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Back to black

Taking a care business from red to black isn't easy. *Sunniva Davies-Rommetveit* explores the steps needed to get a firm's books balanced

Failing a Care Quality Commission (CQC) inspection must be a care home operator's worst nightmare. The vicious circle that can ensue is devastating for a business: embargoes see occupancy rates fall which in turn means there is less money to reinvest into the care home. The business is then less likely to pass the next CQC inspection, which can cause occupancy levels to fall further.

Such a scenario, while common, is not the only reason for a business becoming unsustainable.

A smaller business struggling because it has become lost in a much bigger parent organisation is common – think Bupa Healthcare Professionals which was bought by Rutland Partners in 2005 for £9 million and subsequently rebranded as Advantage Healthcare. Another major reason is overleveraging the business – as was the case with European Care Group (now Embrace Group) before its turnaround.

Ensuring a business sees the light of day again is not for the faint-hearted. But really understanding the reasons behind its failure is the first step to getting it back on its feet again, says Tony Stein, chief executive of turnaround company Healthcare Management Solutions (HCMS). "Before making the decision to go in, we explore why the company failed in the first place and how it needs to change if it's to be successful. Knowing the market is vitally important when getting a turnaround off to a good start, too."

The lie of the land

Doing a detailed initial assessment of the business as quickly as possible (usually within a working week) is top of the to-do list for firms or managers in charge of the turnaround. Within this time you should assess the quality and expertise of the board, management and staff, as well as analyse the firm's finances and establish who its creditors are.

Even with the best will in the world, though, not all businesses can be revived, or indeed it may not be in the interest of its lenders to do so. Somewhat ironically, when a business has lower debt levels lenders have been known to sell the firm's property assets rather than attempt a turnaround. This is in order to get as much capital back as quickly as possible.

Though quite a rare occurrence it was one Sean Sullivan, the turnaround director parachuted in to fix scandal-hit Castlebeck, encountered with an indebted family-run care business last year. "Quite rightly I suspected the bank would pull the plug and sell up rather than see the company through a turnaround process."

Another factor to consider when deciding whether to turnaround a business is how well the market is performing, and where the specific group fits within it. Everything from what the business specialises in – dementia, nursing or residential – to regional demographics can affect the likelihood of a full recovery.

Accurately predicting macro trends isn't always easy though. When Rutland Partners acquired Bupa Healthcare Professionals, for example, the turnaround company had banked on the nursing and care worker staffing market remaining relatively stable.

The tumultuous care market between 2008 and 2012 (think the global financial crisis and the collapse of Southern Cross) meant that this original plan became compromised. "It was increasingly important to focus on Advantage's home healthcare business, given that the staffing market had taken a big hit during the financial crisis," Oliver Jones, a partner at Rutland Partners, explains. Being flexible enough to circumvent problems encountered along the way is an important attribute for those who own or are in charge of turning around a failing care business, then.

A little less conversation

Once the decision is taken to attempt to save a business, the new management or specialist turnaround firms brought in need to get to grips with it quickly to avert any further worry from its investors. Usually turnaround firms should get back to investors within 30 days with a comprehensive action plan, Sullivan says. He advises the turnaround team to "ensure you've rehearsed and refined your turnaround plan, because the talk with shareholders and lenders will likely be gruelling".

Having chartered a route to recovery, the most difficult part is yet to come: implementing the plan successfully. Healthcare Management Solutions' Stein says that a lot of care home groups have tripped up following the new CQC inspection regime: "Many homes are finding that after consecutive years of being judged compliant, they're suddenly not, and don't understand why."

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Improving clinical governance – or in some cases the lack thereof is the obvious answer to this. HCMS uses an online audit tool called IMPaCT which compares a home's current standards to statutory requirements and highlights the areas that require improvement. Different categories include 'infection control and cleanliness', 'quality', and 'medicines management'. Being aware of any 'Safeguarding of vulnerable adults' incidents is vital, too, as is familiarising yourself with how the home attempted to resolve the issue. Keeping on top of whether staff members who have had complaints still remain within the organisation, and whether they have received any training since the incident/s is an obvious but vital task.

Once this is done, it is often necessary to alter the managerial/staff makeup of a company. This does not necessarily mean laying off all the staff but instead removing a few bad eggs while remoulding other employees to fit the firm's future direction. Ways this can be done can include changing the area that employees specialise in to better suit their expertise.

Staff should also be properly trained to handle the complex needs of patients and residents. A strong human resources point of contact and/or department is thus important to facilitate this, and members of staff with knowledge gaps should be sent on training courses. These include anything from industry specific mandatory training and safe patient handling, to dementia training and courses on current trends in diversity awareness.

While all of the above is ongoing, putting financial safeguards in place is also vital. Making cuts on non-essential services can go a long way, and refocusing services away from loss-making segments is also advantageous – as happened with Advantage Healthcare. It varies from business to business, but in a well-executed turnaround expect the financial burden to lighten within six to 18 months.

Celebrating early successes is extremely important to reassure potential suitors interested in purchasing the business post-turnaround. "Start marketing to the market. Get to every relevant conference, key note speech and open days – and tell people that the business has changed," says Sullivan. This must go hand in hand with regularly talking with the CQC and local authorities or clinical commissioning groups, in order to reassure them too.

While the firms' owners and the turnaround management shouldn't be afraid to shout from the rooftops when there's concrete progress, they should be ready to answer tough questions as well.

Shareholders are faced with two choices once the business is back on solid ground: exiting the business or continuing to grow it organically. There are a number of potential suitors if shareholders intend on exiting, including private equity or other care businesses looking to make strategic bolt-on acquisitions.

Turning around a care home business is no mean feat, then, and steering one's way to the other side involves a hefty amount of multitasking as well as having persuasive communication skills. Reaching the Promised Land has seen excellent returns for investors and turnaround firms in the past. Most importantly, though, a successful turnaround enables businesses to continue providing essential care in what is becoming an increasingly oversubscribed market.

Prominent turnarounds in the healthcare sector

Advantage Healthcare: Rutland Partners bought Bupa Healthcare Professionals for £9 million in December 2005. The business was subsequently rebranded as Advantage Healthcare, and sold to Interseve in 2012 for £26.5 million representing a 2.6x return for the turnaround firm.

European Care Group: Former Craegmoor chief executive Ted Smith was brought in to turnaround European Care Group (ECG) in 2011. Three years later, ECG was sold to US hedge funds E Shaw and Varde Partners for approximately £70 million. It was immediately rebranded as Embrace Group, and Trish Lee was brought in as the new chief executive. Ted Smith remains as Embrace Group chairman.

HC-One: HC-One was created in 2011 by NHP and Court Cavendish to take control of 241 NHP care homes formerly operated by Southern Cross. Court Cavendish were tasked with turning operational performance around. US private equity firm Formation Capital, investment firm, Safanad, US REIT HCP and Court Cavendish acquired NHP for £477 million in November 2014.

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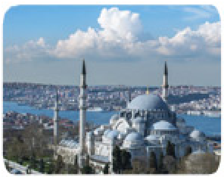

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