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The Increasing Importance of Customer Choice

PUBLIC ATTITUDES AND THE MARKETPLACE
UNDERSTANDING THE CUSTOMER
CUSTOMER DEMAND AND PRODUCT ORIENTATION
THE ROLE OF FAMILY

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Consumers are becoming more demanding about the services they receive. They expect greater responsiveness to their needs, more convenience (as evidenced by the increasing number of businesses open 24 hours/day), and services that respond to *their* needs, not the provider's.

Consumers' greater education and awareness are also factors, perhaps a direct result of the activism of the 60s and 70s. As options become more available, seniors' expectation will increase, requiring a higher level of service from housing facilities.

NOTES:

The Consumer's Voice in Health Care Delivery

- "Doctor Knows Best"
- The Nursing Home Franchise
- The Changing Face of Long Term Care
  - Greater Senior Wealth
  - Greater Senior Awareness
  - Greater Senior Education

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The health care system has thus far failed to meet consumers' demands. With few exceptions, providers are still available only during most consumers' work hours; keeping patients waiting is a common if not standard practice; and many physicians and other service providers have little to say to a patient about his or her condition.

The time may come when patients—consumers—demand the same kind of service from their health care as they expect from other businesses.

The implication for assisted living and other senior care providers: Meet consumers' needs or go out of business.

NOTES:

Assisted Living vs.
Nursing Home Care

- First Impressions
- Environment
- Affordability
- Focus
  - Independence
  - Dignity
  - Choice

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Throughout this course, we have emphasized the two key customers in seniors housing:

- Those driven by need: residents and, often, their families
- Market representatives: Federal and state programs; to a lesser extent, private funding sources

By its nature, assisted living offers several benefits to its real customers: potential residents and their families. The facilities offer the following benefits:

- More affordable than nursing home care—up to 30% less (depending on acuity)
- More pleasant, "natural" environment than the institutional feel of nursing homes
- Independence and freedom to make one's own decisions
- The dignity of private living quarters
- Greater choice in activities and other aspects of daily life
- The opportunity to care for one's self to the extent possible

Such benefits can be a major selling point for assisted living.

NOTES:

Know Who Your Market Is Not

- Nursing Home Example
  - Confused Payer with Customer
  - Bought into Government Specifications
  - Product Nobody Wanted
- Keep the Customer Focus
  - Resident
  - Family

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An assisted living facility can only be successful if it is market-driven—recognizing that there are two "markets," but only one real "customer;"

- The funding agency (primarily the Federal Government)
- The resident and the resident's family

Thus far, assisted living has escaped the stigma associated with nursing homes, largely because it has focused almost exclusively on the customer and not on the secondary (governmental) market.

The honeymoon may be ending, however, as reflected in a chapter in the recently released Consumer's Reports' "Complete Guide to Health Services for Seniors:"

> "People who have been loners all their lives are unlikely to enjoy the communal nature of assisted living."
>
> "Don't base a decision on (a facility's information packet). Most likely it won't tell you one-tenth of what you need to know."
>
> "…In some facilities, you may have to use the doctor the facility provides."
>
> "It's not uncommon for residents to live in several units during their stay in assisted living, first in a private unit and then, as money runs low, in a shared room, perhaps in an undesirable wing or floor."
>
> "Discharge from the facility is basically an eviction."

These and similar statements range from grossly subjective to downright false. The reader, however, is left with a negative impression of assisted living based on comments in a highly read and respected consumer publication.

Changing Role of Funding Sources

- 75% of Nursing Home Residents Publicly Funded
- 5% of Assisted Living
- Almost No Congregate and Independent Living
- On the Horizon
  - Managed Care (Including HMOs)
  - Long Term Care Insurance
  - Medicaid

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Unlike nursing facilities, funding for assisted living is almost entirely private. However, several factors may change the financing of such facilities:

- **Long-term care insurance** could provide alternative financing; however, only 3% of the potential market has such insurance, so it is unlikely to be a significant factor in the foreseeable future.
- **Managed care** may provide coverage for disabled people under 65, providing an additional market.
- **Medicaid** is still an insignificant source of assisted living funding, but over half the states now have a Medicaid "waiver" allowing them to cover AL as a benefit under the program. With that funding might come even greater scrutiny of the product (and, potentially, greater regulatory oversight at the federal level). The danger of course is the possibility of confusion as to who is the "customer."

NOTES:

The Critical Role of Family

- Family as Caregiver
  - 83% of Care Provided by Families
- Family as Decision Maker
  - 75% Involved in Decisions re. Assisted Living
- Family as Financial Support
  - 31% of Home Care Recipients
  - 26% of AL Residents
  - 23% in Skilled Nursing Facilities
  - 22% in Independent Living

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Family members (typically "children" who are older themselves) continue to be primary caregivers for seniors. Of the noninstitutionalized seniors with a long-term disability, 83% are cared for by family members.

This pattern has changed, however, as women's roles changed and two-worker families became the norm. In the future, more seniors who need care and assistance with ADL/IADLs will probably receive the support from someone other than their families. An increasing market for seniors housing is the likely result.

