# The emerging environment for aged care providers in Australia and strategies for change

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## Introduction

**Productivity Commission Report**

In 2010 the Rudd Government commissioned the Productivity Commission to undertake a review of aged care in Australia. The Commission released is draft report in January 2011 containing the key recommendations listed below.

This overview of the emerging environment sets out to guide governance and management teams in aged care with an insight into the emerging environment, to inform their decision making and guide them towards planning for the future.

**Key recommendations**

The key recommendations of the Productivity Commission draft report are that;

- Regional 'gateways' be created to provide consumers with a one-stop-shop to access information on aged care services, residential facilities, aged care payments and assessment of suitability for services or residential care
- Consumer have flexible access to a variety of non-core services, at their own cost and can elect to purchase those services from an approved provider of their own choice.
- Those accessing residential care contribute in a more equitable manner to their core care and additional services

- Caps upon the number of residential places and identification of areas of need be removed and market forces be allowed to dictate supply and demand.
- Safety and quality assurance assessment remain with the Commonwealth.

Regardless of the final outcome, or which recommendations are acted upon by the Commonwealth or the time frame, it is likely the aged care environment will change. There is a clear desire for reform amongst industry members, the community and to some degree amongst the political parties.

## The emerging environment

**The macro environment**

A PEST (Political, Economic, Social and Technological) analysis provides an over view of the macro factors impacting upon the emerging age care environment. Following the PEST analysis we will examine the micro environmental (service delivery factors) factors, and identify strategies for responding to these influencing factors.

| ***Political/Legal*** | ***Economic*** | ***Social*** | ***Technological*** |
|---|---|---|---|
| Significant shift in public opinion towards reform of aged care sector in past ten years | Current restrictions on number of residential places may be lifted. | Ageing society delivers wealthiest consumers to date; also most educated, informed and discerning | Advances in science and medicine mean people will continue to live longer |
| Rudd/Gillard Government being informed by 2010 PC report into ageing | Value of current licences may be impacted upon by lifting of current restrictions on residential places | Social media provides consumers with channels to share information, compare service providers, recommend and voice concerns | Planned 'gateway' to provide consumers with high level information, reduce time |
| PC report into ageing recommends radical reform of funding and access to age care services | Providers may scramble to secure presence in areas with high concentrations of aged | Ageing people prefer to receive services in home rather than reside in aged care facilities | Robotics offer opportunities for maintaining care standards with reduced carer numbers. |
| Henry report into taxation reform informing Government policy on aged care | Assessment of economic risk may become more critical for aged care providers | Residents in aged care will bring with them diversity of life experiences and | The latter half of the Baby Boomer generation are comfortable with |

| | | | |
|---|---|---|---|
| reform | | expectations for standard of care and access to services | technology for communication, gathering and sharing information. |
| 'Grey' vote becoming increasing important to political parties over next 30 years | Significant investment in infrastructure is likely to be required | The number of elderly with neurological diseases will continue to increase; as will number of high need residents in facilities. | The internet will continue to drive social change as well as provide a platform for exchanging information |
| Commonwealth assumed responsibility for aged care under 2010 COAG healthcare reform | Residential provider's likely gain from investment of higher bond values. | While residents may be elderly and frail; their families will be vocal and demanding and have options for alternative providers | Environmental concerns will be a cost/benefit factor when constructing new facilities or modernising existing stock. |
| Government policy is to encourage people to age in home or community for as long as possible | Focus on cost and expense management will remain unchanged | Consumer will be able to choose which level of service they wish to purchase | e-health initiatives will enables collaborative sharing of health records |
| Political expediency suggests a safety net will remain in place for disadvantaged sectors of the community | Providers will need to 'market' their services to consumers. | By 2050 around 21% of Australians will be aged 65 years or more | |
| Commonwealth will continue to fund aged care services | Possible 'gap' between base level funding by Commonwealth and expectations of consumers | Future residents will expect residential facilities to be 'wired' for broadband access | |
| Commonwealth will set and monitor minimum levels of assessment, care and quality by service providers | Maturing workforce will impose labour restrictions upon providers at time of increasing demand | While Baby Boomers are the wealthiest retirees to date; significant numbers have little or no asset base | |
| | Labour shortages will create cost increases for service providers. Operational costs will continue to increase | Increasing need for palliative care for residents impacts on both staff and family | |



