

Provident Counseling, Inc.

SOMETHING HAD TO BE DONE . . .



PROFILE:
KATHLEEN BUESCHER

Prior to joining Provident in 1989, Kathleen Buescher provided child protective services in Texas and served as CEO for Toledo-based Family Service of Northwest Ohio. An Indianapolis native, she earned her undergraduate degree in psychology from the University of Texas at Austin and her MSW from the University of Michigan. She's on the professional advisory committee for the School of Social Work at Washington University and is a director for both the St. Louis County Mental Health Board and The Missouri Alliance for Children and Families. She's also a founding member of the Board for The Academy of Gemology and a former Board member for a number of other nonprofits, including the University Club of St. Louis, Logos School and the Ecumenical Housing Production Corporation. Buescher and her husband David Milligan live in University City, Missouri; she has two stepchildren and seven grandchildren.

What happens when a business you've been operating for 20 years begins to go south? When competition stiffens, your senior people resign and revenue starts to drift?

If you're Provident Counseling, Inc., of St. Louis, you scan the horizon to find another business opportunity that restores your competitive edge and forms a powerful strategic alliance with your existing business.

Provident helped pioneer the field of employee assistance programs (EAPs) in the late 1970s when long-term President Tony DeMarinus saw an opportunity to provide a much-needed service to corporations and their employees. Until that time, most EAP programs had been focused on alcoholism in the workplace, but DeMarinus sold his Board of Directors on the idea of significantly expanding the types of services provided. Unfortunately, DeMarinus died of a heart attack before he could launch the new program, a task that fell to his successor, Paul Reed.

Employee Counseling Service (ECS) today offers employee assistance programs that corporate customers use as an employee benefit. ECS provides confidential, short-term counseling services to employees or members of their families; employees either seek out the program themselves or are referred by management when it appears that personal problems are interfering with job performance. Services also include critical incident debriefing whenever there's a crisis at the job site (for example, an injury or a death or a robbery). Most employers also hire ECS to provide wellness workshops at the work site to give employees the information they need to make health care decisions, and ECS is currently developing several additional programs, including behavioral risk management and emotional intelligence assessment.

The business grew slowly at first. In its early days, the chief obstacle was simply convincing people that the concept itself had merit. But eventually the St. Louis public school system and a large engineering company came on board and the business has been self-supporting (and at times very profitable) for more than 15 years.

NEW LEADERSHIP

Kathleen Buescher took over as Provident's President and CEO in 1989 and has built it into a \$5 million agency that provides an array of services for more than 15,000 children and families each year. Much of the growth can be attributed to the seed money provided by a variety of business ventures (including a managed care company) that have at times contributed more than \$600,000 a year in profits to the parent nonprofit, which was founded in 1860.

The strategy of starting business ventures hasn't been an accident. "It's my theory," says Buescher, "that nonprofits in the future will have to fund a lot of their mission this way. We're just not going to have sufficient other money to do it. We'll have to earn it ourselves.

"And the beauty of making a profit, as we've been able to do during the past 15 years, is that you can do *a lot* with the money, you can do what *you* want to do. You can do it *how* you want to do it for as *long* as you want to do it and you don't have to make *anybody* happy except your own Board and staff. You don't have to meet anybody else's expectations. That's a very freeing idea, and once you feel it, you don't want to go back to the confines of any other type of funding. So I say go for it! Be courageous, say your prayers and jump off the edge – you can do it!"

But sometimes the market intervenes, and the world of employee advisory programs has been undergoing major changes in recent years. "Those of us in the nonprofit sector are all fairly familiar with government funding cycles and how the United Way does its work," says Buescher. "We're comfortable with the cycles involved in private giving and Foundation grants. But in the business arena, there are new forces we have to be aware of – market forces, industry forces – and we sometimes have very little control."

One of those forces is competition, and it has changed the landscape dramatically for EAP providers. "There used to be more companies competing," says Buescher. "Now there are fewer, they're a lot bigger, and they've turned it into a commodity business. And that means pricing has become a very big deal." Customers pay a capitated rate per year per employee, regardless of how many employees use the program or for how long, which means EAP companies take a major risk when they price their product, and Buescher says prices today "are really being driven down. We used to be able to price this at \$30 or \$35 per year per employee . . . now it's down to \$12 to \$18."

That downward slide has also placed heavy pressure on profitability. In its most recent fiscal year, ECS generated \$714,000 in revenue with a net profit of \$33,000, far below its historical levels.

Something had to be done.

THE BIRTH OF A NEW COMPANY

In early 2000, Provident launched a new business called At Ease Home Care, Inc., (AEHC) to provide home care services to elderly people in the private pay market.

Part of the strategy for the new company is to leverage its relationship with ECS

Kathleen Buescher talks about . . .

