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The Critical Role of Strategy



What Is Strategy?
Strategic Thinking vs. Planning
Competitive Advantage
Key External Issues and Challenges

This module will begin by focusing on the role of strategy in seniors’ housing and care. It will address the following topics:

- Strategic planning and thinking
- Identification of the profile and driving force of any business
- Analysis of the company’s concept/mission, key areas of excellence, and innovations
- Identification of competitive advantages

- The role of services in seniors’ housing and care
- Uniqueness as a way to differentiate the company from the competition
- External analysis and strategy as they affect seniors’ housing and care
- Environmental analysis: general
- Environmental analysis: seniors’ housing and care

NOTES:

Strategic Thinking vs. Strategic Planning



Strategic thinking is the process that organizations use to determine their future. Such thinking creates a vision of where the organization should be at a given point (for example, diversifying to enter additional seniors’ housing and care markets).

Strategic planning focuses on how to achieve the vision derived from strategic thinking: how will the organization achieve the diversification or other goals identified by the strategic thinking?

Most companies are more effective in strategic planning than strategic thinking, perhaps because senior company officials tend to have an operations background. Such backgrounds are better preparation for strategic planning than for strategic thinking, and they may not have had the opportunity to develop the skills required for the latter. Finally, business’ common emphasis on market share and growth may shift the focus away from new markets, innovations, etc.

Strategic thinking, therefore, requires the organization to take a wider view, what it should be in the future rather than how it can do more of the same.

NOTES:

Nine Obstacles to Strategic Thinking



1. **“Fuzzy vision:”** Company officers do not share a single vision.
2. **Emphasis on operational thinking:** Officers spend more of their time on operational than strategic matters.
3. **Reactive strategy:** The company reacts to external events, not proactively implementing its vision.
4. **Crisis-based strategy:** Officers only focus on strategy when there are problems, failing to implement strategic thinking when the company is doing well.
5. **Short-term vs. long-term thinking:** Strategic thinking is not necessarily long-term—or time-related at all. For example, a company may need to prepare for upcoming legislation that affects seniors’ housing and care.
6. **Planning is “bottom-up:”** Managers and supervisors are an excellent source of information for strategic planning, but they usually don’t have officers’ broader view of the organization—or the authority to develop and implement strategic thinking.
7. **Today’s dollars vs. tomorrow’s business.** Strategic thinking may require immediate expenditures that will result in significant profits in the long-term. Officers (and stockholders) concerned with current operating costs and dividends may oppose such investments.
8. **Reliance on yearly planning activities:** The ongoing need to perform a yearly exercise can take the focus away from strategic thinking.
9. **No formal strategic thinking process:** When do officers set aside time or otherwise focus on strategic thinking?

Strategic Planning vs. Strategic Thinking



Seven key differences

Planning

Thinking

- | | | |
|----|---------------------|-----------------------------|
| 1. | Extrapolation | Framework |
| 2. | Bottom up | Top down |
| 3. | Usually optimistic | Realistic |
| 4. | Sometimes erroneous | Guidelines for emphasis |
| 5. | Nothing eliminated | Better balance |
| 6. | Internal data | Internal plus external data |

7. Quantitative analysis

Qualitative synthesis

NOTES:

Developing the Profile of any Business



Key Questions:

- Where is this company going?
- What will it look like in the future?

Key Strategic Questions:

- What is the company's *driving force*?
- What *should* the company's driving force be?
- What *impact* will the driving force have on services, markets, and customers?

The strategic profile must determine the nature of the company's services, customers, market segments, and geographic markets. In each case, the question is not only what the company will focus on but what it *will not* focus on. Example: a company may decide to expand business in CCRCs but not assisted living. Such decisions help maintain focus and direction while strategically directing resources.

The *driving force* is the basis for answering these questions. This force differentiates the company from its competitors: a particularly innovative approach to services, perhaps, or a truly low-cost/average-quality approach.

In seniors' housing and care, the driving force will directly affect the following:

- Service concept: what facilities and services will the company provide to seniors?
- Nature of customers: Will the company target chronically ill seniors? Younger, healthy individuals? The complete range?
- Number of facilities the company can realistically build or buy in a given time frame.
- What geographic markets to be entered and why.

