

TRILOGY HEALTH SERVICES, LLC: BUILDING A GREAT SERVICE COMPANY

Trilogy Health Services, LLC, (Trilogy) was a privately held senior-living-services company with headquarters in Louisville, Kentucky. It was launched in December 1997 by Trilogy CEO Randall J. Bufford, whose vision was to create “health campuses” that provided a continuum of personalized care—from independent and assisted living to skilled nursing and rehabilitative services—for older adults.

Under Bufford's leadership, Trilogy grew to 17 facilities in seven years. In 2004, Frontenac, a Chicago-based private equity firm, bought the company with the intention of further expanding its network of facilities. Three years later, when Trilogy had 44 health campuses, another private equity firm, Swiss-based Lydian Capital, bought it for \$350 million.

With Bufford still at the helm, Trilogy continued to grow maintaining its focus on underserved, nonurban communities in the Midwest. Rising demand for Trilogy's services, fueled by an increasingly large senior population, allowed its facilities to operate at nearly full capacity—just above 90%.¹ Trilogy's revenues hit \$257.8 million in 2007, having shot up 200.4% from its revenues in 2004, just enough for the company to be ranked 1,871 on *Inc.*'s list of the 5,000 fastest-growing private companies in the United States in 2008. In addition to earning top ratings in customer-satisfaction surveys, Trilogy was voted the Best Place to Work in Kentucky by its employees two years in a row, not a small feat in an industry where turnover rates were as high as 150%.

By 2009, Trilogy operated 56 health campuses in Kentucky, Indiana, Ohio, Michigan, and Illinois, all based on a culture of compassionate service. Bufford firmly believed that it was Trilogy's culture—with its emphasis on people and service before earnings—that formed the company's competitive edge. “We have a simple philosophy,” Bufford said. “If we take great care of our employees, they take great care of our customers, and we have a bottom line. Our

¹ The U.S. Census Bureau has projected that the population of senior citizens will double between 2010 and 2030, from 35 million to 72 million; if these projections hold, one in five Americans will be 65 or older in 2030.

This case was prepared by Senior Researcher Gosia Glinska and Edward D. Hess, Professor and Batten Executive-in-Residence. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2009 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to sales@dardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.

challenge as we grow is to make sure that we keep the culture high and don't lose sight of our mission."

The Founder

Bufford was born in the Midwest. His father was a career military man in the U.S. Air Force, and Bufford grew up on bases across the country. After graduating from the University of Louisville with a bachelor's degree in accounting in 1981, he started his career as an auditor with the accounting firm of Arthur Young & Company. Then he held various positions at the Cardinal Group, a Louisville, Kentucky-based nursing-home company, where he rose to the position of CFO.

In 1993, Bufford started Transitional Health Services, a senior-care company in Louisville, and, in a management-led buyout, acquired selected assets of the Cardinal Group. He served as the company's general manager and CEO until it merged with Centennial HealthCare Corporation.

During his tenure at Centennial, Bufford was the executive vice president of business development. He oversaw the operations of Centennial's ancillary service companies, participated in the 1997 IPO, and played a role in the company's acquisition efforts.

Trilogy Health Services: A Cash-Starved Start-Up

As Bufford rolled out Trilogy's first 10 health campuses in 1997, the business community was in the midst of the Internet bubble, and one of the biggest challenges his company faced was access to capital. "We're a very capital-intensive sector," Bufford said and added that, at a time when his business was in need of funding, "there was no capital—zero—being given to any organizations."

Bufford and his management had been aware that the Balanced Budget Act of 1997 was going to affect nursing homes, and they planned accordingly when making their financial projections. What Bufford and his executives did not realize, however, was the effect the Balanced Budget Act would have on Trilogy's peers, and "how that would ripple down into lack of investor confidence in the sector as far as making investments," Bufford said. He continued, "Seven out of the top nine public companies in the senior-living-services sector went bankrupt. We could not convince people that we were a viable model."

To fund the start-up, Bufford said:

We primarily relied on management's capital and then some of the real estate investment trusts; we partnered with them for bridge loans. I had one debt piece.