- The "beauty" of making a profit
- The uncertainty of market forces
- The power of leveraging one company with another
- Surviving a false start
- The importance of non-compete clauses
- Discovering that when you're dealing with corporations — "everything" is negotiable
- The dangers of skipping steps in the business planning process
- The difficulties of starting a business when nobody on the Board has any relevant experience
- The uneasy relationship between a parent nonprofit and its for-profit subsidiary

“We can probably make our three-year projections – but building this kind of business takes a long, long time. The third year’s gotta start now!!!”

by selling to ECS customers. But it works both ways, because the home care company also increases the attractiveness of the counseling services — it’s an additional benefit ECS customers can offer their employees.

In fact, ECS is increasingly being viewed by Provident as a platform for growth in related areas, and not just home care. According to Buescher, ECS may never return to its historical revenue and

profitability highs, but “we’re hanging in there. We’re the only nonprofit EAP left in St. Louis. All the others have either been gobbled up or gone out of business, but we think it’s important to have access into the business community, and we see ECS as an invaluable point of entrée for our other services. So even though we don’t make as much money with ECS any more, we’re not losing money – and what it does is give us access to a population we might not otherwise have.”

As for the specific relationship between ECS and AEHC, Buescher predicts it “will make both companies unique. To our knowledge, this kind of relationship between an employee counseling service and home care doesn’t yet exist anywhere else, although it’s just a matter of time. Right now, though, it’s a new idea.”

School is still out, of course. AEHC is less than two years old. “Our initial business plan called for us to break even by the end of the third year, with revenue of about \$500,000,” says Buescher, but AEHC learned a hard lesson right out of the box.

“We wanted to sell to the private pay market,” she recalls. “That was our vision. But we’ve learned that with private pay alone you can’t grow it fast enough. When we started, we were generating two or three private pay clients a month, and we thought that was terrible, but once we hired a full-time guy with industry experience to run it he said, ‘that’s about right for private pay, they don’t come in that fast,’ and we said, oops, this is going to take too long. You need a base of other kinds of clients so you can keep staff busy and have them available when you acquire a long-term, 24-hour-a-day private pay client.”

The new man was Allan Smith, a veteran of the home care industry, who came on board in December of 2000, and AEHC immediately began turning to clients who had access to sources of third-party payment such as Medicaid. “By doing that,” says Buescher, “we can probably make our three-year projections – but building this kind of business takes a long, long time. The third year’s gotta start now!!!” A key strategy for Buescher will be to acquire “one or more mom-and-pop groups that have reached their limits of growth, either because they don’t have enough capital or because they lack certain management skills. They’ll bring along their clientele and employees.”

CRITICAL SUCCESS FACTORS

Buescher’s experience has enabled her to identify nine critical success factors for the employee counseling service and eight for the home care business.

Employee Counseling Service

Confidentiality: “It’s a huge thing,” she says. “It has to be one of your core values. Employees have to be able to trust you. They’re worried that if they use the program their employer will hear about their problems.”

Neutrality: “From the very earliest days,” emphasizes Buescher, “it was important that we didn’t use the business to feather our own nests. There was a lot of skepticism among employers that providers would be using EAP services as a ‘case finder’ – that people would come in for a couple of EAP counseling sessions and suddenly find themselves in long-term treatment or in-patient care with the same organization. It’s not as big an issue today, but we still have to be careful not to use the ECS program as a way to get clients into long-term counseling programs.”

Luring customers to other Provident programs is another matter, of course: Leverage is an important part of Provident’s on-going strategy, as evidenced by the partnership between ECS and the home care company.

Accreditation: “Most of the larger EAP programs don’t have any kind of oversight,” says Buescher. “Accreditation by the Joint Commission on the Accreditation of Health Care Organizations (JCAHO) has been critical to our success.”

Critical incident training: “It’s been useful to link critical incident de-briefing to the ECS program,” says Buescher. “We’ve had a lot of banking institutions as customers, and they call us out to de-brief employees after a robbery.” Other critical incidents might include such things as an injury at the work site or the death of an employee.

Staffing issues: “Early on,” remembers Buescher, “we thought our therapists could do the EAP work, but it turned out that the ECS business was primarily short-term counseling and our therapists just didn’t know how to do it. They couldn’t focus on what’s hurtin’ right now and get you on your way. So we had to hire a staff dedicated solely to this marketplace. Today, though, with the experience therapists have with managed care, our therapists are quite involved in EAP work.”

Another big mistake was hiring staff without signing them to non-compete clauses. “We let the staff operate too independently, and some of them developed an elitist attitude,” says Buescher. “They didn’t want to see themselves as part of Provident . . . and it ended up with our top three people leaving last year to compete with us in their own company.” Non-compete clauses are *de rigueur* today.

