



Photos: Russell Smith, Chasing Light LLC

# Bigger is better? Don't tell that to Rick Matros

From activities professional to head of a national long-term care chain, Rick Matros has done it all. Currently the chairman of Sabra, a \$7 billion healthcare real estate investment trust, Matros ignited a firestorm this fall by asserting that smaller firms make better partners. Small and regional providers are the way to go, he maintains.

**Q: You've been causing some waves with your 'no economies of scale' stance. What do you make of that?**

**A:** All the feedback I've gotten from people has been in agreement, including people I know who work for a couple of the big companies. To me, it's just looking at the results and the effectiveness.

I've run national companies so I know how difficult it was as we got larger and larger to get things done as effectively as possible.

These days there's a greater number of skilled operators on the ground than even 10 years ago, guys who used to be with large companies. There's not one advantage you can name or quantify for the national guys, whether it's [HCR] ManorCare or Genesis or Brookdale, or whatever.

**Q: Why do you think that is?**

**A:** In the case of Genesis [Health-Care], there hasn't been a company this big since the mid-1980s, and Beverly [now Golden Living]

couldn't make it work when it was a Medicaid-shop business with 95% occupancy and all it had to do was control costs. It was a much simpler business and they couldn't make it work.

The bigger you are, the more control issues there are, the more checks and balances you have to put in place in order to know you'll have nothing go wrong. That's automatically less autonomy than a local director has. If you have an RFP to market, a strong regional operator can respond in two weeks. Genesis has five layers and can't.

The market is so much more dynamic, so much more complex. There are more clinical and I.T. difficulties making it more complex.

**A:** It's all about the operators. Good, smart flexible operators who are not over-leveraged get through the hard times better than the others.

George Hager [Genesis' CEO] and his teams are good operators. It just got away from them. Maybe if they settled down after the Sun [Healthcare] deal and worked to integrate, it would have been better, but we'll never know. They made more deals.

**Q: What's the No. 1 indicator of success?**

**A:** Culture has always been the single most important ingredient for success. Even if you run 150 buildings, it's a lot easier to have a culture that reflects your vision.



*“Culture has always been the single most important ingredient for success.”*

**Q: Doesn't mass make more things affordable?**

**A:** One of the big guys says they have economies of scale because of purchasing power. We have all our operators in GPOs. Guys with two buildings are buying medical supplies and food for the same cost as Genesis. We're working with 70 different operators.

From an I.T. perspective, when you're having to put new technology in place and you have to roll it into 230 or 500 buildings ... that's brutal, man.

If you have 10 or 15 buildings, it's much easier to find products that can meet your needs. It's much simpler.

**Q: So what rules the day with you?**

When we got up over 200 buildings when I was still running Sun, it wasn't just facility-based. We had rehab, staffing, home health, hospice and other businesses. My biggest challenge wasn't regulatory, staffing or reimbursement. It was culture.

**Q: How do you see the near future?**

**A:** We can see more blue sky over the next couple of years. We'll have some demographic lift, particular for those operators good enough to take the 75-plus crowd, not just 85-plus.

The industry just needs to get through the next couple of years. I don't think it's far off we see some upturn.

A lot of mom-and-pops that

run Medicaid shops now with little room to move up acuity or invest in I.T. will go under or just try to sell before that happens.

I think the supply will continue to dwindle as the demographics increase. I don't think the supply will stay the same.

Even if the mom-and-pops don't shut down, what happens is mom-and-pops will sell to a good market operator who will modernize, take beds out for bigger gyms, more common space and more private rooms.

**Q: What's your take on CMS payment reform?**

**A:** The caveat there is hopefully they get it right this time. Operators will follow the money if the incentives are right.

We're already seeing that with operators where Medicaid pro-

viders have a good backup system with Medicare with complex patients. Take vents and dialysis patients. That's a better balance of the kinds of patients for the system.

**Q: Where do you see this industry in five years?**

**A:** I think it's going to be smaller in size. There will be more regional operators that are sophisticated, and far fewer mom-and-pop operators. We used to have 23,000 facilities and now we have 15,000. That will continue to come down. I don't know if we'll go lower than 10,000, but it will be a lot lower than 15,000.

I also see occupancy [percentages] closer to the high 80s five years from now. And the industry will be functioning much more as step-down units for hospitals than traditional nursing homes. ■

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