GREENWICH

WHAT IT TAKES TO BE SUCCESSFUL IN IN-HOME AGED CARE

A Greenwich white paper on the in-home aged care marketplace

October 2018

CONTENTS

WHERE ARE WE NOW?

The in-home aged care market is rapidly evolving to be fully demand driven. The recent government sponsored Tune Review[1] confirms this policy direction will be maintained and reinforced, that all supply constraints will be lifted. Indeed, the changes will flow through to residential care too.

Now is an ideal time to pursue opportunities in the in-home care market, because the preconditions are in place; yet they have not matured to date because:

- most customers (even new ones) are of the inter-war generation: they are reluctant to churn providers and to self-manage
- most providers were moulded in the old supply-determined world; about 90% do not have a profit motive
- most providers of services to the industry were moulded in the old supply-driven world.

To be a leader in the old world, key questions were:

- how do we ingratiate ourselves to those in government who approve the licences to operate as a provider?
- how do we make sure we comply with these rules?

Clients followed the licences and were locked in, as long as they were not so dissatisfied that they complained to government. The supplier had full control of the services delivered, as long as they were compliant with the licence requirements.

[1] D. Tune AO PSM, Legislated Review of Aged Care (September 2017)

WHAT QUESTION SHOULD WE ASK?

The industry has come some distance under Consumer Directed Care (CDC), especially since early 2017. For example:

- My Aged Care gateway (a portal), giving new customers full choice of provider
- ability of existing customers to churn, taking their funding with them
- the need for customer statements and hence transparent pricing and
- the need by suppliers to motivate customers to actually spend their package funds.

But imagine the world approaching. Buyers entering the market are born post-war, and are:

- savvy: know how the system works and how to use it to their advantage
- self-managing: relish wheeling and dealing via their mobile devices
- informed: responsive to innovative new offers and value propositions
- connected to potential new competitors and intermediaries such as health funds, super funds, insurance providers and financial advisers.

In this future world, what will it take to be a leader in the in-home aged care marketplace?

WHAT IS THE ANSWER?

The answer is: Think like an entrepreneur or investor writing a prospectus for equity funding, or a loan application for debt funding. Target a market need that is unmet, or that can be met better than all others. Develop a scalable business model that gives you even more advantage, and then execute to it.

As the recent government sponsored Pollaers Report[2] observed "within the current taxpayer funding envelope there are many unrealised opportunities to provide services of greater value to the customer".

We consider there are four critical steps along this path. These steps are similar to other evolving segments but have some important nuances that we elaborate in this paper.

1. Inform your choices:
   - market segments and trends
   - consumer profiles and journeys
   - the ecosphere of partners and competitors
   - your own strengths.

2. Put your chips on the table:

   Choose your target market, based on size and profitability, and your own capabilities. For that target market, narrow down further to:

   - what is the target customer profile

[2] J. Pollaers OAM, A matter of care Australia's Aged Care Workforce Strategy Report (June 2018)

- what I will offer them, directly or via partners
- why they will choose me, not my competitors.

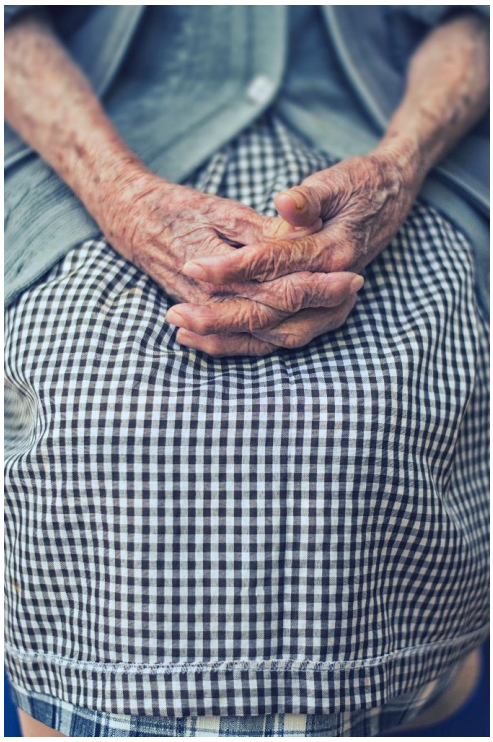
If you are unable to answer the 'why' question, your target customer won't be able to either

3. Sharpen your business model:

   Identify the KPIs which drive value, and the targets for those KPIs that deliver profitably.

