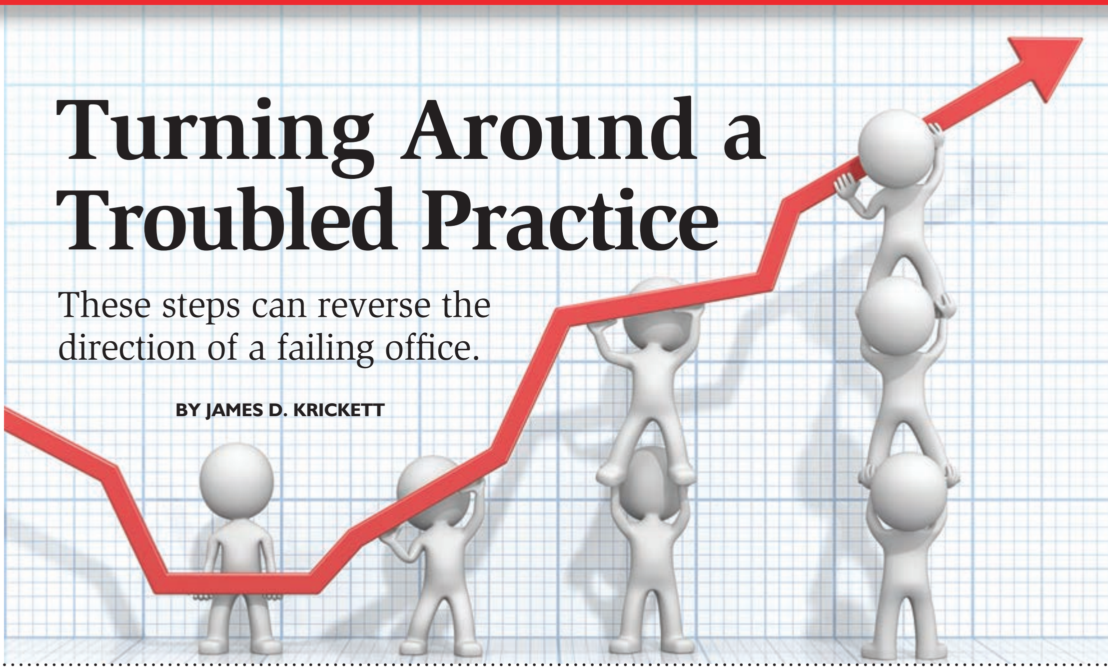
Turning Around a Troubled Practice



These steps can reverse the direction of a failing office.

BY JAMES D. KRICKETT

Although the hardest part may be recognizing that a problem exists, virtually all podiatry professionals will face the daunting task of managing the recovery of a failing practice or business at some point in their career. After all, the health of a podiatry practice is not guaranteed forever.

A "turnaround" is best described as the financial recovery of a practice that has been performing poorly for some time. The need for a turnaround strategy can range from revenues that don't cover costs, an inability to pay creditors, or salary cuts for principals and others in the practice. Fortunately, once the problem has been acknowledged and identified, a problem-solving financial turnaround strategy can be developed.

Assess the Situation

Only when a podiatrist is aware there is a problem can there be a solution. The first step is to get down to the roots of all problems to discover whether services offered are selling, if too much is being spent on unnecessary things or too much spent pursuing the wrong patients. Is the podiatry practice in imminent danger of failure, or does it have substantial losses, losses that don't threaten its survival? Or is business merely declining?

Among the factors contributing to a declining practice are those that are self-inflicted such as incompetent management or poor financial controls, both of which generally fall into the category of internal forces. While those that are not self-inflicted such as government intervention, economic recessions, the presence of low-cost competitors or natural disasters are considered external forces.

Cash Flows

Because cash is the lifeblood of every practice, cash flows should be carefully evaluated over both the short term and the long term. Obviously, a positive cash flow must be established and a sufficient amount of cash must be found to implement the turnaround plan.

Three steps to help manage cash flow are:

1) *Increase the cash balance.* Collecting outstanding accounts receivables and generating cash from saleable assets is a good first step.

2) *Prioritize cash disbursements.* Focus available cash on the "must-pay" expenses first, including payroll and associated payroll taxes, paying vendors with any remaining balance.

3) *Forecasting cash.* Project realistic cash receipts by payers, and disbursements by creditors on a weekly basis for the next three months—and monthly thereafter for at least a year. This often means reducing the projected revenue and collection estimates by 10 to 30 percent to ensure that the actual results are achievable and cash does not run out. Develop and implement plans to operate and remain in business with the lower projections.

