

STRONG MEDICINE

Long Term Care Group makes rapid recovery



PROJECT 'DECADE' RESULTS

- \$6.3mUSD in annualized, ongoing financial benefits
- A self-regulating Management Operating System in place
- Processes in place to remove barriers to LTCG's strategic objectives
- Business knowledge now 'institutionalized' instead of 'tribal'
- IT projects are now predictable and manageable
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- Managers and supervisors now capable of delivering results, developing employees and handling change

Soon after Bruce Baude joined Long Term Care Group in 2005 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 big business and is set to grow much larger. 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

Average long-term care costs in the USA (2006)

\$171/day for a semi-private room in a nursing home

\$194/day for a private room in a nursing home

\$2,691/month for care in an Assisted Living Facility (for a one-bedroom unit)

\$25/hour for a Home Nurse

\$17/hour for a Homemaker

\$56/day for care in an adult day health care centre

figure 1

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 at the start of 2006, and early in Baude's tenure.

"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. 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 blue-chip 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 Alexander Proudfoot to conduct a business review was seen as not just an opportunity for LTCG to 'right-size' 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 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.

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

“ I’ve never seen an operating system as good as the one Proudfoot installed at Long Term Care Group. ”

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

environment created by our senior management team. They focused the organization 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. 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.

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.
Organization 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.



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 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 – WHAT IS IT AND WHO NEEDS IT?

This year, about 9m Americans over the age of 65 will need long-term care services, increasing to 12m by 2020. Long-term care is a variety

of services and support to meet health or personal care needs over an extended period of time. Most of this is non-skilled personal help performing everyday activities such as bathing, dressing and eating.

The goal of long-term care services is to help maximize independence and functioning at a time when people are unable to be fully independent.

Long-term care is needed in the event of chronic illness or disability, which could include a problem with memory loss, confusion, or disorientation.

This is called cognitive impairment and can result from conditions such as Alzheimer’s disease. While most people who need long-term care are age 65 or older, a person can need long-term care services at any age. 40% of people currently receiving long-term care are adults 18 - 64 years old. About 60% of individuals over age 65 will require at least some type of long-term care services during their

lifetime. Over 40% will need care in a nursing home for some period of time.

(Information from www.longtermcare.gov)

ABOUT LONG TERM CARE GROUP

- 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, it is now part of Univita
- 800 employees

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BRUCE BAUDE’S TOP TIPS

- A robust partnership with the external specialist partner and investors is essential
- De-personalize inefficiency: focus on the business, not individuals
- The company must take ownership
- Put your best people in key roles