Technology: “We lost a contract a year ago,” says Buescher, “in part because we couldn’t offer self-help services on the web.” Web sites typically offer “pretty general information, but a lot of people are not very knowledgeable at all about things like how to manage their money or how to deal with stress, you know, the kinds of things you might do a brown bag lunch about, and a web site can give highlights, which is sometimes all they need, or help them identify what else they need.”

Staying close to the customer: One of the biggest surprises for Provident, says Buescher, has been discovering that



AT EASE HOME CARE, INC.: Staffing coordinator Karen Silman checks Patricia Varney’s pulse and takes her temperature.

“when you’re working with the corporate sector, *everything* is negotiable, unlike government contracts where it’s ‘thou shalt and thou shalt not.’”

Another surprise has been learning “that not all employee groups are the same. Different companies have different levels of utilization. For example, a company with a highly educated, primarily female workforce uses this type of program a lot . . . but a company with a lot of blue collar, high school educated males doesn’t tend to use it as much.”

All of which is to say that Buescher believes “it’s very important to stay in tune with your corporate customers. You have to stay very attentive and sensitive to their needs. We don’t want to be just a short-term counseling program. We want to be a resource to supervisors and to management.”

Alliances: Buescher says Provident discovered that many of its clients had employees “all over the country, in pockets of two or three, and we had a major challenge putting together units that could respond if those employees ever needed us.” To spread the risk and simplify the response mechanisms, Provident has formed alliances with other EAP providers across the nation and maintained membership in two national organizations, the Alliance for Children & Families and Mental Health Corporations of America. “We’ve been fortunate to serve as a sub-contractor for other members of those organizations,” says Buescher, “and, even more importantly, we’ve been able to use them as sub-contractors to help us serve our customers that have employees in their communities.”

Being local: Having a local presence has been one of Provident’s primary competitive advantages. “Some of our clients would prefer to have their employees deal with a local group, face-to-face,” says Buescher, “rather than having them call an eight hundred number and talk to people in Baltimore or wherever.” Being local has also given ECS the ability “to provide other kinds of related services, such as work-life seminars, brown bag lunches on health care topics and that sort of thing,” all of which have enhanced the company’s value to its customers.

At Ease Home Care, Inc.

Planning: One of Provident’s biggest mistakes was not vetting its original business plan with enough people. Buescher says that Cynthia Jurishica, “the woman who developed the plan for us, tells me now that if she could do it again, she would have talked it over and over and over again with insiders and outsiders. We should have taken more time at the front end rather than getting surprised at the time of implementation, to be sure we weren’t missing anything.”

Staffing: Buescher admits Provident made a big mistake at the very beginning of the business development process. “We started by simply assigning the project as an additional set of responsibilities for one of Provident’s senior staff members,” she says. “That was a big mistake. It set her and us up for failure. As soon as things started popping at Provident, it pulled her away. We should have taken the time early on to find a full-time head for the company whose sole interest and total energies could go to developing the company.”

But finding the right type of leadership proved to be only one of Provident’s staffing challenges. “We started the company in the midst of a good economy,” says Buescher, “and that meant it was tough to recruit and hold on to certified nursing assistants and homemaker aides. You need to find good, reliable, honest people, but there’s lots of competition for them.”

The Board: Buescher recommends at least some of the Board members for this (or any) type of venture have experience in the specific industry being entered. “Our Board would have had a greater sense of confidence,” she believes, “if they’d had one or more members to turn to for an understanding of the business.”

Timing: “It’s critical,” says Buescher. “On the one hand, you think you should get out and recruit certified nursing aides and homemaker aides right away, but if you don’t have any business for them to start servicing, you lose them. It’s the chicken and egg thing. So you need to start marketing a couple of months before you hire your people and open your doors.”

Transportation: “Many of our employees live in the central city,” says Buescher, “but a lot of the work that needs to be done is in the suburban area, and public transportation here is still catching up with this reality. So if they don’t have reliable transportation on their own it’s tough to get to work.”

Networking: According to Buescher, one of the most important factors in the success of any home care business “is developing a network to bring in referrals. You need to stay in constant contact with physicians, discharge planners, geriatric case managers, all the people who deal with seniors.”

Managing the business relationship with the parent organization: It was surprising and painful for Buescher to learn that Provident might not be the best source of contracted services for the home care company. “We had expected to buy a number of our services from Provident,” she says. “Billing, payroll, human resources, that sort of thing. But Provident quickly began to feel too bureaucratic, didn’t move fast enough, and was a little more costly. Either Provident’s got to figure out how to do this thing more efficiently to support its subsidiaries or the subs will have to go find it out in the marketplace at a more reasonable price.”