To be effective, company officers (particularly those who are primarily responsible for strategic thinking) must have a clear understanding of the driving force. Further, they must agree on what the force is; failure to do so will hinder both the conceptualization of the company's future and its ability to realize its vision.

The Johns Hopkins Bloomberg School of Public Health
“Managing Long-Term Care Services for Aging Populations”

Key Principles

- Strategic Thinking
- Driving Force

Several key (but not always obvious) principles guide strategic thinking and identification/development/application of the driving force.

1. There must be a single driving force within the company and all company activities must be organized and operate accordingly.
2. Profit is *not* a driving force. Rather, it is a product of the activities the driving force generates.

3. The driving force of most seniors’ housing and care companies is utilization capacity. If the properties don’t stay full or reach a stabilized occupancy, they cannot make a profit. This is the driving force and the most important strategic element in the business.
4. Two key areas of excellence must be mastered to achieve the driving force: marketing and quality of care/service.
5. The driving force must remain consistent. Changes result in a loss of focus. There are times, however, when a conscious change of driving force may be appropriate, such as anticipated dramatic changes in the market or competitive environment.

When the company has defined its driving force and the impact of the force on such areas, it will be able to develop a strategy that clearly differentiates it from the competition.

Articulating the Strategic Thinking and Driving Force



Once corporate officers have identified the strategic thinking and driving force, how do they communicate the concepts to the company employees?

The typical mission statement (“We will do a great job and make a lot of money”) doesn’t do it. However, a written *business concept* can help formalize and communicate the concepts throughout the organization. Typically a very carefully written two or three paragraphs, the concept can include the following:

- An initial sentence that identifies the company’s driving force and its differences from competitors
- The areas the company emphasizes (services, customers, market, etc.) and those it does not.
- An emphasis on growth and on success
- Emphasis on the future of the company, not the present

A measure of the concept’s effectiveness is whether employees throughout the company can fully understand it and apply the principles to their own work. Further, a well-thought-out concepts helps guide evaluation of opportunities. For example:

“The National Investment Center (NIC) for the Seniors Housing & Care Industries shall be the premier provider of unbiased business and financial information to financiers and operators/developers in the seniors housing and care industries in order to facilitate the efficient formation of capital....

“Our intent is to establish the undisputed “gold standard” for strategic information within the field through expanded research, the application of technology, and recognition of our fiduciary responsibility as a non-profit education organization. We recognize our ultimate success has been and will continue to be based upon helping industry leaders and companies better serve senior Americans.”

Strategic Service Innovation



In any field, a major factor in a company’s longevity and growth is its ability, willingness, and commitment to expansion and innovation. This principle applies to the seniors’ housing and care business, given the changes in demographics, seniors’ income and assets, other funding sources, and types of facilities offered by competitors.

Once again, this process must take place within the context of the company’s vision. Otherwise, the company either fails to innovate (which will ordinarily be the first step towards bankruptcy) or do so in a haphazard manner that results in

wasted resources and failure to keep up with competitors. Innovation is a primary tool that most companies use to implement their strategic thinking. For example, Sunrise Assisted Living formed a new division in 1999 to take respond to the need for services to frail seniors who won’t move. Can such a division succeed?

NOTES:

*Competitive Analysis:
The Holy Grail*



This portion of the module addresses how an organization can succeed in the competitive environment of seniors’ housing and care.


The following discussion focuses on the these topics:

- Gaining a competitive advantage
- Identifying the steps needed for successful marketing
- Recognizing the central role of services in seniors’ housing and care
- Establishing unique services as the most effective form of competition

- Identifying the right customers: market segmentation and analysis

NOTES:

Two Ultimate Competitive Advantages:

- 
- Lower Cost
 - Differentiation

The basis of competitive advantage is the creation of superior value for customers. In selecting a seniors’ housing and care facility of a certain type, the customer (either the resident or his/her “children”) looks for one of two features: lower price for the same quality facility; or unique or better services that meet the residents’ requirements.

Given the interaction of firms that provide a given service, competitive advantage is increasingly determined by the effectiveness of the company’s relationship with suppliers, referral sources, related providers, etc. For example, a seniors’

housing and care facility might negotiate an extensive contract with a medical center; the stable source of residents could enable the facility to pass on some marketing savings to the resident, thus increasing value by lowering costs.