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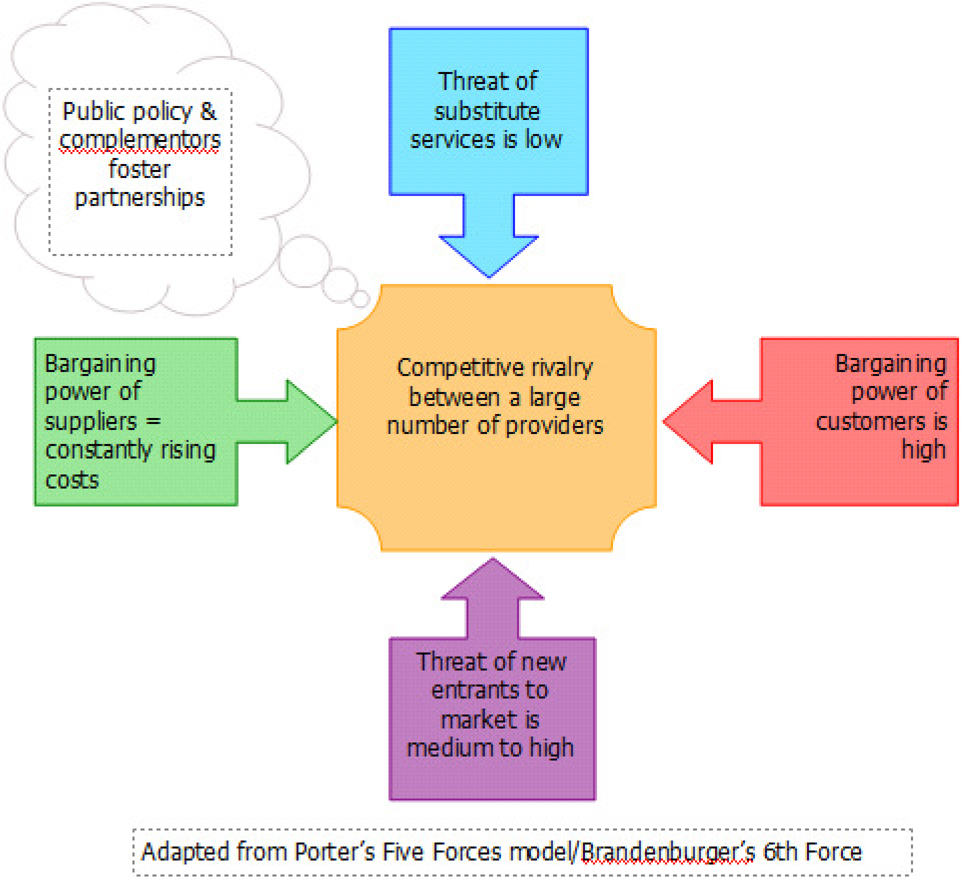
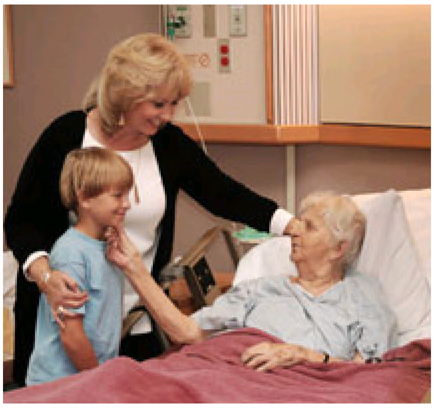
### The micro environment (service delivery)




When analysing the micro environment we consider *suppliers, distributors, customers* and *competitors*. Porters Five Forces model illustrates the relationship between each of these factors and while introducing an additional factor in the form of *public policy and complementary factors.*

- ***Suppliers:*** Labour costs represent the largest fixed cost for providers and this cost is expected to rise as labour shortages limit the ability to recruit key people, contribute to staff turnover and force providers to offer more competitive remuneration. Other suppliers will also impact upon future viability of providers. The cost of utilities such as power, gas, telephony and broadband are all expected to increase, pushed along by both Government policy and rising costs to utility providers. Providers do have access to alternative suppliers and this will provide a small cushion in some instances against excessive increases in price.

- ***Distribution:*** At present the supply of aged care services is restricted by the Commonwealth. Were those restrictions to be removed and consumers provided with freedom of choice, it is possible any approved provider might provide any service to any consumer segment, wherever it is profitable. Small independent providers may find themselves at a disadvantage, compared to larger independent facilities or group operated facilities. On the other hand, small independent providers may better be able to maximise returns by providing services to less attractive market areas or to niche market segments. It is possible independent providers could form supply alliances to enable economies of scale. Potential exists for independent broker organisations to form for the purposes of providing the 'gateway' or acting as the intermediary between consumers and providers.
- ***Customers:*** The future will see a shift in how aged care providers perceive their customers. Under the current model, the customer is one of three levels of Government. Under the current model the consumer has little choice and few options – they don't have to be considered beyond meeting minimum standards of safety and care. Even those standards are set by legislation rather than consumer need. This will all change should the proposed reforms be fully implemented. When consumers become informed and are empowered to select their provider of choice the balance of power shifts. Instead of telling consumers what it is they will get; providers begin to ask consumers what it is they need in return for their money. This will require providers to understand their customer. Marketing and customer service processes will enter into every practice and activities. Providers that do not understand how to utilise online processes for marketing will be at a distinct disadvantage. Providers will develop strategies for adding value to all customer types. Not only will the aged be consumers of services; their families and friends will become powerful influencers of their choices. Providers will need to market for the long term as customers will no longer be guaranteed. It is possible marketing for aged care services will commence at birth.



- ***Competition:*** At present there are around 3000 individual residential aged care facilities throughout Australia. Approximately 300 facilities are operated by one of 30 private and charitable aged care groups, a further 300 co-exist with healthcare providers such as hospitals and the remainder are independent operations with between one to three facilities. Every one of these facilities will be competing with each other for future residents and for the revenue these residents generate in the form of Government funding, investment return on bonds and a share of payments of value-added services. No longer will a provider advise assessment teams that they have a vacancy and expect the next elderly person on the list to be delivered to them all neatly wrapped. Instead we can expect that by the time a person requires aged care services they and their family will have gained considerable knowledge and insight into how to access those services; they will have accessed and compared information and feedback about various providers and they will begin to form trusted relationships with the providers of home services. Initially there will be a rush amongst providers to position themselves to benefit from the 'low hanging fruit'. When this source of revenue begins to dry up the difficult work commences as providers learn how to maximise revenue from servicing niche market sectors. Providers should not assume that freedom of choice for the consumer equals a license to print money. There is a cost incurred in meeting consumer demand; a cost that is incurred long before any revenue is received in payment.

- ***New Entrants:*** In theory, an approved provider could be any organisation that meets the minimum standards set by the Commonwealth. It is possible the potential for financial reward could entice investors into the aged care sector; who bring with them different ideas and years of experience at wooing customers. Consider the possibility of an insurance company establishing an 'aged care policy' beginning at birth. When a consumer accesses aged care services, in return for their insurance paying the cost, they purchase services from providers allied to the insurance company. The separation of basic care from added value services could create opportunities for non-traditional providers to enter the aged care market and by creating packages of services become significant influencers in decisions made by families. A consumer accessing residential aged care may purchase added value services from a number of other providers, leaving the residential facility with limited sources of revenue.
- ***Substitute services:*** Very few residential aged care facilities cater for the palliative needs of residents in a satisfactory manner. Opportunities will exist for providers to meet the needs of niche segments of the market – sometimes for a premium price. Technology will play a significant part in aged care in the future. At this point the development of robotics for working with people is embryonic and faces cost and price barriers; not to mention social acceptance. Don't be fooled into thinking this is a permanent state of affairs. Japanese manufacturers have invested about A$200M to date in the development of robotics for assisting with health care and aged care. This is only the tip of the iceberg. When combined with advances in software, nanotechnology and the internet the speed of development and implementation will only become faster. Humans are a very accommodating species and will cast aside their initial scepticism of machines doing the work of humans once they see that Mum or Dad are safe and that these machines will reduce the cost to the family! It is well recognised that certain lifestyle factors contribute to the incidence of residential

aged care. It might be the providers that focus on keeping people out of residential care that gain the greatest share of revenue from services.

- ***Complementors:*** Complementors are services that add value to whatever it is that you provide. For example, a residential aged care provider might offer an insurance policy that when released pays the cost of aged care; thus the insurer and their product becomes the complementor and the consumer gains additional value. A complementor may also be something that influences how you deliver your services. In aged care, Government policy compliments service delivery through safety and accreditation which adds value to the consumers aged care experience. Retirement villages could be viewed as complementors, as could those providers that focus on providing care in the home or vica versa, residential care.

## Future scenarios

It is possible; though unlikely the Federal Government will avoid reform to aged care. There appears to be a lot of current goodwill on healthcare issues between the Commonwealth and the State Governments. Of course, political goodwill is often short term and tied to the ability to negotiate outcomes for specific groups of constituents; it doesn't require much for goodwill to evaporate or for political grandstanding to cause the best intentions of the Government to wither on the vine.

*In this scenario, little would change in the foreseeable future. The status quo would apply. Providers would continue to implement existing strategies for minimising costs and for seeking alternative sources of revenue to enable them to upgrade facilities and meet the increasing cost of labour. Even if the Federal Government elected to do nothing, aged care providers will continue to face increasing costs due to labour shortages, issues with achieving an appropriate financial surplus, issues with renovating stock and issues with attracting qualified people.*

While there has been a shift amongst voters towards more equitable share of funding aged care services; any visible voter backlash against the possibility of parents, or themselves, having to sell a family home to fund aged care may be sufficient to encourage the Commonwealth to put reform into the too hard basket. A more realistic scenario is that reform will be introduced gradually, over a number of years, starting with those changes least likely to generate voter dissatisfaction. The risk here is that any change of Government may impact upon the reform process. The Productivity Commission, in their draft report have outlined a five year timetable for implementation. A gradual process of reform would give providers time to plan ahead and to make appropriate strategic decisions. This would likely minimise any negative impacts upon the sector while also allowing the public to adapt to change. Were the Commonwealth to implement reform as proposed in the Productivity Commission's report then it is likely this scenario offer minimal risk to all parties.

*In this scenario providers will have time to plan for the future. The release of the final report by the Productivity Commission later in 2011 and then allowing time for the political process to take place, followed by an implementation period suggests a time frame of five to ten years. This might appear a long time for some; however it shouldn't be seen by Boards and Committees as an excuse to procrastinate. While in the short term operational aspects may remain unchanged from the status quo, there will be a high level of planning and positioning for the future. As above, while this is taking place providers will continue to wrestle with issues associated with current funding processes, labour supply and dated stock. A gradual implementation will provide time for other suppliers to test and introduce alternative products and services.*

An extreme approach would be for the Government to implement every recommendation contained in the Productivity Commission report in the shortest possible timeframe. It is likely such an approach would attract severe criticism, along with both political and public backlash, while also imposing significant stress upon the sector and aged care providers.

*This scenario is the worst case for all concerned, therefore unlikely to take place. In this event, the sector and providers could anticipate severe stress upon systems and processes. The lack of time for adequate planning would lead to poor decisions and mistakes and may impact in a negative manner upon care of the elderly. It is likely smaller; independent providers with less capacity for planning would be seriously disadvantaged. At the same time the funding model would change almost overnight and this might prove to be a bonus for some providers. Improved funding will certainly help with attracting skilled labour and replacing old stock, though in general, the negative impacts of labour shortages will remain in place. A rapid implementation would play into the hands of the larger, better resourced providers and would likely delay the introduction of new suppliers and alternative products or services.*

## Impacts and consequences

Assuming the Commonwealth commits to reform of aged care services and doesn't remain with the status quo then there will be a number of issues and consequences for governance and management to consider in their planning. These may include;



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- The mix of experience and skills amongst board and committee members – *what governance skills and experience will you need to plan for the emerging environment? How might an inappropriate mix of governance members hinder future development and growth?*
- Management structure, required skills and experience – *as you move into a new environment what management skills might you need in addition to clinical management?*
- Organisational structure – *it either fosters growth or hinders growth.*
- Knowledge and understanding of age care needs in catchment area – *how well do you know your customer – the person who spends money with you? Where are they now and how will you attract them to your business?*
- Understand your costs – *to put a price on a service you must first understand the true cost of service delivery.*
- Where will future competition come from? – *What might be the impact if you had to devote time to fighting with a competitor for business? There will be additional costs associated with competing for business.*
- What collaborative relationships might be needed to remain viable? – *What are the risks associated with trying to go it alone?*



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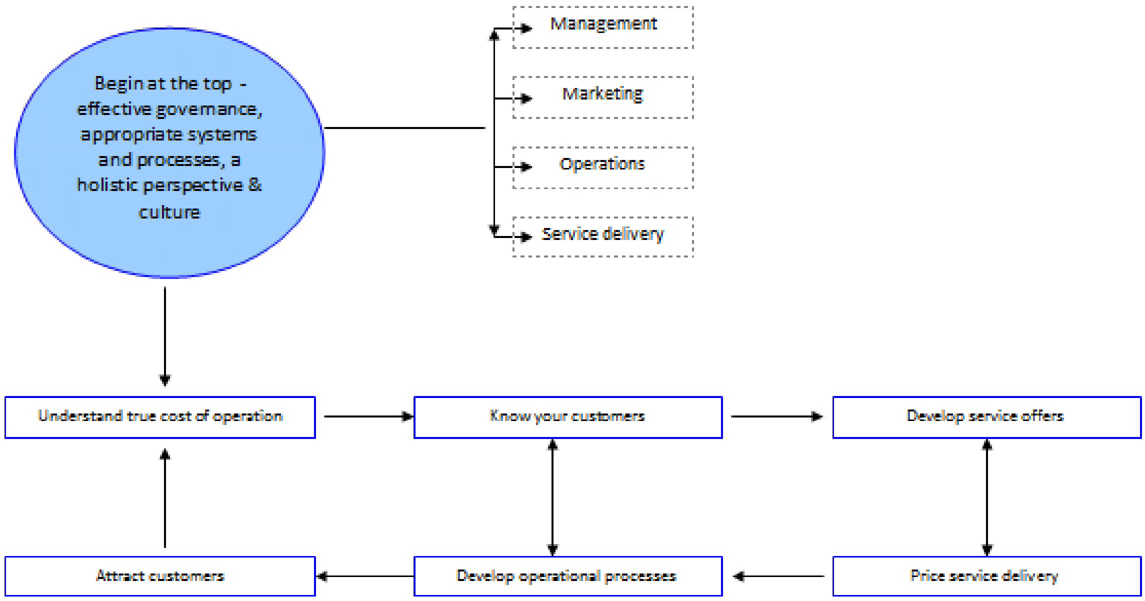
## A roadmap to the future




## Strategies for an evolving environment

Aged care reform will create change to the way providers deliver services. New systems and processes, changes to management structure, new roles, proactive service delivery and listening to the customer will test any management team. Many providers will be moving from a passive service delivery to a proactive process of meeting customer needs. This will require new ways of thinking by boards, committees and managers. The winners will be those providers able to listen to the voice of the customer and tailor service delivery to meet customer needs. Organisations will need to become flexible and adaptive.

> In some instances the life-time value of a customer may be as much as 35 years and be valued at between $600,000 and $1,000,000, when both home & community and residential care needs are required.