Cutting Costs/Controlling Expenses

Turning around a failing practice can be tough, requiring a strict, meticulous and cautious evaluation of where the practice's money is being spent. Any expenses that aren't contributing to the podiatry practice's success should be minimized with the focus put on expenditures that are really producing the desired results.

A turnaround is the time to reduce overhead expenses, re-negotiate leases, cut out waste, and completely stop the "nice to have, but not absolutely essential to the survival of the practice" expenditures.

Discharging Unprofitable Patients

Any professional practice pressured by costs may find that it's probably time to review its pricing strategy. While losing crucial patients can be more worrisome than losing crucial employees, some patients are just not really worth it. Instead of tying yourself to patients who are providing little income with much heartache, it's best to concentrate and please those patients who actually generate the most profit. Planning the practice's marketing efforts towards find-

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ing other loyal and beneficial patients is a good start to any turnaround.

Money

Even the very best plan will fail without the right level of turnaround financing. Ensuring that the practice has the cash needed to finance a turnaround involves identifying the most appropriate partners to work with in restoring the practice to its former glory… and financial health. This can be a mix of so-called “turnaround debt” and/or equity capital. It may even necessitate buying out existing lenders if they are not prepared to fund the turnaround.

A podiatry practice with excessive debt, stringent covenants, and inadequate equity capital is operating with little or no margin for error. Fortunately, there are specialists for all of these financing options.

It goes without saying that no investor or lender will write a check if they aren’t sure what the money will be spent on and the potential return from that investment. Naturally, all requests for turnaround funding should clearly define the amount needed; what it will be used for and why, along with the return expected over a specific time period.

Investors understand that these figures are estimates. The point is to demonstrate that you’ve thought these issues through as best as possible with limited information. A podiatry practice getting a capital infusion from equity investors will mean the only people getting paid are governmental agencies, utilities, and key vendors. Everyone else is expected to convert what is owed into shares of the practice or take pennies on the dollar.

Creditors

The first and often most vocal group that a troubled practice usually hears from are the angry creditors who may have been kept in the dark about the financial condition of the podiatry practice and its troubles. If the practice is hemorrhaging cash, action should be taken to stop it as soon as is possible. Obviously, payments that will damage the value of the practice, or possibly incur fines, should not be stopped. And no payment that might encourage a creditor to take action against the practice should be delinquent, ignored, or unexplained.

Although patients, vendors, and suppliers are often wary about the practice’s future, if money is owed to banks or suppliers, most would rather be repaid over time than seize the podiatry practice’s assets or force it into bankruptcy provided, of course, that it can be shown how they will benefit by working with you.

Providing lenders with a financial turnaround plan that exhibits the podiatry practice’s viability and outlines a repayment plan along with a timetable and an explanation of how the bank’s collateral will be protected is essential. Lenders may have to be shown how they will receive less money should they force the practice to liquidate, or if payment terms aren’t eased on existing loans.

When dealing with suppliers, an offer to pay cash on delivery on future shipments will often allow them to continue to fulfill the operation’s purchases; while an additional payment, a small percentage toward prior outstanding balances may encourage the supplier to retain the operation as a potentially profitable customer while its outstanding receivables are reduced over time.

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Finding Partners

As the once stable, profitable, and competitive podiatry practice struggles to improve its operational and financial performance, the expertise of a turnaround professional may be critical to this revitalization process. The chance of successfully navigating the renewal process increases through the use of qualified turnaround professionals, who have the experience and expertise to apply sound practices for managing the turnaround of the failing practice.

A turnaround specialist enters a podiatry practice or business with a fresh eye and complete objectivity. This professional can spot problems that may not be visible to a podiatrist… and implement solutions.

Surprisingly, a turnaround professional’s experience within a particular field is often less important than his or her experience in crisis situations, or when a practice is facing bankruptcy or a significant loss of revenue. Like an emergency room doctor, a turnaround professional must make critical decisions quickly to staunch the financial bleeding and give a patient the best chance for recovery.

Measuring the Turnaround

In the final step of a turnaround, a podiatry practice should be slowly returning to profitability. While earlier steps were directed towards correcting problems, the final stage of a turnaround usually focuses on profitability and restoring equity. For example, new marketing programs may have been initiated to broaden the practice and patient base and increase market penetration. Revenue may have been increased by carefully adding new services and products or by improving patient service. Financially, the emphasis shifts from cash flow concerns to maintaining a strong balance sheet, securing long-term financing, and implementing strategic accounting systems and controls.