Our new CFO looked at it and said, “Is that right? Is that 22% interest?” I’m, like, Yes sir, it is, but it kept us out of bankruptcy.

To make matters worse, “While we were starting our business, we went through a very difficult time in our sector as far as reimbursement,” Bufford said. To ward off failure and avoid sharing the fate of many of Trilogy’s peers, “We had to do a good bit of juggling and emptying our own piggybank to make sure we had sufficient resources to run the company on a day-to-day basis.” And, Bufford continued:

We stretched our vendors pretty thin. But we did that with good communications; we had one-on-one meetings with all of our major vendors, our top 20 that get 80% of our vendor dollars. We never stretched the little guys, who are probably not as well capitalized, and they’re in our local community. So we pushed our top 20 vendors hard.

The Trilogy Health Campus

Before Bufford launched Trilogy, he canvassed potential customers and used their feedback to put together a business plan for a group of nursing facilities in Kentucky. He learned that the elderly preferred to stay at home and receive any needed health-care services in the least-restrictive setting and were willing to pay for such services. Based on his research on the evolving needs of older adults, Bufford developed an innovative senior-care model, which offered a continuum of services on one health campus: adult day care, assisted living, and skilled nursing. According to Bufford, the services were affordable to middle-income seniors.

Trilogy’s prototypical campus covered approximately 48,000 square feet, and was built on a “town-square” model. Residents usually lived in private rooms configured in “neighborhoods” that surrounded a town square. Each neighborhood had a small, one-person nursing station instead of the more common large central one. To encourage consistent and personalized care, caregivers were assigned to only six or seven residents in a neighborhood. Bufford thought that “the neighborhood concept lends itself to person-centered care.”²

A 60-bed skilled-nursing facility and an assisted-living facility with 35 apartments were separate buildings located on opposite sides of the campus. Each had its own parking, entrances, dining room, and common-space areas but shared infrastructure, which contributed to operating efficiency. On most campuses, the assisted-living operation consisted of 23 traditional units and a separate, secure wing with 12 apartments for elderly residents who suffered from dementia.

Trilogy management took great care to ensure that senior-living centers they operated had state-of-the-art facilities. In some markets, Trilogy established independent living villas and

² Jane Adler, “Trilogy Boosts Nursing and Assisted Care Holdings with \$34.5 Million Purchase,” *Penton Insight*, April 27, 2009.

patio homes surrounding its health campuses. Overall, Trilogy buildings had a less institutional feel than older facilities found in many senior-living communities.

A Culture of Service

Having attractive facilities certainly enhanced the environment in which Trilogy residents lived, but it was Trilogy's culture of compassionate service that convinced many visiting seniors to stay. "We've tried very hard to ensure that we have high standards at each of our communities," Bufford said, adding that one of the vital elements of Trilogy's culture was an understanding that growth in earnings was an outcome of great customer service, not the other way around, and that focusing on financial returns ahead of service almost always guaranteed failure (**Exhibit 1**). Bufford emphasized that Trilogy's commitment to providing exceptional customer service was what differentiated his company from its peers:

I can assure you that our financial results are not what we think about first thing in the morning. It's important that we keep track of those and make capital investments in our information systems, but those don't ensure success. In fact, if you're not doing well, all those will do for you is tell you how bad you're doing. We're in a business that's all about service and all about taking great care of people. And that's one key ingredient that's often missing.

Creating the Best Place to Work

Bufford asserted that the best way to ensure customer satisfaction was to create a nurturing environment for Trilogy's front-line employees—the caregivers, nursing assistants, nurses, and others. "I want them to say that this is the best place they've ever worked," Bufford admitted, emphasizing that "if we take great care of our employees, then they'll take great care of our customers." He and his management team worked hard to promote "the kind of culture where our employees feel supported by a culture that says, 'No person is any more important than others.'" Bufford thought that the right attitude at the top was essential to unlocking the potential of front-line employees:

It starts with a culture of management where we are leading our employees, not directing them. We have executive directors, and I've even pondered whether that is the right title because we don't direct anybody to do anything. As soon as you start ordering people around, you get the bare minimum performance.