Communicating with the Board of the parent organization: Another major mistake was “failing to keep the Board of the parent company overly informed. Even though we have a Board member from Provident on the Board of the new company as our communications link,” she says, “and even though I serve as the secretary/treasurer of the subsidiary, we’ve taken too much for granted. We need to inform them more, to ease their anxiety.”

The tension grows in part from the fact that ECS is still a program inside Provident, but AEHC is a separate, for-profit subsidiary. According to Buescher, “what the parent Board members say is ‘this is our money, we need a little more control over this,’ but what it says to me is we’re just not keeping them informed enough.”

On the positive side, however, she’s been pleased that the members of the Board for the subsidiary “have had a real urgency to make it grow and succeed and a real sense of responsibility back to the parent. They felt as if they’d been charged by the parent to make it a go, and when it bogged down a couple months after we got started, you could see their sense of urgency and anxiety. It was a positive anxiety, but it was definitely anxiety.”

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Employee Counseling Service

TYPE OF BUSINESS:

Short-term counseling services for employees or members of their families (offered by corporations and others as an employee benefit)

Mission: To further the well-being and self-sufficiency of families, individuals and communities

Year founded: 1979

Structure: A program operated internally by a nonprofit

Headquarters city: St. Louis

Geographic market: Primarily the St. Louis area, although several customers have employees located throughout the country

Number of staff members: Four full-time and 10 part-time administrative personnel plus more than 200 counselors working as sub-contractors nationwide

CURRENT FINANCIAL PERFORMANCE

(fiscal year ending December 31, 2000)

Annual sales: \$714,000

Net profit: \$33,000 (4.6 per cent)

SOCIAL RETURN ON INVESTMENT

Number of people served per year: 2,900

Customer satisfaction: 4.38 on a scale of 5

** Contract utilization:* 5.3 per cent

* The percentage of people employed by ECS customers who use the EAP program in a given year

INITIAL INVESTMENT

Planning time required before operations began: Unknown

Dollars required before operations began: Unknown

Sources of planning dollars: Special United Way grant and investments by Provident Counseling

Time until the business generated positive cash flow: Unknown

Additional working capital required before generating positive cash flow: Unknown

Sources of working capital: Special United Way grant and investments by Provident Counseling

Time required to recover planning dollars and working capital: Several years

PARENT ORGANIZATION:

Provident Counseling, Inc. (founded 1860)

Mission: To further the well-being and self-sufficiency of families, individuals and communities

Programs: General counseling services for adults and children plus niche programs for special groups (batterers, child victims of abuse, compulsive gamblers, people who are dependent on alcohol and drugs); prevention services; community development services (especially for youth); partnerships (Missouri Alliance for Children & Families, a limited liability corporation formed by nine nonprofits); and business enterprises (Employee Counseling Service and At Ease Home Care, Inc.)

Annual operating budget: \$5 million

Number of employees (FTE): 65

Number of people (unduplicated) served per year: 10,000

SENIOR MANAGEMENT TEAM

President and Chief Executive Officer:

Kathleen E. Buescher

Chief Professional Officer: Cynthia Jurishica

Director, Employee Counseling Service: Ken Bolyard

Contact information

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At Ease Home Care, Inc.

TYPE OF BUSINESS:

Home care services for the private pay market primarily older people

Homemaker and home health aide services, including assistance with bathing or dressing, grocery shopping, preparing meals, light cleaning, transferring from bed to chair or managing financial affairs; also provides medication reminders, wake up and tuck in services, companion/sitter services, hospitality services and 24-hour care

Mission: To provide the highest quality home care services possible in order to help customers maintain their independence at home and generate profits to support the charitable activities of the company's nonprofit parent

Year founded: 2000

Structure: A for-profit subsidiary of a nonprofit

Headquarters city: St. Louis, Missouri

Geographic market: St. Louis metropolitan area

Number of staff members: Two full-time home-care aides, plus four part-time aides who each work an average of 30 hours per week

CURRENT FINANCIAL PERFORMANCE

(fiscal year ending December 31, 2000)

Annual sales: \$2,000

Net profit: (\$82,000)

SOCIAL RETURN ON INVESTMENT:

Company has just begun operations

INITIAL INVESTMENT

Planning time required before operations began: Nine months

Dollars required before operations began: \$40,000

Source of planning dollars: Investment by Provident Counseling endowment

Time until the business generated positive cash flow: Not yet achieved (as of March 31, 2001)

Additional working capital required before generating positive cash flow: 250,000 bank line of credit

Source of working capital: Secured by Provident Counseling endowment

Time required to recover planning dollars and working capital: Not yet recovered

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SENIOR MANAGEMENT TEAM

President and Chief Executive Officer:

Kathleen E. Buescher

President, At Ease Home Care, Inc. Allan Smith

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