Of course, not all turnarounds succeed. A podiatry practice may put a quick end to its disastrous losses but never quite attain an acceptable return on investment. When this occurs, the podiatrist may decide to sell the practice to someone better able to produce an acceptable return on the funds invested. In a sense, however, this outcome is not failure at all. The practice may well thrive and reach new heights under different ownership.

Re-Building Credit

It is important to remember that credit cannot be rebuilt overnight.

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There are, however, steps a podiatry professional can take to improve the credit-worthiness of his or her practice:

1) Pay promptly. The practice's ability to repay loans promptly has the greatest impact on its credit score. On-time payments are the most direct way to improve a credit rating.

2) Ensure that creditors regularly report the practice's payment history to the credit bureaus. If timely payments to suppliers and lenders are not included in its current profile, the practice may not get the credit it deserves for paying bills on time. It goes without saying that the credit profile should be monitored at least twice per year to ensure that all vendor payment relationships are included.

3) Contribute to the practice's credit profile. The more information provided to credit bureaus, the more robust its credit profile will be. In addition, wherever possible, suppliers and vendors should be chosen because they report their experiences to credit bureaus. This will also help rebuild or boost the operation's profile.

As already mentioned, the best place to start rebuilding practice credit is with suppliers. Many types of suppliers, including major brands, extend lines of credit to podiatry practices, giving them the opportunity to finance purchases and conserve their cash.

A practice can obtain products such as office and medical supplies, computers, and marketing materials with payment terms ranging from net 30 to net 60 days. Of course, the focus should remain with applying for credit with suppliers that provide products and/or services needed on a regular basis in order to make regular purchases using the operation's credit line. By paying invoices on time, every podiatry practice can successfully rebuild its credit history and increase the operation's credit-worthiness.

For any podiatrist with a small practice, navigating the credit and lending world can feel like a vicious Catch-22. Obviously, business credit can be quite difficult to get, especially for any practice that has experienced or is experiencing financial problems.

Most commercial banks and traditional lenders are reluctant to loosen their purse strings until would-be borrowers have proven themselves with a strong credit history. But it's difficult to develop that good record when no one will lend in the first place.

Debt as a Tool

Many practices fail from lack of cash, probably more so than for any other reason. Simply put, most podiatry practices need capital. And today, credit is an increasingly available resource, but it must be used wisely.

One of the most daunting four-letter words for any podiatry professional, particularly those with troubled practices, is the word "debt." Not too surprisingly, the tightening of credit, fewer sources for capital, and the general skittishness on the part of lenders, have made avoiding debt easier for the principals in many practices.

Ordinarily, a podiatry practice has two financial resources for growth—debt or equity. Raising equity requires the practice to sell ownership interests, if permitted under local licensing regulations. Debt, on the other hand, allows the practice to obtain the funds needed to grow and operate by borrowing them. Bottom line, debt can be extremely advantageous and a useful tool for any podiatry practice regardless of its financial health.

While seemingly attractive, taking on debt when the practice needs money will have an impact on the practice's credit rating. Obviously, the more that is borrowed, the greater the lender's risk and the higher the interest rate charged.

Although it is true that borrowing enables a practice to take actions, grow or re-build at a pace that might otherwise not be sustainable, it can also result in a less flexible practice and one that takes on greater risk. After all, the more the practice borrows, the more it must spend for debt payments and interest.

A New Plan for Success

Are you offering the right services or products at the right price for current market conditions? A turnaround is an excellent time to try new things, different marketing strategies, alternative financing, and more. Now is also a good time to look at the broader economic and industry conditions and make sure that the practice is providing what the market wants, how it wants it, and at a price it is willing to pay.

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Once it is understood what is causing a practice to fail, a plan needs to be developed to eliminate that cause and replace it with another option. Far too many podiatrists with 15 or 20 years of experience operate their practices by intuition or by the seat of their pants. A business plan, if one exists, may change overnight because it is based on a "feel" for the market.

Among the characteristics of a troubled practice, one in need of a turnaround, are revenue that does not cover costs, an inability to pay creditors, staff layoffs, and salary cuts for principals. Poor management and/or social, technological, and competitive changes may have caused the practice's services to be perceived as subpar by patients or the medical community.

Every podiatrist struggling, like so many in the medical community, is well aware of the myriad of challenges exacerbated by our lawmakers and the economy. Despite those challenges, however, it is possible to successfully complete a financial turnaround.

First, however, the podiatrist must recognize that there is a problem, assess the extent of the problem or problems, and develop a turnaround strategy. Any turnaround strategy will require the help of the practice's current advisors, perhaps even a turnaround specialist. **PM**

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