   Develop early on the potential to scale. For example, potential to scale may be in market segment, geography, process or technology

4. Harness your enablers to execute well: your job roles, processes and systems.



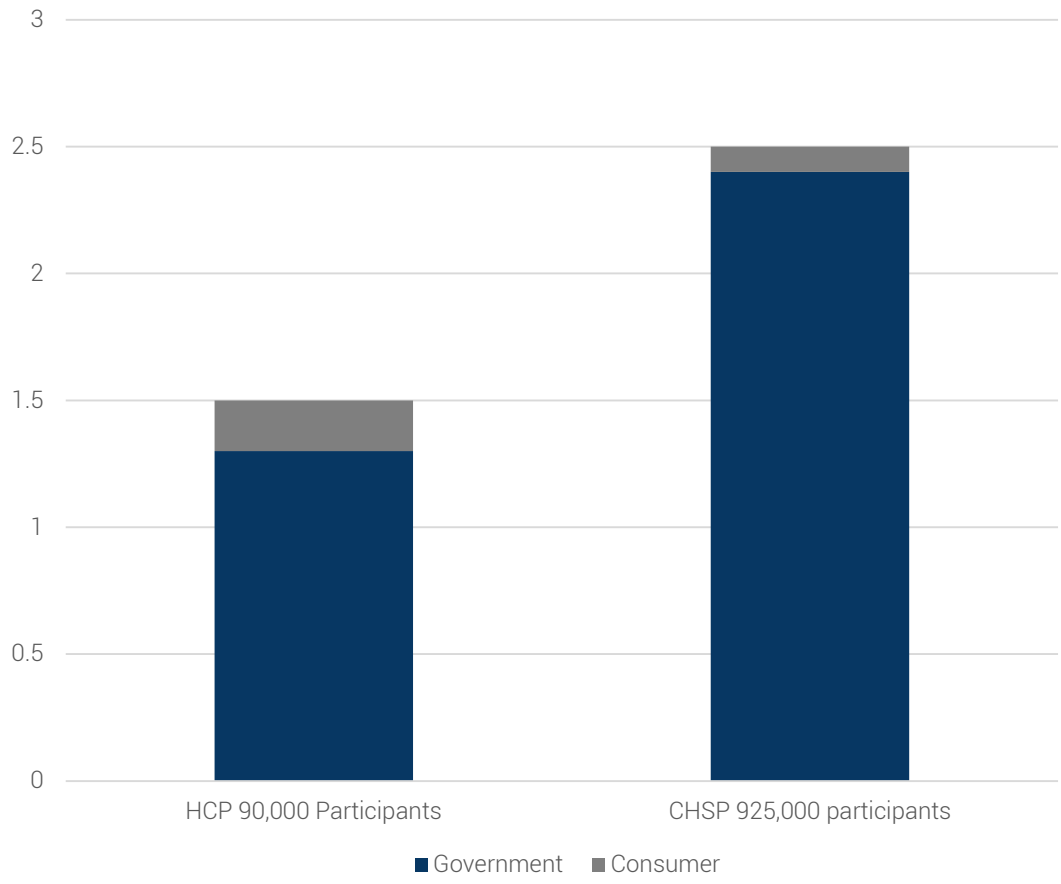
STEP 1: INFORM YOUR CHOICES

1a Market size for demand

Total market size is easy to measure. The federal government's target ratio is to fund 45 home care packages (HCP) per 1,000 of population over 70 (plus 78 residential places). The recent Tune Report recommends that these supply constraints be removed, but a demand-driven market will be of similar size.

