

INTRODUCTION

Beginning in 2018, Aging Gracefully, a nonprofit agency that provides care to patients in need, faced a series of cutbacks in state funding that led to a deficit in its budget. The CEO of the agency, Don Arnold, was concerned that Aging Gracefully would be unable to continue its mission of caring for older adults I need if the agency did not find a way to raise revenue.

In March 2019, Arnold set up the New Business Group to explore ways for the agency to convert some of the services that it currently offered for free to a profit-based system for those who could afford to pay. Included in the group, which met every Tuesday at 9:30 A.M., were Arnold, Beverly Slater (chief operating officer), Roslyn Warner (director of marketing mid- development), Gilda Newburgh (director of housing), Colleen Confit (marketing manager), Pamela Tilden (housing manager), and Emily Furley (social services manager).

Number of new business areas were explored. It was critical for Aging Gracefully to assess the potential of these areas of business, set goals and objectives, and implement a plan of action. The expenses for the agency were divided among three basic areas; home care, housing, and social services (see Table 1).

Table 1. Aging Gracefully agency budgeted revenue and expenses (\$ in thousands).

	Amount	%
	Revenue	
Social services	\$31,037	58
Home Care	13,882	26
Housing	5,807	11
Philanthropic	2,342	4
Total	\$53,068	
	Expenses	
Home care	\$41,630	78
Housing	8,084	15
Social services	3,350	6
Total	\$53,064	

Staff within the organization did not fully support top management's efforts to require clients to pay for services. This was particularly true of social workers. Social workers were trained as advocates of people in need and did not recognize the difference between a client in need and one who could pay for services. They often did not recommend Aging Gracefully to their clients for home-care services; they would recommend lower-priced alternatives instead.

THE ORGANIZATION

Aging Gracefully’s mission was to care for the needy in instances when they could not care for themselves. The agency operated exclusively in the Boston metropolitan area and offered a variety of services related to the mission. One main focus of the agency’s effort was caring for the elderly, and this area was expected to grow because of the ageing population in the United States (see Table 2). By 2040, more than 20% of the U.S. population will be 65 years of age or older.

DIVISIONS

The agency consisted of three divisions: Home Care, Housing, and Social Services. Each of the divisions operated independently with its own budget. The director of home care was responsible for both licensed and certified home-care programs as well as private-pay home care. The housing director ran senior centers and residences for older adults, and the director of social services managed the programs for the older adults in need.

Table.2 Population by age (in thousands)

Year	Age 65-74		Age 75 -84		Age 85+	
	Number	%	Number	%	Number	%
2000	18,551	6.7	12,438	4.5	4,333	1.6
2010	20,978	7.0	13,157	4.4	5,969	2.0
2020	30,910	9.5	15,480	4.7	6,959	2.1
2030	37,984	10.9	23,348	6.7	8,843	2.5
2040	33,968	9.1	29,206	7.9	13,840	3.7
2050	34,628	8.8	26,588	6.8	18,893	4.8

Source: U.S Bureau of census, 2000-2050 projected data, middle-series assumptions

Home care

The homecare division was a licensed home health care agency. It trained home health aides, homemakers, and housekeepers and placed them in positions home health aides were specially trained to assist older clients with personal care such as bathing, dressing and toileting. They also served as companions for their older clients. Homemakers were trained to act as care givers for children in the homes of incapacitated parents. Housekeepers cleaned and performed other household tasks for people incapable of doing so.

Within the homecare division, services were provided through government contracts and visiting nurse services, which billed Medicare or Medicaid. Alternatively, Aging Gracefully billed the client directly, a payment system known as “private pay”, which served about 10% of the homecare business. Nationally, the private-pay home care market was smaller than the Medicare and Medicaid home care markets (see table 3). Because Aging Gracefully was a licensed agency, not a certified agency it could not bill Medicare or Medicaid directly for services. Therefore, Aging Gracefully had to align itself with a certified home health care agency that could bill in this manner (as did VNS).