Overall, the challenge of lowering costs is to provide the service at a lower price than the competitors without reducing the quality of services. Possible approaches include operating more efficiently and lowering the cost of providing the service or accepting a lower margin and making up the difference through volume.

The opposite approach is providing a higher-quality or specialized service, even though it results in a greater cost to the customer. This approach requires careful market research to confirm sufficient demand for the services.

In either case, the company needs to evaluate its own costs: Are the company’s various functions working together effectively? How do costs compare with competitors’? How can the company’s costs be reduced?

Erickson Retirement and Holiday Retirement provide very successful, low-cost models.

Discipline of Market Leaders:



A Variation on

Competitive Advantage

The **value proposition** is the company’s agreement that the goods or services will meet the customer’s expectations for quality, appropriateness for use, durability, etc. The **value-driven operating model** encompasses the business approach and procedures that enable the company to produce the goods and services. **Value disciplines** enable companies to combine value propositions and value-driven operating models to succeed in their markets.

There are three value disciplines:

- **Operational excellence:** Rather than seek to be innovative, companies taking this approach offer customers better prices, with at least average quality.
- **Product/service leadership** is the opposite, producing the highest-quality goods or services on the market (often the most innovative) and maintaining market leadership through ongoing innovations.
- **Customer intimacy or focus:** By meeting a smaller segment of customers’ specific needs or wants, a company can gain a competitive advantage.

The selection of a value discipline is a major factor in the company’s approach to business and its internal operations and philosophy.

NOTES:

Seniors Housing and Care:



- Both Product and Services, BUT...
- Services are More Important AND...
- Services are Mostly Intangible

As the title of this course suggests, our industry includes a product (housing) and service (care). However, a facility’s success is based less on the housing than on the services that take place within it.

This principle, though obvious, is often lost in the focus on the considerable financial investment required to build or obtain the structure(s) for housing. Accordingly, a seniors’ housing and care company must take the following steps:

- Identify and assess the appropriate mix of product and service for its industry niche
- Determine what enhances customer satisfaction
- Confirm and implement a company commitment to service

A difficulty ‘selling’ services is that a facility can take potential customers on a tour of the facility, but not a tour of the services. However, intangible characteristics usually are the primary factor in a service business’ success or failure.

NOTES:

Competitive Strategies:



Cost Leadership

The cost-leadership strategy involves being the low-cost producer in the industry, typically through one of the following approaches:

- Economies of scale
- Proprietary technology
- Access to resources

By reducing costs involved in providing the product or service and charging average prices, the firm will be financially

successful. However, buyers must perceive the product or service as being of average quality, or they will expect lower

prices—negating the cost advantage. Further, the firm must still achieve its own differentiated niche in the marketplace if its cost advantage will result in above-average returns. Doing so involves either providing an identical product as its competitors (thus relying on the lower price) or a different combination of product attributes that buyers find equally acceptable.

Finally, cost leadership requires that the firm be the lowest-cost provider; if numerous firms compete to be the lowest-cost, the results can be disastrous for all.

NOTES:

The Johns Hopkins Bloomberg School of Public Health
“Managing Long-Term Care Services for Aging Populations”

Competitive Strategies:



Differentiation

A firm can establish a unique role in its industry, differentiating itself from other players and thus being able to charge a higher price. Differentiation can be based on such factors as the product or service itself, delivery system, and marketing approach. Unlike the cost strategy, many firms within an industry can rely on differentiation, as long as they provide unique services in different areas.

The differentiating firm must still be cost-conscious, if only to take care that its production costs do not exceed revenues.

NOTES:

Competitive Strategies:



Focus

Unlike cost leadership and differentiation, *focus* seeks to gain competitive advantage by pursuing a narrow area within the industry. Potomac Homes is an example of a firm pursuing a focused strategy. A firm taking this approach does not compete with others head-on. Rather, it identifies an area in which it can specialize and become the leading (or only) provider of service in that niche.

There are two types of focus:

- A cost advantage in the identified niche
- Differentiation from other firms, which do not provide service in that niche

Cost focus addresses differences in cost behavior; differentiation identifies the special needs of some buyers. In either case, the firm is assuming that the customers in that niche are not receiving the special service they desire and/or are not paying a reasonable price for that service.