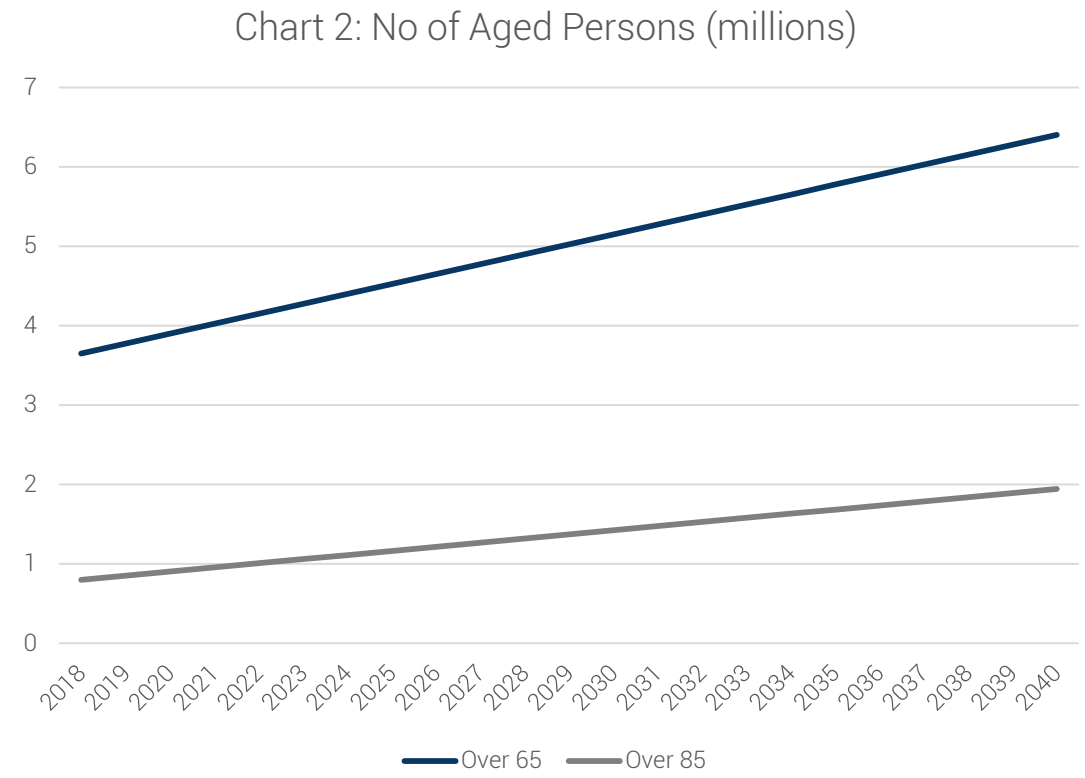
The Commonwealth Home Support Program (CHSP) will be incorporated with HCP from June 2020, with common eligibility, approval processes and customer contribution ratios. So they can already be evaluated as a single market.

Chart 1: Home-based aged care revenue ($b)



Residential care is much greater at $14.8b of which 28% relates to consumer providers

Source: Department of Health



Source: D. Tune, Review of Aged Care 2017

The growth in the aged population is predictable (Chart 2).

Over 65s increase from 15% of the population to 20%, and over 85s from 2.8% to 6% (2018 to 2040 period).

CAGR for over 65 is almost 3% p.a., and for over 85 almost 5% p.a. These growth rates are much higher than for residential care.

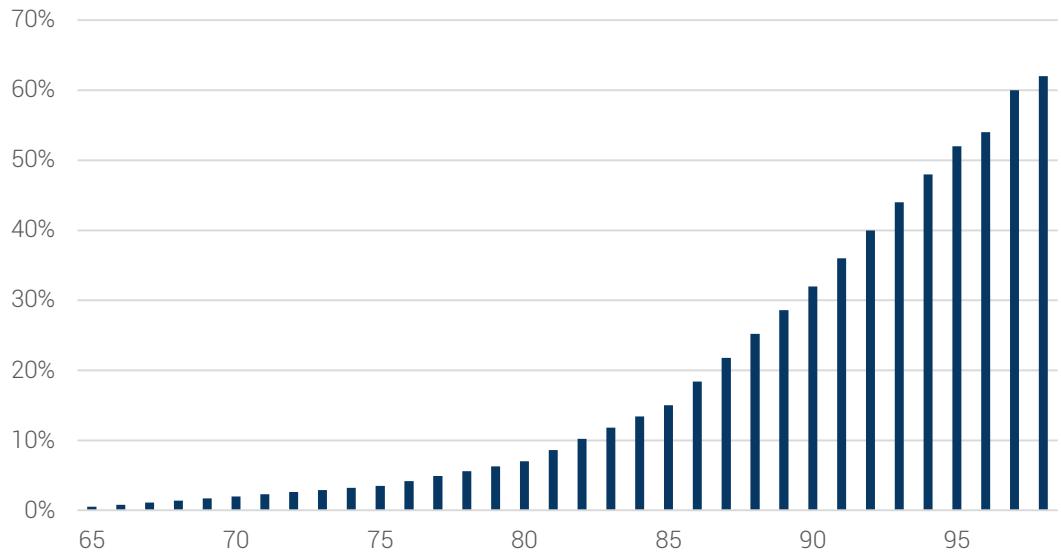
The usage of care services by age is also predictable (Chart 3).

Hence demand is equally predictable, with or without existing supply constraints. Existing HCP will increase to 140,000 by 2022 (near term CAGR almost 12%), and is forecast to be 170,000 places by 2032. The integration of the CHSP customers and revenue in 2020 are incremental to this.

Chart 4 combines expected HCP volumes with the customer profile of those born post 1945. This profile is of interest because this segment will be more informed, more motivated to self-manage, and more tech savvy.

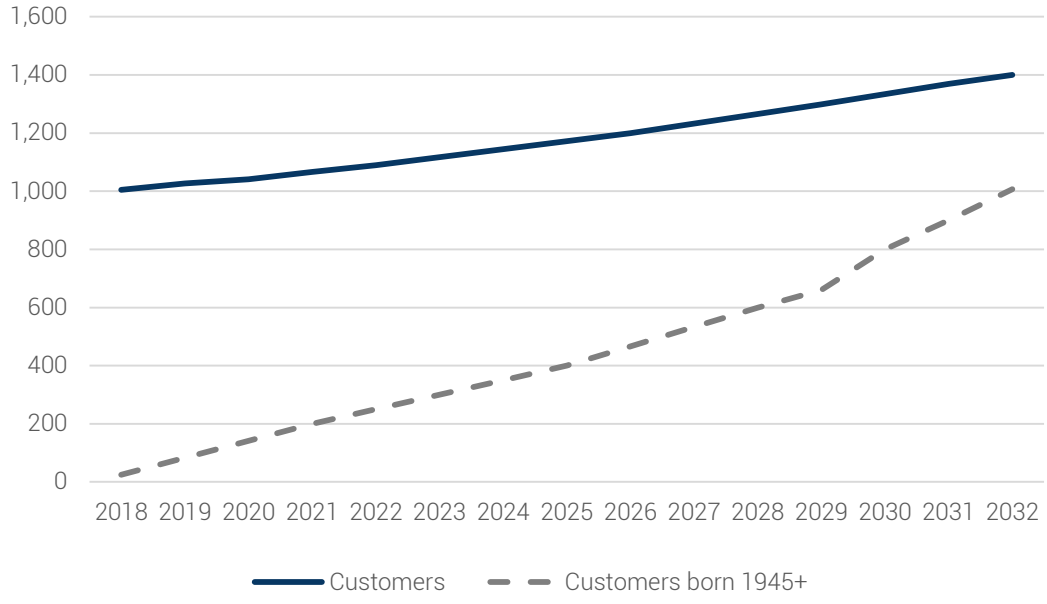
As Chart 4 shows, HCP participants who are from the baby-boom generation (born 1945 or later) are a very small percentage of the current aged care market but will represent a rapidly growing portion of new entrants – the primary market for which providers compete.

Chart 3: Proportion of people using residential or in-home care by age



Source: D. Tune, Review of Aged Care 2017

Chart 4: Proportion of HCP customers incl. incorporation of CHSP (thousands)



Source: Internal analysis

Revenue will grow even faster than participants' volumes because:

- there will be proportionally more Level 3 and 4 HCP places, which have higher government contributions, and there may be a new higher Level 5.
- the Tune report recommends higher and mandatory customer contributions; well beyond the current average of 13% for HCP and 4% for CHSP.
- there are no counter-balancing recommendations to tighten eligibility to enter the aged care system, although it may be offset slightly by an increase in the average age of entry. It is currently 82 for men and 84 for women.
- market size would also be reduced to the extent that customers 'save' their government contribution rather than spending it. However a good strategy would include a target cohort with lower propensity to save, and offers which motivate customers to spend.

Overall, and inclusive of residential care, the government spending on aged care is projected to increase from 1% of GDP at present to 1.6% of GDP by 2040.

1b Market size for supply

The number of providers has also been increasing and becoming more diverse as a result of the initial round of demand-driven CDC changes.

	CHSP only	Joint	HCP only
2015	900	150	350
2018	1000	200	560

Source: Strativity Group LLC

The merger of HCP and CHSP in 2020 will be a catalyst for more change and will commence soon. In advance of that date, there will be:

- increased competition from the conflation of existing schemes and providers
- increased competition because of reduced barriers to entry

Idea

More health funds may enter the market, as direct providers or brokers (as Australian Unity has done). They have a very low cost of customer acquisition for additional services due to their existing customer base. They can exploit the trend to holistic and restorative care, and their brand equity.

- increased price-based competition from increased customer contributions
- further market penetration by technology-enabled disruptors such as Better Caring (now called Mable), Careseekers, Homecare Heroes and Find-a-Carer.

Idea

For the profile of client willing and able to self-manage, these tech disruptors have a compelling value proposition: administration for 15% of the package (rather than 30% or more) and direct access to self-employed care workers at lower hourly rates, cutting out the middle man. This can increase actual hours of service delivered in the home by up to 50%. Tech savvy, younger NDIS participants already have a high rate of adoption, so tech savvy post war seniors should not be far behind.

This will almost certainly lead to an exit of existing providers from the old world through mergers and acquisitions. At risk will be:

- those who are hard to find or hard to buy from
- those with no innovation in sales or marketing
- those offering industry-standard services and prices, with no innovation in delivery
- those trying to be all things to everyone, with no uniqueness
- those on their own, without sales or delivery partners.

Some commentators predict a 70% attrition rate of existing old world participants.

1c Market for labour

According to the Pollaers Report, there are about 100,000 employed in direct community aged care. In addition to recruitment to cover attrition, 5000 extra recruits are needed per year to cover growth in demand.

There is also a need to compete for care workers with the rapidly growing disability sector, which already employs 75,000 care workers of a similar profile to home-based age care, and by 2020 will require 160,000 care workers. The residential age care sector also requires a similar profile of care worker and employs 180,000.

The median age for home-based aged care worker is 50 years. In other words, half the current workforce will be at or past retirement age by 2035.

While less publicised, the Pollaers and Tune Reports also identified:

- the 100,000 care workers in home-based aged care are less than 1% of the total workforce, so workforce size itself is not a constraint
- the existing workforce would actually like to work more hours than are currently offered
- the direct care workforce is relatively stable overall, with only a small minority indicating an intention to leave the sector within 12 months, and 60% indicating a desire to remain in the industry for at least 5 more years
- except for pay rates, job satisfaction is high
- enterprise agreements (which still cover most employees) increased pay from 2014–2017 by 11%, compared to CPI of 5%. Real rates of pay have been increasing.

The Pollaers and Tune Reports have made it clear that government will not seek to solve these care worker supply challenges via central planning - providers must address their own workforce needs. The reports identify that even at current rates of pay there are many unrealised opportunities to engage and retain the workforce, and attract new staff.

Idea

One in five employees in home-based aged care services do not provide any direct care; and surveys show that care staff job satisfaction is increased by more customer contact time; so there is unrealised benefit in both back office and front office efficiencies.

STEP 2: PLACE YOUR CHIPS ON THE TABLE

The diagram above depicts the three enduring questions of strategy:

For the 'who' there are many different customer profiles. For example:

- those who like to self-manage, and who value a low-touch, low-price provider
- those who don't like to or are unable to self-manage, who value specialist advice
- those willing and able to pay a price premium, who value higher service levels
- those with a specific clinical condition, who would benefit from specialist skills. This could be early-stage dementia, mental health, or complex clinical needs.
- Those in a specific cultural group, who value services specialised to their needs
- Those who live in a confined geographic area, so that care staff utilisation can be maximised to compete on hourly price.

For the 'what', differentiators may include:

- more flexible services like emotional well-being, preventative physical therapy, home accessibility improvement, wellness education and reablement.
- apps which facilitate social inclusion, for those not already availing of this
- for family members who are decision influencers, apps to remotely monitor the customer's health and well-being.

Idea

Even within a target profile, each potential customer is unique. For example, Ken resisted any help until he was very infirm. But he still had a passion for fishing. Some providers told him it was too risky. The first provider to show enthusiasm for taking Ken fishing got his business.

For the 'why', it is hard to differentiate up-front on claims about service quality, because a new buyer is yet to experience it. The more intimately you know the desires and aspirations of your target customer profile, the more compelling is the 'why'. It could be:

- lower price (never forget the primary of price)

- easier to find, easier to engage, and easier to buy from
- superior social media and word-of-mouth references, by providing a superior and consistent level of service
- working in the slipstream of partners who sell or deliver complementary services to the target customer.

Idea

Like a 'honeymoon' offer from banks, it may be possible to offer very high initial discounts for attraction. By the time the price rises, the customer has developed rapport with the carer staff, and hence does not churn.

Idea

My Aged Care clearly is unable to accept a benefit from a sales referral, but medical centres, allied health providers, financial advisers, retirement villages and community groups might. Even residential care centre owners, for their residents who can pay for services privately.

Generally, the narrower the target customer profile (who), the easier it is to tailor services which exactly match their desires (what).

Once a prospect becomes a customer, the 'why' for retention may simply require what customers expect in all service industries: carer empathy, service quality and service reliability.

Idea

Customers need to be motivated to spend their package funds, not just remain as customers. For example, Betty was inclined not to spend, seeing her package as a new means to save. But Betty was motivated to take an overnight trip 4 times a year to see her sister. This released $5,000 which would otherwise have gone unspent.

STEP 3: SHARPEN YOUR BUSINESS MODEL

The business model confirms that the Who, What and Why will be commercially viable and sustainable. It requires identifying the sensitive KPIs, and setting achievable targets that meet profitability requirements. In Greenwich's experience, these are:

Revenue Driver Sensitivity

	Impact
Average hourly price	High
Average billable hours per customer per week	High
Number of new enquiries per week	Medium
Conversion rate	Medium
Customer churn % pa	Medium
Average 3rd party hrs/client/week	Low
Ratio of case management to services	Low
Ratio of hours billable to hours billed (leakage)	Low

Cost Driver Sensitivity

	Impact
Direct staff utilisation	Very High
Front office: back office staff ratio	High
Pay rate relative to billing rate	Medium
Case management hours per client per week	Medium
Staff retention rate	Medium
Average visits per client per week	Low
Roster effort in minutes per visit	Low
Payroll preparation in minutes per worker	Low
Average km claimed per visit	Low

This means that the success of a business can be managed by controlling only 10 value drivers, and potentially just four. The primacy of direct staff utilisation makes intuitive sense: direct staff remuneration is about 60% of total expenses in a typical business; a directly employed worker in a home generates about $50 of revenue and costs about $25 per hour. But when in a car they are generating $0 and costing up to $40 per hour (as you include car running costs).

Idea

If the business model is not commercially viable, the first option is to find ways to sharpen it further. If necessary, re-iterate the strategy, such as:

- Narrow or expand the target customer profile
- Better match the service offers to the target customer
- Identify better partners for sales or delivery
- Merge or acquire.

STEP 4: HARNESS YOUR ENABLERS

Buyers aspire to the 'DHL principles': right order, right time, right price, right experience. Behind this outcome lie two separate and essential process value chains.