If you believe the future will be more of the same, then you are already doomed. In a future dominated by consumer choice, especially in areas where there is a high density of providers, those that thrive will be those able to develop creative services that add value to the lives of the aged. While in the short term some providers may grow through acquisition; in the long term growth can only be fuelled through meeting customer needs with new and creative products.



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For many, marketing is a dirty word. Actually it's more than that. Marketing is a lengthy process of building relationships, of spreading a message consistently and continuously and placing that message where those that make decisions will be able to find it easily. Marketing is expensive and the best time to start marketing is – now. Forget being in the business of residential aged care or community services; in future you will be in the business of generating revenue through a constant stream of new customers. Developing this understanding will be problematic for many management teams.

No single provider is an island. Size can have its advantages. The ability to pool or share resources can lead to reduced operational costs and higher margins. The higher the level of competition you have the more you need to develop and build partnerships for service delivery. Even those in remote rural regions are not immune to the threat of competition. There will be nothing to prevent a Sydney-based provider marketing their services to rural Victoria and subcontracting the service delivery to a Victorian provider. Do you want to be that subcontractor?

Understand your infrastructure and stock. How well will it meet the demands of a consumer driven market? What will be your options for modernising facilities in a competitive market? What will you need to put in place to enable this to happen? How will you bridge the gap between two-beds per room funding model by the Commonwealth and consumer desire for privacy?

Consumers have layers of need. These needs can be viewed along a continuum from when they first enter aged care and require simple information till when they require palliative care. In some instances the life-time value of a customer may be as much as 35 years and be valued at between $600,000 and $1,000,000, when both home & community and residential care needs are required. Those providers able to develop multiple revenue streams through a service/product mix that meets the needs of a consumer from the day they first receive aged care services will be the most profitable and sustainable.

## A timetable for action

*Stage One:* Within two years

- Board and management engage in a process of visioning the future. Teasing out and exploring developments, likely impacts, consequences and potential strategies. The board should conduct an audit into the governance experience and skills they may need in future and begin to structure an appropriate governance process. Develop a thorough understanding of the impact and implications of the Productivity Commission recommendations and be prepared to act as Government policy changes. Boards should allow at least six months for this process to take place.

*Stage Two:* Within three years

- Management to have formulated plans for developing a service/product mix that meets consumer needs along with plans to market those services to the consumer. Potential partnerships and service delivery relationships start to develop. Operational changes necessary to effectively deliver services start to be implemented.

*Stage Three:* Five years

- The change process should be complete. Effective governance and management should be in place. Organisational processes should be reducing barriers and cost of service delivery. Workforce development plans should be in place to ensure the best possible people are attracted and retained by your organisation. Marketing activities should be proceeding according to schedule.

## About John Coxon & Associates

Since 2002 John Coxon & Associates have been working with management teams in healthcare, aged care and the not-for-profit sector. The majority of our work is done at the coalface, where we help your managers identify how they can best operate your facility in an efficient manner. Our consulting philosophy is to look inside your organisation for the answers, rather than take the 'guru' approach. You know what works in your organisation; we help you to do it better. Our consultants have experience working in these sectors and consulting to management in these sectors. In particular we have consultants with specific experience in aged care governance, management, financial management, nurse management and service delivery. Our consultants understand your environment and the issues you face daily. Other consultants on our team have experience in theatre management, hotel services management and logistics, workforce issues, social research, program evaluation and social enterprise development.

A brochure containing details of our services may be downloaded from www.johncoxon.com.au/agedcare.pdf

While we accept there will be many operational changes to providing aged care in the foreseeable future, we believe the future starts with the Board or Committee of Management. Our recommendation is that the governance team and management team combine for an initial half-day facilitated discussion with one of our consultants. The price for this facilitated discussion is $1850 exc gst. This discussion will enable management to shift its thinking from the present to the future and would contribute to ongoing strategic planning. Where a provider engages us to facilitate this discussion and then engages us to assist with ongoing strategic planning, then we will reduce the price for the strategic planning by $800.

We would like to help your management team develop an effective response to the emerging environment. For a confidential, no obligation discussion contact principal consultant John Coxon on 0427 390 376 or email john@johncoxon.com.au