Bufford and his executives devoted a lot of time to coaching Trilogy's midlevel managers, encouraging them to read and educate themselves to become better leaders. "We read books as a company," Bufford said, citing Ken Blanchard's *Know Can Do!* as one of the reading assignments. "We took some thoughts from it to help [our managers] understand how to lead our

people into wanting to have the right performance and creating an environment where they'll do the right thing without thinking about it," Bufford said.

In his coaching efforts, Bufford stressed that leadership was not an innate gift that some had and others lacked. "We tell our managers that leadership is a learned business skill," Bufford said. "It starts with somebody who's willing to humble themselves for the benefit of others. We work hard on humility."

Even Trilogy's mission statement (**Exhibit 2**), which was printed on the back of everyone's name badge, addressed the issue of humility. One of the bullet points stated, "Take what the company is doing very seriously but not yourself," which was followed by a tagline, "Our company has zero tolerance for egos or politics." Promoting humility companywide went hand-in-hand with fighting arrogance. "Overall, we've got a good culture of not having arrogance," Bufford said. "And when I see it, I really emphasize that it can tear you down pretty quickly."

Walking the talk

In addition to offering a competitive benefits package for its employees, Trilogy put in place a number of policies and programs to help retain and motivate them. "We walk our talk, and we back it up with tangible things. We have employee retention programs into which we pour literally seven figures every year," Bufford said and added that in 2008 when gasoline prices were rising, every full-time employee who had been with Trilogy six months or longer was eligible for a \$30-a-month subsidy to cover increasing commuting costs. "Whether they're line staff or managers, everybody in the company gets it, except for ownership," Bufford said. He continued:

Once a month we do a recognition party; we call it the ER3 party. If it's your six-month anniversary—you get recognized. If you have perfect attendance—you get recognized. If you had a baby or your daughter-in-law had a baby, we give you a Trilogy baby onesie. All those things create an environment where it's going to be a little easier not to get burned out.

Employee training and education

At Bufford's direction, Trilogy emphasized employee education and training early on. "We've always understood that we're a service business, and we've invested heavily in training our staff," Bufford said. "There's no better way to show employees that you care about them than investing in them."

For Trilogy's new hires, learning started on their first day of work with a 30-minute customer-service training program, followed by two hours of in-service training. Adhering to the principle of always putting residents and their needs first was at the core of Trilogy's training program and an important part of what differentiated the facility.

In an effort to make the training program engaging, Trilogy tried to mix in elements that were fun. For example, one year's theme was "A Race to Customer Service," and the winner received tickets to the Indy 500 and an overnight hotel stay. The program also covered such customer-service basics as speaking to anyone within close proximity (10 feet), regardless of whether that person was a patient, family member, co-worker, or vendor; making eye contact; speaking clearly; displaying good body language, hygiene, and overall demeanor; and speaking positively about the facility when out in the community.³

Trilogy's customer-service principles were reinforced monthly through posters and payroll stuffers, "something that will reintroduce and remind people of that principle," said Rhonda Sanders, a registered nurse and one of Trilogy's trainers. "Randy Bufford can have the vision, but it takes each person to make the difference," said Sanders, adding that at Trilogy, they talked constantly about the importance of each and every staff member.⁴

Employee communications

In addition to training and education, Bufford invested in employee communications, which, he believed, was essential for gaining buy-in for company and facility goals. "The more investments we make in two things—training and communications—the better we get with our employees," he said. Employees received company and campus newsletters containing messages from Bufford. A bulletin board at each facility displayed messages about Trilogy goals and progress. Facility leaders routinely pulled aside five or six employees for "coffee breaks" at which they received coffee and donuts while learning about a new initiative or goal. Bufford believed that reaching employees in a small-group setting helped maintain a consistent message.

Recruiting

Bufford's efforts to create a culture focused on people—residents and employees—paid off: In 2008, Trilogy applied for the "Best Places to Work in Kentucky" program and was the number one company in the small/medium category; it repeated the feat the following year. Snatching the top spot two years in a row was a great morale boost; it also helped Trilogy compete for the best health-care workers.

Bufford took recruiting seriously. "First and foremost, you have to get the right employees," he said and revealed that Trilogy had a simple question on its job application: "Do you love the elderly?" Bufford described the ideal candidate Trilogy was trying to attract:

We want to find somebody who's looking for a compassionate return, who is not there just to pick up a check, because that person is not going to find satisfaction in the difficulties we face. And we don't beat around the bush about the

³ Marla Fern Gold, "New-Venture Profits Help Balance SNF Shortfalls," *Provider*, February 2003.

⁴ Gold, "New-Venture Profits Help Balance SNF Shortfalls."

difficulties. We tell our potential employees, how many businesses are open 24/7, 365 days a year with customers who really don't want to be with us?

Lowering Employee Turnover

Trilogy's turnover was significantly lower than the industry norm, and a distinct advantage for Trilogy, which competed in an industry rife with transience. According to Bufford, employee turnover rates in the health-care industry averaged between 90% and 150% a year. Trilogy's turnover rate in 2009 was only 36%, a figure Bufford planned to shrink to 25% by 2011.

Training and retaining new hires

The comparatively high employee retention rate at Trilogy was partly due to the time, care, and expense the company invested in the on-boarding and training processes. In 2004, Trilogy launched a Caregiver Preceptor Program to help new hires acclimate. "We've got a buddy who's been specially trained in on-boarding leadership, making sure new employees feel like they're part of the family," Bufford said. Trilogy preceptors also conducted culture and leadership training for new employees at off-site retreats.

Because approximately 80% of Trilogy's turnover took place in the first six months of employment, during that time the new hires wore blue name badges. "The idea behind it is that we all know you're new, we're giving you extra love, we're telling you that we want to celebrate that badge turning white with you," Bufford explained. Employees who satisfactorily completed six months on the job took part in a special celebration and became eligible for a base-wage increase and additional benefits.

More effective hiring practices

Trilogy's management worked hard to address the issue of employee turnover by reviewing its hiring practices and trying to improve them. Bufford admitted that the reason front-line employees left the company—or were asked to leave—was twofold:

We hire the wrong people, or the people we hire say the right things in the interview process, but they really don't mean it when it comes to how hard we work and not playing politics. So, some of that turnover is a result of us saying, after the 90-day trial period, "Hey, you're probably not the right person for us." And the other part is—we don't do a good job screening. We've never gotten great results out of the reference process, but we're trying to intensify that from a networking standpoint, trying to find people who have known this person in employment in our communities, versus what this person puts on their reference sheet.

To get a better shot at improving employee retention, Trilogy put in place an internal referral program and awarded its employees bonuses for referring candidates that the company brought on board, provided that they stayed for at least a year.

Trilogy's Growth Strategy

Trilogy grew its portfolio of senior-living communities by building brand-new health campuses in attractive markets and through acquisitions of well-run nursing homes, whose management and culture were in line with Trilogy's. After buying land adjacent to the newly acquired properties, Trilogy would then build state-of-the art facilities to replace the old ones.

Bufford's preference was to own Trilogy real estate rather than lease it. But when Trilogy was a start-up, it was so cash-starved that leasing was the only viable option. In 2008, however, the company was in a position to negotiate a purchase of 14 of its leased facilities. "It's a good time for us to buy since we have capital," Bufford said. "It's tough for them to raise capital so they're selling assets. We probably won't ever get to owning 100%, but, I'd say, within two years we'll be pretty close to about 90%."

Bufford's expansion efforts centered on underserved, nonurban markets, where Trilogy was growing in clusters, "branching out from outposts, and filling in and backfilling," as Bufford explained it. In reviewing Trilogy's disciplined expansion strategy, Bufford attributed the company's success to "staying focused on how we grow the tight markets we are in, where they're located in proximity to other markets." He continued:

We've had a chance to go to a small town in Tennessee that on paper looks great, but it's a long way from Louisville, and we don't have any sister facilities there. We first determined the depth of the market around that location in Tennessee and whether we could get five facilities in that area. We studied Michigan that way, and we took our lone outpost to southern Michigan, near our Indiana properties, and we're now up to three properties with a fourth coming. That's our opportunities—to remain focused on our geographic area and do the filling in. We like clustering because it's easier to grow that way and transfer the culture.

Transferring the Culture

For Bufford, successful culture transfer started with getting the right people on a new facility's management team, which often meant pulling some of Trilogy's seasoned veterans from other locations. For example, when Trilogy opened a new health campus in Bellevue, Ohio, in 2008, four members of its 10-person team of department heads came from two other nearby Trilogy facilities.

But conquering new markets also required tapping the outside talent pool. “We look for what I call the ‘providers of choice’ to recruit from, primarily through cold calling, to see if we can find leaders who match up with our culture.” The select candidates for top management positions were routinely invited to spend time on Trilogy’s health campuses about 120 to 180 days before the hiring process started. Bufford explained:

They live in a hotel for a week or two at a time, visiting our four or five campuses. Just meet our people, understand what we do, and start capturing the culture and the leadership components by seeing it in action versus us sitting at a new location, telling them. We do peer reviews, which are twice a year inspections, so, for example, they would go and spend time on peer reviews.

Building the Talent Bench

When Bufford started hiring more senior people, the COO position was the toughest to fill. “We’re an operations-oriented company, and the depth of talent in our sector is not that strong,” Bufford said. The first COO, who came on board when Trilogy had only 10 health campuses, could not keep up with the growing company, and his job soon outgrew him. “I knew that he didn’t have the capacity,” Bufford said. “I pretty much had to set his agendas and follow up, and we need to be self-starters to grow.”

In 2002, after an intensive search, Bufford hired Philip Caldwell, who proved to be the right man for the job. “He’s been with us six years. I brought him in as co-COO while we worked the other gentleman into the idea that maybe he couldn’t be the COO forever.”

Bufford worked with Caldwell to ensure that Trilogy had a deep talent bench, “assembling that next layer of operational management,” as he said and added, “We have four out of five, we’re very solid. We have one gentleman who’s willing to learn, so Phil and I are investing a lot of time with him, because we think it’s probably easier to grow him into the position than to find somebody else.”

Leadership of Continuous Improvement

Despite Trilogy’s success, Bufford remained acutely aware that failure was always close at hand. He kept his finger on the company’s pulse, making an effort to visit Trilogy campuses at least twice a year. “A big part of our business is that we don’t run it out of a corporate office,” Bufford said. He explained:

Even though we have a central office, our business really happens in the field. Our employees see a lot of me, and also the COO and the area managers. Occasionally, I’ll sub in if we have an area manager’s position open. I might grab

two or three facilities and just take those under my wing, because it keeps me close to the business and sharp on management and things on the field level.

Bufford understood the dangers of success; he knew it could breed complacency and arrogance, which he worked hard to fight. For Trilogy to continue to thrive, he argued, its management had to lead by example, focusing on how to do things better. “We call it LOCI—Leadership of Continuous Improvement,” Bufford said and then elaborated:

If I don’t put my feet on the floor every day, thinking about how this organization’s going to get better, and if our employees and our executives aren’t doing the same exact thing, we got a good shot at going backwards. It’s almost like you’re on a treadmill and you better keep working it, because as soon as your employees think that it’s not important to you, it becomes unimportant to them. As long as we continue to get better at each and every campus, we’re going to continue to grow at eight or ten units a year. And I manage that way, I tell people we have lots of metrics and numbers, and the number really is not important to me; it’s really the delta in the number. Everything we do is pretty much keyed around, “Are we getting better, and can we do that better?”

Exhibit 1

**TRILOGY HEALTH SERVICES, LLC:
BUILDING A GREAT SERVICE COMPANY**
Our Culture—"E"s to Successful Customer Service

Expectations

- We have high expectations of Excellence in customer service for our residents.
 - Zero tolerance for failure to execute our Trilogy Service Standards
 - Zero tolerance for failure to have prompt response and resolution of customer needs and concerns
- We have high expectations for employee conduct.
 - Zero tolerance for patient abuse
 - Zero tolerance for harassment of any type
 - Zero tolerance for ethical misconduct
- Set high expectations for yourself...you'll be surprised at what you achieve.
- Campus leaders have the responsibility to communicate our company's expectations to their staff! We take very seriously our leadership of high expectations! You cannot ask someone to do something you will not do yourself!

Excellence

- We should strive to exceed our Customer's Expectations at all times. Our focus is Customer Service Excellence!
- Excellence is achieved by having compassion for our residents. You have to love the elderly to work for this company!
- Small things are what create excellence:
 - Everyone does the basics.
 - Pay attention to details as they are the ingredients to Excellence.
 - Excellence is created by the execution of our Trilogy Service Standards.
 - Go out of your way to help our customers or another employee...your efforts will return dividends to you.

Employees

- The Right Employees make the difference!
 - Great Physical Plant + Average Employees = Average Facility
 - Average Physical Plant + Great Employees = *Great Facility*

Exhibit 1 (continued)

- The Right Employees have the following attributes:
 - Compassion for service to others.
 - Willingness to support the team ahead of themselves.
 - Understanding of the importance of details in achieving service Excellence.
 - Readily embrace hard work as a key to success.
 - Willingness to be an example and leader for others.
- Employees must work as a team.
 - Everyone pulls on same rope...customer service.
 - To get everyone on the same rope—communicate!
 - Communication must be effective and often.
 - Communication goes both ways...input and feedback are EXPECTED!
- When employees are treated like royalty, they will treat our customers like royalty.

Empowerment

- Every employee is empowered to improve our services for our customers.
 - Empowerment means saying yes first and then figuring out how to meet the objectives.
 - We have to be solution oriented to have Empowerment in Customer Service.
- Leadership and Education unlock the empowerment door.
- Employees need training on Customer Service...it is an absolute must to create Empowerment!
- Entrepreneurial spirit means the most important people in the organization are the people closest to our customers...our caregivers!

Education

- Education and Training are Customer Service Separators.
 - Employee orientation, in-service and seminars, is an essential part of employee retention and customer service success.
 - The most effective education is done by Example. We teach and train best by being role models of our culture, customer service, operating procedures, etc.
 - Training is a personal responsibility that runs on a two-way street.
- There is no better way to show your commitment and caring to an Employee than through Education and Training.
- Education is the best investment our company makes!

Exhibit 1 (continued)

Earnings

- We have a responsibility to our shareholders to achieve a return on their investment.
 - Positive financial returns will allow for re-investment in improving our services and campus environment.
 - Earnings generated in the local market can be returned to the community through taxes and charitable contributions or services.
 - We should seek out ways to be a partner to our community, both on a financial and service approach.
- Improvements in service lead to growth in earnings, which allows the company to invest in more ways to improve service. This is known as the Flywheel to Success!
- Focusing on Earnings ahead of Service is a start to the “Doom Loop.” We understand that financial returns follow great customer service and not vice versa!

Execution

- Now all we have to do is execute.
- Execution does not happen by accident. Leadership is required to spur along the right combination of execution ingredients.
 - Hard work
 - Teamwork
 - Compassionate commitment
 - Communication
 - Trilogy Service Standards
- Execution success requires connecting the values of the company to what the task at hand involves!

Source: Adapted by the case writers from data on Trilogy’s Web site.

Exhibit 2

**TRILOGY HEALTH SERVICES, LLC:
BUILDING A GREAT SERVICE COMPANY**

Trilogy's Mission Statement

- **We are committed to exceeding our customer's expectations.**
Excellence is achieved by execution of our Trilogy Service Standards.
- **The right employees make the difference.**
Communication and training are the keys to success.
- **The team approach works best.**
Let everyone contribute to his or her fullest potential.
- **Pay attention to the details.**
The details separate the winners from the losers.
- **Take what the company is doing very seriously but not yourself.**
Our company has zero tolerance for egos or politics.

Source: Adapted by the case writers from Trilogy's Web site.