The focus strategy can be very profitable, but only if the firm has clearly established that the niche does exist, nobody is adequately filling it, and that potential buyers will pay the required price.

NOTES:

The Johns Hopkins Bloomberg School of Public Health
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Intangibles:



- Differentiation in the Market
- Emphasis on Employees
- Identification of the Niche

While investors must certainly evaluate the “product” of seniors’ care and housing, service is the factor that attracts and keeps customers. Residents are more likely to discuss such intangibles as employee and management attitudes than the housing itself. How can a seniors’ housing and care facility address intangibles?


Once again, we emphasize the importance of analyzing the market and competition to determine where the company might fit. “Doing it differently” is often more effective than “doing it better.”

In service industries, the quality of employees may be the single most important issue. The janitor who spends ten minutes talking to a bed-ridden nursing home patient may do more to promote that patient’s satisfaction than any other aspect of the facility. A company’s key to success will be hiring and retaining employees who are not only fully qualified but have the kind of service-oriented mentality that reflects favorably on the company as a whole.

We repeat the importance of finding the company’s niche because no organization can succeed by taking on all the competition and trying to be everything to everyone.

NOTES:

*Differentiation:
Evolution or Revolution?*



The answer depends on the state of the company within the marketplace. If it is not succeeding or if its market niche is disappearing, the answer may be to dramatically change its approach in response. More typically, however, the process of differentiation is an ongoing evolution as the company identifies better ways to fit into its niche or identifies other niches.

The evolutionary process takes place in four steps:

1. Invent/reinvent basic offerings, recognizing that it probably won't be long before competitors start to offer the same product/service.

2. Continually expanding value to the customer, which may include upgrading offerings or adding new products or services to retain existing customers and attract new ones.
3. Responding to competitors who are moving into that niche through the ongoing process of establishing a different identity that is more attractive to customers.
4. Avoiding the rut: regardless of a company's current success, it must continue to enhance and improve operations to be successful in the future.

In the seniors' housing and care industry, these four steps must focus on *service*. Expanding the quality and innovativeness of intangibles is difficult, but it is the only way to succeed.

NOTES:

Market Segmentation and Analysis



- Defining the Niche
- Attracting the “Right” Customers

Some “how-to’s” regarding the two points we’ve been making throughout this module:

Defining the niche

1. Identify needs, perceptions, demographic characteristics, and other aspects of a range of potential customers
2. Identify segments of customers with similar behaviors related to seniors’ housing and care
3. Create a profile for each segment

4. Determine the number of potential customers in each segment
5. Select the segment you can best serve
6. Develop approaches for reaching target customers

The goal is to identify the appropriate niche then target the company’s services accordingly.

Attracting the “right” customers

1. Communicate only in places that will reach the target customer
2. Offer different levels of service for different types of customers (CCRC being a clear example)
3. Provide different pricing levels so more cost-sensitive customers can choose (for example) a plan that provides fewer amenities
4. Set the customers’ expectations in advance, then be sure to meet them
5. Prescreen residents and accept only those you can serve effectively

Environmental Analysis and Strategy



Environmental Analysis: General

Several modules in this course (particularly Module 1) address the environmental factors that influence the seniors' housing and care industry. By focusing on those areas that affect the company, it can identify and better predict those factors that influence the marketplace and its own operations.

Generally, environmental analysis falls into five areas:

1. **Technology:** Web-based monitoring
2. **Government:** Funding, regulations, health-care legislation with far-reaching consequences, etc.
3. **Economics:** Availability of capital

4. **Culture:** For example, how can a nursing home overcome the negative image that much of society now has about such facilities?
5. **Demographics:** Understanding the results of the “graying of America”

NOTES:

*Environmental Analysis and
Strategy*



Seniors' Housing and Care

1. Structural flaw of employee turnover and employee treatment
2. Industry growth vs. temporary saturation
3. Increased cost of regulation/government mind-set
4. Battle between nursing and assisted living
5. Compliance and tort litigation/risk management
6. Consumer education, consumer advocacy, and technology
7. Access and cost of capital—growth constraints

8. Cost of operations—pressure on wages and insurance
9. Questions of public market access
10. Penetration growing, but still low
11. Overall demographic and psychographic issues
12. Semi-monopoly and risk of low-price competition

NOTES: