder that high-leverage solutions don’t need to be complex and that good people are powerfully motivated by tools that help them do their jobs better,” continues Baude.

being penny-wise and pound-foolish. We’ve seen a 2:1 return on our original investment in this project, so knowing what I know now, the answer is an unqualified yes,” he concludes.

Long Term Care Group at a glance:

- Leading US supplier of outsourced services to the long term care insurance sector
- Processes more than 670,000 individual policies and group certificates for its clients
- Based in Eden Prairie, Minnesota, (one of Money magazine’s “10 Best Places to Live” in America)
- 800 employees

Task	Old Way	New Way
Time Tracking	Ineffectively implemented for a subset of team members. Used primarily by finance for CAPEX and billable hours.	All IT team members report time against approved projects or assignments. Management reporting available.
Staff Management Discipline	Inconsistent, based on the strengths and weaknesses of the individual manager.	All managers have completed Active Management training and are using it to manage all team members.
Management Reporting	Few limited spreadsheets. Mostly reliant upon the monthly finance reports created after month end.	Many reports created including detailed headcount management, MOS reports, DWOR and status reports.
Organisation Structure	Three separate IT teams complicated communication coordination and increased costs.	One IT division with clear consistent roles and accountability devolved to senior managers responsible for execution.
Management Controls	Few. Anyone could hire a contractor for example.	Major project estimates, resources, CAPEX expenditure receive consistent detailed management review before approval.
Headcount Cost Management	Monthly financial reports, six weeks in arrears on average.	Detailed report by individual used to manage monthly headcount costs and project future cost. Report updated weekly.
IT ‘Best Practice’ Processes	Many in place, but inconsistently used. Many gaps exist.	Increased in consistency, and gaps being proactively closed.

The view from a Private Equity

Purchase by a private equity firm often triggers a review of operations in the acquired business, as the new owner seeks to maximize the return on its investment. This has led to new opportunities for management consultancies with a strong record in operational improvement, as this interview with Bob Taylor of Advent International explains.

As competition for buyouts continues to increase, PE firms will need to evolve their capability to create value. With its 30+ year track record, Advent International has a history of doing just that on a global basis. What does this PE firm look for in a management consultancy partner?

According to Bob Taylor, part of Advent's North American team, "We look for consultancy people with very good listening skills and the interpersonal skills to work well with a variety of management teams. Working with a private equity firm and its companies is not the same as working with a Fortune 500 company. For a start, there are two clients to satisfy; us and the company we have equity in. They need to have the intuition and sensitivity to navigate well in that situation, but to also be adaptable and flexible in their approach.

"To those attributes, I would add a strong ability to establish and maintain trust. You can't just impose a consultancy onto an existing management team. They have to see the value of having consultants there, working alongside them. Let's face it; no manager is going to welcome the arrival of consultants on their patch. So the firm must understand the importance of quickly building trust if they're going to be successful."

"I've been hugely impressed by Proudfoot's work. The level and depth of analysis they did during the Business Review was quite extraordinary."

Advent recently introduced Proudfoot to one of their portfolio companies, Long Term Care Group (LTCG), the leading provider of outsourced services to the US longterm-care insurance sector.

"I've been hugely impressed by Proudfoot's work. The level and depth of analysis they did during the LTCG business review was quite extraordinary, it just blew me away.

I think they bring a skill set you're not going to find at any other consultancy; not just intellectual but pragmatic skills – the kind of experience you only get from working in lots of companies across many industries," he says.

Many private equity firms, he points out, have a lot of portfolio companies at or above the \$100mUSD revenue / 1,000 employee range and at this size and above there are plenty of opportunities for consultancies such as Proudfoot to drive efficiencies. But to this he adds a note of caution.

"It's easy to underestimate the need to spend sufficient time explaining the consultancy's role to existing management. It's vital to get genuine alignment from all three parties and firm belief in the project. If you skimp on this you'll jeopardize the project's chances of success.





Bob Taylor's insights on using consultancies in operational improvement

The highest likelihood a consultancy firm like Proudfoot can help is in companies that have grown fast: typically from 2,000-5,000 employees in a three-to-five year period.

- Not every management team will rise to the challenge or 'get' what a firm like Proudfoot is trying to do. Be sure your consultancy firm has the candour to tell you if this happens, and the integrity to call a halt if necessary.
- Be wary of the dangers of getting swept along by a fast-paced consultancy project. Sometimes slowing down a little can make all the difference in the battle for employee hearts and minds.
- Offer a one-time, special bonus for key people. You're going to ask people to put in a lot of extra effort and time. This works as a strong incentive.

The aim is to sell the idea as a one-time opportunity to leverage existing management's talent."

At LTCG, Advent took the time to explain to management that introducing Proudfoot was not an admonishment, rather a signal of confidence, a willingness to invest in them.

"Existing managers have their day jobs to do. Even if they had the requisite skills, they are unlikely to be able to take on an entire operations review and subsequent change programme, and do it with the kind of rigour and momentum required. A firm like Proudfoot does this for a living but cannot really operate without a licence to do so from incumbent managers - they're the ones who know the business intimately, warts and all," points out Taylor.

The result of this approach is that, according to Taylor, LTCG is now a midsized business with a management operating system worthy of a Fortune 500 company.

"In eighteen years in private equity I've never seen an operating system as good as the one Proudfoot installed at LTCG. Today LTCG has about 20 managers who've really seen their learning and skill levels soar.

As a result, the business now has an elite group of managers within the insurance outsourcing industry, and we're more confident than ever that the company has the infrastructure to grow and meet its clients' future needs.

"When a management team is successful in implementing a Proudfoot project, they deserve tremendous credit. It's a real validation of exceptional leadership."

"Proudfoot has really invested significant time to get to know Advent. We continue to work with the same Proudfoot professionals over and over again, and it's a great way to build a partnership with longevity," he concludes.

Bob Taylor's biography:

Bob Taylor is a managing director of Advent International.

He has 20+ years of private equity experience. Before joining the private equity industry he was in the steel and foundry industries.



Proudfoot

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About Proudfoot

To our very core, we understand the people element of transformation. We introduce new capabilities and we employ the power of your people to create performance multipliers and an engaged culture. Recognized for our speed and the magnitude of benefits we generate for our clients, we have been doing it — not just planning it — for more than 8 decades.

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