Seniors without disabilities are much less likely to be living in a relative's home. In 1998, 17% of senior women and 7% of senior men lived with family members.

Family members play an important role in pursuing assisted living and locating a specific facility, as reflected in the "NIC National Survey of Adult Children:"

- 52% of assisted living residents learned of the facility through sons or daughters.
- 54% identified sons/daughters as the most influential person in the decision, 20% another family member.
- Family members who initiated the process were the final decision-makers 62% of the time.

Apparently the pattern of moving from their own home to a family member's home then to assisted living is unusual: only 9% of those in assisted living had previously lived with family members; 63% went straight into assisted living from home.

One other family-related factor: 75% of assisted living residents are closer to or about the same distance from their families than before. Location is apparently an important consideration for both family members and the seniors.

Finally, a significant percentage of seniors receive financial support from relatives.

Challenges and Opportunities

- Product Awareness
- Product Understanding
- Product Confusion
  - "Aging in Place"
  - Beware False Promises
  - Understand Your Market

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In spite of assisted living's benefits, three issues prevent many potential customers from considering it as an alternative:

- Many seniors are not aware of assisted living as an option.
- Others don't understand what assisted living is about, so may not consider it as a possibility.
- Seniors may equate assisted living with nursing home care and not be interested if they are still functioning independently; ironically, these seniors are well suited for assisted living.

Marketing efforts must often counter these perceptions before a senior will consider assisted living.

The "NIC National Survey of Adult Children" states:

> "…The 45- to 64-year-old adult with future responsibility for an older relative is relatively uninformed about independent living and assisted living responses: 79% said they were familiar with nursing homes and 71% said they were familiar with home healthcare services, but only 51% said they were familiar with assisted living, 40% were familiar with independent living, 27% with CCRCs, 38% with adult day care centers, and 27% with respite care services."

This relative lack of awareness has led to confusion (compounded by some industry marketing materials) regarding the "permanence" of the new setting and whether mom or dad can truly "age in place." This dilemma is potentially as mischievous as any facing the industry.

NOTES:

Understand Your Product

- Models:
  - Health Care
  - Residential Services
  - Both
- Health Care Niches
  - Special Care
  - Respite Care
  - Adult Day Care
  - Rehabilitation
  - Home Care
  - Community Based-Services

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So know which niche or model you chose to focus on:

1. Health care: Can entail the intensity of medical care or be oriented toward needs more reflective of ADL dependencies
2. Residential services: Those oriented toward the housing needs of the customer, including social activities
3. Both: Prevalent in the assisted living facility, where the amalgam between hospitality (residential services) and health care is key.

Six market niches:

1. Special care (Alzheimer's/dementia): Primary purpose is to keep the resident safe
2. Respite care: Part-time care whose purpose may include filling in for the family or providing the senior with some social contact
3. Adult day care: Similar to respite care, but without the residential component
4. Rehabilitation: Medical care (perhaps with housing) focusing on a specific need, such as recovery from a stroke
5. Home health: May range from "hi-tech" to simple personal care services (housekeeping, laundry, etc.)
6. Community-based services: Typically social support and/or outpatient medical treatment

How does your product fit in with, provide, or compete with these services?

Understand Your Customer

- Resident Profile
- Product Profile
- Levels of Care
- Price of Care
- Mixing the Product

Moore, pp.40-41

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In addressing that question, Jim Moore lists five questions a developer should ask:

1. What is my optimum resident profile, for both existing residents and new move-ins?
2. What will be my future business posture and marketing positioning: moderately need-driven independent living or fully need-driven assisted living? Or both?
3. Will I be able to properly measure care levels and cover my increasing service delivery costs?
4. Will I be fully market-responsive if I charge residents for incremental increases in assistance with ADLs as they age in place?
5. As service needs intensify, can I still deliver assistance with ADLs cost-effectively to randomly distributed independent living units throughout my community?

Variations on these questions are appropriate to the other forms of seniors housing and care as well.

NOTES:

Benchmarks of Value

- Physical/Environmental/Appearance
- Standard Services
  - Including IADLs
- Meals and Nutrition
- Health care Services
  - ADL or Nursing

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Once you've determined the nature of your product, focus on customer desires. Potential residents tend to assess four aspects of a facility to determine whether it is "for them:"

- Physical features (living space, building design and appearance, setting)
- Standard services (cleaning, recreational/educational activities, transportation)
- Meal services (pleasantness of dining area, quality of food, flexibility of hours, availability of in-room dining)
- Health care (assistance with ADLs, treatment of chronic conditions)

Like any customer evaluating any product or service, potential residents tend not to break down the benefits into such neat categories. The community must offer services that are *seamless* to the prospect as well as to the resident.