In 2018, Aging Gracefully had entered in to a strategic alliance with VNS to provide home health aides in eastern Massachusetts exclusively, and by 2019 the VNS business represented 90% of the home health aides patched. Because approximately 26% of the agency’s revenues were generated by VNS contracts, the agency was highly committed to this business and was very careful not to jeopardize it. One issue was whether, and to what extent, Aging Gracefully could compete with VNS, particularly in Brookline, Massachusetts, where Aging Gracefully did contract work for VNS. Some staff members of the agency were very concerned about attempting to increase private-pay services while trying to maintain VNS contracts.

Table.3 National home-care market

Home-care market agency receipts	2018
Medicare	65.2%
Medicaid	9.6%
Private pay*	7.0%
Private insurance	6.6%
HMOs, PPOs, state and local government, and Bad debt	11.6%

*The National home care association places the private pay market at 30%.

Housing

Aging Gracefully operated 5 buildings in Framingham, Massachusetts, which altogether housed 1,000 older adults. Most of the buildings offered subsidized housing, and only in of the buildings, known as F3, rented at market value. Residents were charged \$800 for one bedroom apartments that had a very basic décor. In addition, Aging Gracefully operated a senior center 2 blocks from F3 that served 7,000 older adults and provided many services, including a social program and meals. As of July 2019, 14 units were vacant in F3, and Gilda Newburgh had devised a plan to provide assisted living in those

14 units. Assisted living is a care plan for elderly residents that includes 3 meals daily, day and evening social programs, personal care, and medication management. The cost to the resident for assisted living was \$3,000 a month. Attempts to use promotional efforts to fill vacancies in F3 at market value had been limited prior to the decision to provide assisted living.

Social Services

The social services division was primarily responsible for the care of individuals in need. The division managed a number of programs. The community guardian program assisted people who did not have families to care for them. A caregiver's social worker acted as the person's guardian in legal and care matters, there was also a case management program, which helped individuals who needed assistance with their care but did not require total guardianship. Finally, the financial management program assisted clients with paying their bills.

Social services also managed Elderlink, an information and referral database that contained information a variety of eldercare services in the Boston area, including home health care, senior centers, meal programs, assisted-living facilities, and nursing homes. Elderlink was part of national network of information providers that was used by Staler Referral, a firm that provided the employees of fortune 500 companies with a national system of information and referral on aging. Employees of these firms could call a national number and be connected directly to Aging Gracefully's Elderlink services. A caregiver's social worker would provide information to help the employes care for an elderly relative in the Boston area. Referrals from Staler, however, had been dwindling lately.

POSSIBLE SOLUTIONS

The New Business Group consisted of managers from each of the 3 divisions: Housing, Social Services and Home Care. Through a series of brainstorming sessions, the New Business Group identified a number of potential businesses that would build on Aging Gracefully's skills in the three divisional areas. However, the managers were unsure how to allocate resources among their ideas and which businesses were the most viable. They chose three areas to explore more fully: real estate development, real estate property management, and private-pay home care.

Real Estate Development

The new business group proposed the development of a 200- unit assisted- living facility somewhere in the Boston area and determined the costs for providing services to such a facility (see table 4). Though care-givers did not have any expertise in real estate development, top management felt that its expertise in real estate development, top management felt that its expertise in providing services and its nonprofit status would attract a developer who needed Caregiver's assistance with the particulars of providing assisted-living services to the elderly. As of July 2019, top management had met with a few developers, but Aging Gracefully was not happy with the quality of the sites and did not feel comfortable lending the Aging Gracefully name to a poorly located facility.

Table.4 Service costs for assisted-living facilities of 100-200 units

Cost category	100 units	200 units
Food	\$547,500	\$1,095,000
Linens	100,000	200,000
Household supplies	54,750	109,500
Recreational supplies	15,000	30,000
Office supplies	6,000	9,000
Printing, duplication	6,000	9,000
Postage	24,000	48,000
Telephone	15,000	30,000
Marketing materials	50,000	75,000
Contracts machine	10,000	10,000
Transportation	68,000	68,000
Emergency response system	100,000	200,000
Consultants	36,500	54,750
Insurance, professional	35,000	40,000
Legal	20,000	20,000
Audits	20,000	20,000
Information services	47,758	72,419
Human resources	95,517	144,839
Finance	98,928	150,012
Administration	98,929	150,912
Management	252,000	504,000
Total	\$1,700,881	\$3,039,532

Source: Aging Gracefully internal documents, 2019.

Real Estate Property Management

The New Business Group determined that older inner-city residents would not be likely to leave their apartments as they aged because many of the day to day maintenance issues in a rental unit, co-op, or condominium were handled by the building management. Aging Gracefully's management, however, saw an opportunity to market eldercare services to building managers who had large percentages of elderly residents in their buildings. The marketing department began to identify buildings built prior to 1965 in the Boston area with 300 or more apartments.

Letters and brochures were sent to building managers emphasizing the dangers of leaving older residents without care. For instance, an older person might leave the gas stove on and start a fire, or forget to pay maintenance fees. On the phone, many managers expressed interest in the problem. They felt that they could use some assistance with their older residents but did not see spending up front to avoid potential accidents. They felt that caring for older adults was the responsibility of the family. A few meetings were set up with larger complexes, but in such instances, co-op and condo boards were reluctant to spend money on this matter.

The new business group developed the property management program, which consisted of 2 services an on-site model and consultation model. The on-site model was designed for large buildings with at least 30% of elderly residents. Aging Gracefully would conduct a survey to determine where the elderly residents lived and would place on the premises a part-time social worker who would provide social programs and assistance to the elderly residents. The social worker would also intervene in difficult cases and assist building employees in identifying problem situations. The price would be \$2,800 per month for the building. The consultation model provided many of the same services, but operated out of Aging Gracefully's offices and did not include a part-time social worker on the premises. The price would be \$1,000 a month.

Private-Pay Home Care

Private-pay home care clients pay for their own home care rather than relying on Medicare or Medicaid for payment. Aging Gracefully's license allowed the agency to provide home health aides to those who could afford to pay out of pocket for the service.

In July 2019, the exact size of the private-pay market in the Boston area was unknown, but national information on older adults with disabilities was available (see table 5), as was information on the older population in the Boston area (see table 6).

Competition was intense in the private-pay home care market. One important competitor was the "gray market" for home care services. Since home care services for older adults were often an ongoing expense, many adult children chose to hire home care workers who were untrained and

did not demand that their employers pay social security tax aside from the gray market, a number of other agencies competed for the private-pay business (see table 7).

The New Business Group discussed their concerns regarding how to furnish home health aides under a private-pay system, when Aging Gracefully also provided aides through VNS, as of July 2019, most of Aging Gracefully's aides were working under VNS contracts and could not be switched to a private-pay case. Aging Gracefully's management considered not pursuing the private-pay market because of the fear of losing the VNS contract. They also considered pursuing private-pay in areas that VNS did not serve.

The target market for home care services is the elderly population 75 years and older with one or more difficulties in the activities of daily living and incomes higher than \$35,000 per year.

Table.5 Percent of elderly with functional limitations

Functional Limitation	Age 75-84	Age 85+
Walking	18.8	34.9
Getting outside	22.3	44.8
Bathing or showering	11.3	30.6
Transferring	11.6	21.9
Dressing	7.0	16.1
Toileting	5.7	14.2
Average	23.5	40.4

Source: U.S bureau of the census, survey of income and program participation, functional limitations and disability file, non-institutional persons.

The New Business Group discovered some difficulties in marketing the private-pay home care business. First, home health aides were paid \$10.50 an hour, which did not provide much incentive for them to deliver exceptional service. Second, there were no home health aides available exclusively for private-pay cases, and sometimes an aide could not be found to service a particular case. Finally, most of the clients wanted service in the morning from 9. AM to 12 noon, but aides were often already working on morning hobs and only had afternoon hours available. Not only were clients not able to receive care when they wanted it, but aides did not receive a full days' worth of hours and often got only morning work.

Table.6 Older adults by income, selected Massachusetts counties

Income	Age 75-84	Age 85+
Under \$5,000	11,013	13,938
\$5,000-\$9,999	32,477	49,706
\$10,000-\$14,999	24,539	24,354
\$15,000-\$24,999	39,353	25,708
\$25,000-\$34,999	28,410	14,670
\$35,000-\$49,999	26,546	11,009
\$50,000-\$74,999	22,294	8,549
\$75,000-\$99,999	8,746	3,055
\$ 100,000+	8,286	2,823

Source: U.S Bureau of the census: Norfolk, Suffolk, Middlesex, Bristol, Essex, and Plymouth counties.

There were, however, some positive aspects of Aging Gracefully's services that would appeal to the target market. Aging Gracefully always sent a nurse to a client's home to assess the case prior to dispatching an aide. Aging Gracefully also prided health and drug screening of aides, background checks and training. If an aide was sick or unable to provide service on a particular day, replacement was sent. A 24-hour telephone assistance line was available for home health aides to call in emergencies. Aging Gracefully charged an individual client \$20.00 an hour for home care services during the week and \$30 an hour for weekend service. The gray market rate was between 20 and \$40 an hour for care. The new business group determined that Aging Gracefully earned 75 cents of profit on every hour of care they delivered. In other words, it cost \$20.75 an hour to provide service to clients during the week and Aging Gracefully charged \$20. The median number of hours per case was 20.

Table.7 Competitor data

Home care agencies	Number of Private Pay Cases	Weekday rate/hr
U.S Home care	400	\$15.00
All metro	150	\$13.75
Caring hand	150	\$9.50
Allen	100	\$14.00
COHME	100	\$14.00
Select	100	N/A
Partners in care	100+	\$14.00

Source: 2019 caregiver’s competitor survey, completed in-house.

Aging Gracefully had also identified a number of possible niche markets within the larger home care market:

- *Specialty disease*: The niche of specialty diseases was considered because people with certain diseases require a significant amount of care. Though aides were already trained to provide Alzheimer’s care, other diseases would require additional training.
- *Skilled nursing*: Skilled nursing was another potential niche market pursuing this market would require that Aging Gracefully hire more nurses and obtain a special license to offer such services in order to be able to bill Medicare and Medicaid directly. The size of that market was substantial, as shown in table 3.
- *Difficult cases*: over time, Aging Gracefully had developed a reputation for being able to handle difficult cases. These cases, which had been rejected by other agencies because the client was disruptive and disrespectful to the aide, often ended up at Aging Gracefully. Aging Gracefully was better able to handle such cases because of the special training that was provided by the agency and the support that the aides received from the home office. However, it was more expensive to service a difficult case because it required more managerial time to arrange for proper care.

- *Long distance*: another possible niche market was the long-distance market, which consisted of adult children who lived more than an hour's drive from Boston but who had an elderly relative to care for in the Boston area. It was believed that adult children who were not available to care for a parent would be a better target market because they would need to purchase more home care hours to make sure that the parent was well care for. They might also be willing to pay a premium for such services. Though the actual size of the long-distance market was unknown, the number of adults over the age of 75 living in the Boston area was more than 300,000.

CONCLUSION

With the fall approaching and a board meeting scheduled for early October, Don Arnold needed to nail down the most viable solution for Aging Gracefully. He looked at the data on the home care market, considered developing an assisted-living facility, and thought about bringing services to existing buildings. Which would be the most profitable enterprise to pursue, and how could that be done without alienating VNS or staff members?