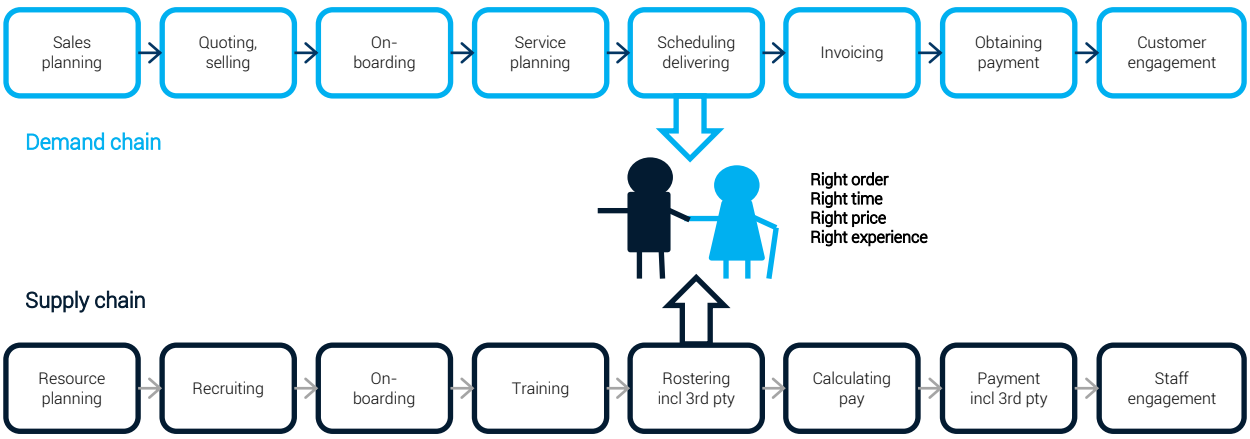
Each process in the value chain is important – a chain is only as strong as its weakest link.

Each process has its own key performance indicators (KPIs) as required by the business model. Each process consists of tasks, job roles, business rules, systems and data.

These processes are then repeatable: if they work in one geography, they will in another. If they work for one customer profile, they will for another. If it works under direct ownership, it can work for franchises. This enables rapid scaling, which is the ultimate value multiplier for entrepreneurial ventures.

Systems are another enabler to harness. Superior systems enable superior processes.

Leadership and organisation design is another enabler. Maximising the care worker's degree of engagement, empowerment and enablement allows them to be self-directing in cross-selling, up-selling, and even scheduling. It also enables fewer layers between the care worker and the CEO. That not only improves the cost ratios in the business model – it also makes the organisation more nimble to respond to emerging needs of a customer, or to correct a poor customer experience.



SOME CLOSING THOUGHTS

So, in this new world, what will it take to be a leader in the in-home aged care marketplace? The ideas above provide a checklist like this:

- ☐ You are thinking like a new entrant, keen to exploit the latent and yet-to-mature opportunities of a demand-driven market
- ☐ You are well-researched and informed. You know as much as Professor John Pollaers and David Tune, and more
- ☐ You have identified a target customer profile whose needs you can meet better than anyone else, so they will find your proposition compelling
- ☐ You will be easy to find and buy from, with partners directing business toward you
- ☐ Your business model will be fine-tuned for those KPIs that drive margin, so you can compete on price: a primary differentiator
- ☐ Your enablers of process, systems and organisation structure will be fully harnessed, so you can deliver what you have planned.
- ☐ Your care workers will be engaged, enabled and empowered
- ☐ You will be confident that an entrepreneur would invest in your business, and a banker would lend to you.

ADDENDUM: OPPORTUNITIES FOR INDUSTRY SUPPORT SERVICES

Opportunities in recruitment and training

The in-home care market is highly labour intensive. What is more:

- the rate of demand growth will require constant attraction and recruitment of new staff
- attraction will need to source from different pools of candidates, who are willing to enter the sector for the first time, such as school leavers or those retiring from other careers
- attraction will need to rely on a wider array of partners, such as community organisations and training providers
- attraction will need to be targeted for skills, to match the target customer profile
- the attraction may need to occur in labour markets at or near full employment in some parts of Australia, and in competition with the disability care sector
- attraction will be futile without strong retention. The average age of workers is currently around 50 years, so retention will require innovative new strategies for staff engagement such as wellness programs
- related training will be needed not only for new staff, but also for existing older workers, who are not familiar with the imperatives of a demand-driven industry

Herein lie big opportunities for market intermediaries which can generate a competitive advantage in staff attraction, training and retention.

Opportunities in systems

The business processes require supporting systems to automate the field communications, process workflow, KPI reporting and data management. What is more:

- staff utilisation is the biggest single profit driver. The value of a rostering and scheduling system is in optimising direct worker deployment, and hence maximising productivity.
- However, scheduling must be highly sophisticated, to also fully match customer preferences, so that customer satisfaction is also achieved; this can then improve the profit drivers of hourly price and hours per customer
- Some major existing providers are overseas based (e.g. Staffplan, Procura) so their systems are not primarily designed for Australia
- In almost all cases, the software is over 10 years old (Procura is almost 30 years old) and remains tied to legacy database design, which limits development potential

- Even for others (Telstra Comcare/EOS, Telstra icare, Carelink+) the software was developed for the market which prevailed prior to 2017. Typically, buyers were interested in little more than government compliance, and alignment to enterprise agreements.
- Hence they all generally are:
    - poor at prospecting and lead management
    - limited on pricing options, especially to differentiate at customer level
    - poor at quoting, sale closure and customer provisioning
    - not integrated for care plans and visit notes
    - not fully integrated for invoicing and statements
    - limited or unfriendly for client portals, client reporting, and client payment options
    - limited for staff portals
    - unable to optimise travel and utilisation (even if they integrate with Google maps)
    - lacking interface to partner agency rostering and invoice systems
    - lacking interface to vendor ordering and invoice systems
    - poor for future demand and supply planning
    - poor at reporting the business-critical KPIs, including the big value drivers.

Herein lie big opportunities, if supporting systems enable a big impact to the value drivers. There are several emerging players for the new era. Many are providing point solutions, a few providing plug and play cloud solutions with an orchestration layer. This is a space where we expect to see consolidation and a few winners should emerge.

Opportunities in medical and service technology

There is a relatively strong take-up already in the disability sector, where customers tend to be younger and tech savvy. The same opportunities are emerging in the aged sector as older customers exit the market and new ones enter who are tech savvy, or where the buying decisions are made by family members who are tech savvy.

Herein lie big opportunities such as:

- tele medicine
- medical alarms
- home monitoring devices, such as continuous heart rate or blood pressure checks, and movement detectors
- entertainment and enrichment devices
- in due course, auto-drive cars to enable easier, cheaper customer travel

Herein lie big opportunities, to be an early provider and adopter.

Equivalent opportunities in Residential Care

The opportunities in in-home care all have a direct parallel in residential care, and all the more so when the principles of CDC fully apply there in the foreseeable future.

CDC will create a demand for services customised individually for when and how they are delivered. For example:

- menu options, whether prepared internally or like Uber Eats
- activity options, whether within the centre or by accompanied excursion
- entertainment options
- health and wellbeing service options, from a wide array of external providers

There will be related opportunities for apps to order, deliver, invoice the customer and make payment to the vendor for these services.

There will also be related opportunities to use remote monitoring devices, to provide a superior level of attention to customers for a given level of care staff.

Authors

Paul Thorley
Senior Director
Mobile: +61 404 802 281
paul.thorley@greenwichcapital.com.au

Martin Ryan
Greenwich Subject Matter Expert

Celine Nguyen, CFA
Investment Manager
Mobile: +61 404 887 166
celine.nguyen@greenwichcapital.com.au

Contributing Authors

Jonathan Warrand
Managing Director
Mobile: +61 421 312 729
jonathan.warrand@greenwichcapital.com.au

Garry Lowrey
Senior Director
Mobile: +61 416 167 528
garry.lowrey@greenwichcapital.com.au

Tim Molloy
Director
Mobile: +61 411 592 180
tim.molloy@greenwichcapital.com.au

Alan Lee
Associate Director
Mobile: +61 402 010 066
alan.lee@greenwichcapital.com.au

Daniel Kim, CFA
Investment Manager
Mobile: +61 450 014 034
daniel.kim@greenwichcapital.com.au

GREENWICH CAPITAL PARTNERS

Partnership Investments

Greenwich is an alternative asset manager providing partnership capital and capability solutions into selected Australian private businesses generating attractive investment risk adjusted returns.

Partnership Capability

Our mission is to grow the businesses we invest in by supporting management and providing capabilities in areas that compliment and enhance the organisations' skills.

GREENWICH

Contact Us

Level 20 Australia Square
264 George Street
Sydney, New South Wales
Australia

Tel: +61 2 9199 5555
Fax: +61 2 9247 8966
contact@greenwichcapital.com.au