NOTES:

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Basic Rules of Positioning

- Know Customer Preferences
- Position Yourself as Meeting Them
- Stand Out from the Crowd
- Know Difference Between Price and Value
- Have Reserves for Short Run
- Have Marketing Plan for Long Run
  - Fill a New Building Every Two Years

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Assisted living developers/managers can easily make serious mistakes in the following areas:

- Not adequately adapting the marketing campaign to meet the needs/preferences of the target community—for example, emphasizing price in an affluent community whose residents have high living expectations or, conversely, pushing luxury accommodations and services in a lower-income community.
- Focusing too heavily on housing and dining features without adequately addressing health care.
- Emphasizing health care services when the customer is more interested in residential living.

The underlying principle: While the specific marketing emphasis may change according to the community, the facility's health care resources and quality will always be a major concern and selling point.

Conversely…

NOTES:

Every Product Has Its Price

- Independent Living
  - 100%/0% (Housing/Services)
- Congregate Care
  - 55%/45% (Housing/Services)
- Assisted Living
  - 35%/65% (Housing/Services)
- Nursing Care
  - 75%/25% (Housing/Services)

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For all intents and purposes, the government established prices for nursing home care. But, in so doing, government established price points within the marketplace for all of seniors housing and care—at least for those who positioned their communities as price-competitive alternatives to nursing home care.

In a competitive marketplace, the operator usually sets his or her own price. That price is considerably influenced by the model of seniors housing and care chosen by the developer/operator. The cost of independent living (and, to a lesser extent, congregate care) is largely a function of real estate. In other words, prices will fluctuate based on location, financing costs, amenities, etc.

The costs of assisted living and nursing, however, depend largely on the *services* offered the customer (which, in turn, are largely determined by the customer's needs and desires).

Thus the importance of choosing the model carefully and fitting it to the profile the customer wants. Failure to effectively match the two can be a recipe for disaster.

NOTES:

Plan for Pricing

- Cost of Service
- Customer Perception
  - – The Nursing Facility/Home Care Benchmark
  - – Price vs. Value
- Now and Tomorrow
  - – ADL Creep
  - – "Aging in Place"
  - – Discharge Policies

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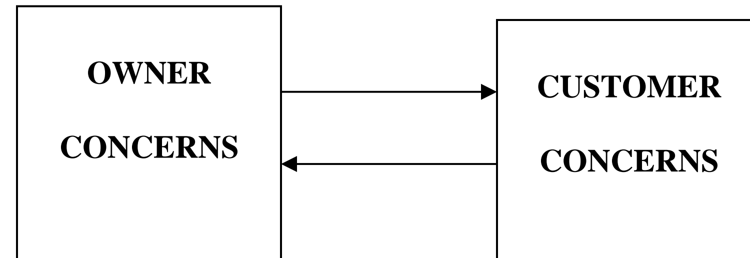
Basic pricing principle: balancing the need to cover costs and profit while offering customers competitive prices.

Often, pricing does start with the cost of alternative services in the community, e.g. nursing homes and home health.

Don't assume, however, that customers can't distinguish between "price" and "value." Price notwithstanding, the "high-priced spread" may be very affordable to customers who see it as being uniquely capable of meeting their needs.

Recall, however, that those needs may change over time.

Pricing must strike the appropriate balance between these objectives, enabling the owner to meet current capital costs and operating expenses while protecting against future increases.



- Operating expenses
- Debt service
- Profit

- Affordability
- Seamless services
- Understandable terms
- Equitable fee structure
- Good value

NOTES:

Pricing Structures

- Flat Rate
- A la Carte
- Tiered Pricing
- Point/Time Index

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A **flat monthly rate** covers services for a fixed fee that varies only with the size/amenities of the resident's living area.

The **a la carte** approach provides types of care on a fee-for-service approach that residents can select according to their needs—or add as their requirements increase.

Tiered rates are a combination of the two, starting with a base rate then adding groups of services for an additional fee. Rather than adding one or more specific services, residents can obtain a group of related services by moving to the next tier.

Point/time index approaches address additional services not by charging regular fees but rather by billing for the actual amount of time spent. If a resident needs an hour of assistance a day, the monthly bill would show a charge for 30 hours at the established hourly rate.

NOTES:

Watch for the Pitfalls

- Aging in Place and Its Impact on Pricing
- The Unfulfilled Promise
- Market Proliferation and Saturation
- Focusing on "Unaffordability"
- New Competitive Product Lines

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Several factors can affect a facility's pricing and profitability:

- A resident may be healthy when he or she enters the facility (particularly a CCRC or assisted living development), then experience deteriorating health as part of aging. The facility's health care costs will increase accordingly.
- As in all businesses, marketers often make promises that the facility can't keep. Dealing with the resident's expectations may leave management with the alternatives of either breaking the promises or spending additional funds to meet them (Jim Moore refers to this as the "$1 million wake-up call.")
- Yes, demographics and the resulting demand are increasing, but so is the number of competing facilities. Even the facility that dominates the market may suffer a reduction in occupancy as developers open competing residences.
- Facility managers may quite reasonably resist providing services that are not cost-effective, but failure to offer them may affect occupancy through disappointed residents and reduced ability to attract new residents.
- In time, seniors' housing is likely to be more specialized; a facility may lose occupancy as new or modified developments attract residents from a niche market.