



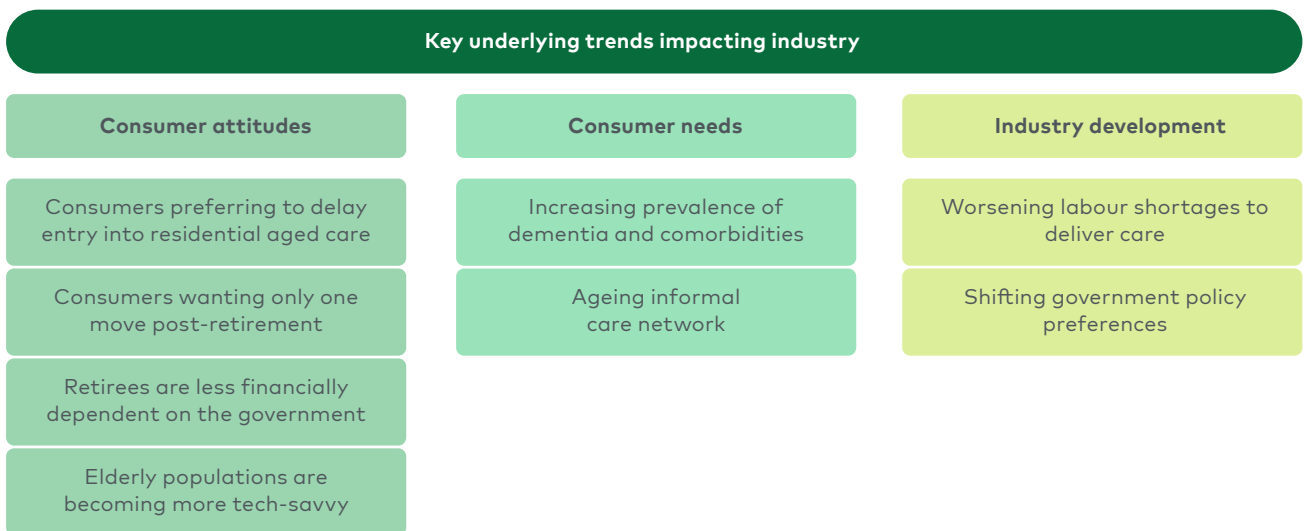
EXECUTIVE INSIGHTS

Growing Importance of Continuum of Care Models in Aged Care

Key trends in aged care

Aged care operators globally are facing many long-term trends that are challenging their models of delivering high-quality care efficiently to the elderly. Consumer preferences, care needs and government policy landscapes globally are becoming more acute, and this is driving aged care operators to rethink their care strategies (see Figure 1).

Figure 1
Key underlying trends impacting aged care



Source: L.E.K. research and analysis

Shifts in consumer attitudes

There is an increasing preference among the elderly to delay entry into residential aged care and receive care in their own homes instead. Based on 2020 surveys in a developed market, over 80% of the elderly preferred to age in their own homes.

Retirees also want to make only one move into retirement living, entering integrated ecosystems that can provide different levels of care as their needs change over time.

At the same time, retirees are projected to become increasingly affluent over the next decade. Globally, the 65+ age group is expected to have the highest average gross income across all age groups in 2030. Therefore, retirees will become less financially dependent on the government to provide for their care needs.

Elderly populations are also becoming more tech-savvy. More than 60% of baby boomers use smartphones. As they age, their technology use is maintained, increasing the number of elderly people with a high level of technology proficiency.

Changes to care needs

An increasing prevalence of dementia and comorbidities such as cardiovascular disease is anticipated over the next two to three decades. For example, the prevalence of dementia is expected to grow at c.4% p.a. over the next 30 years.

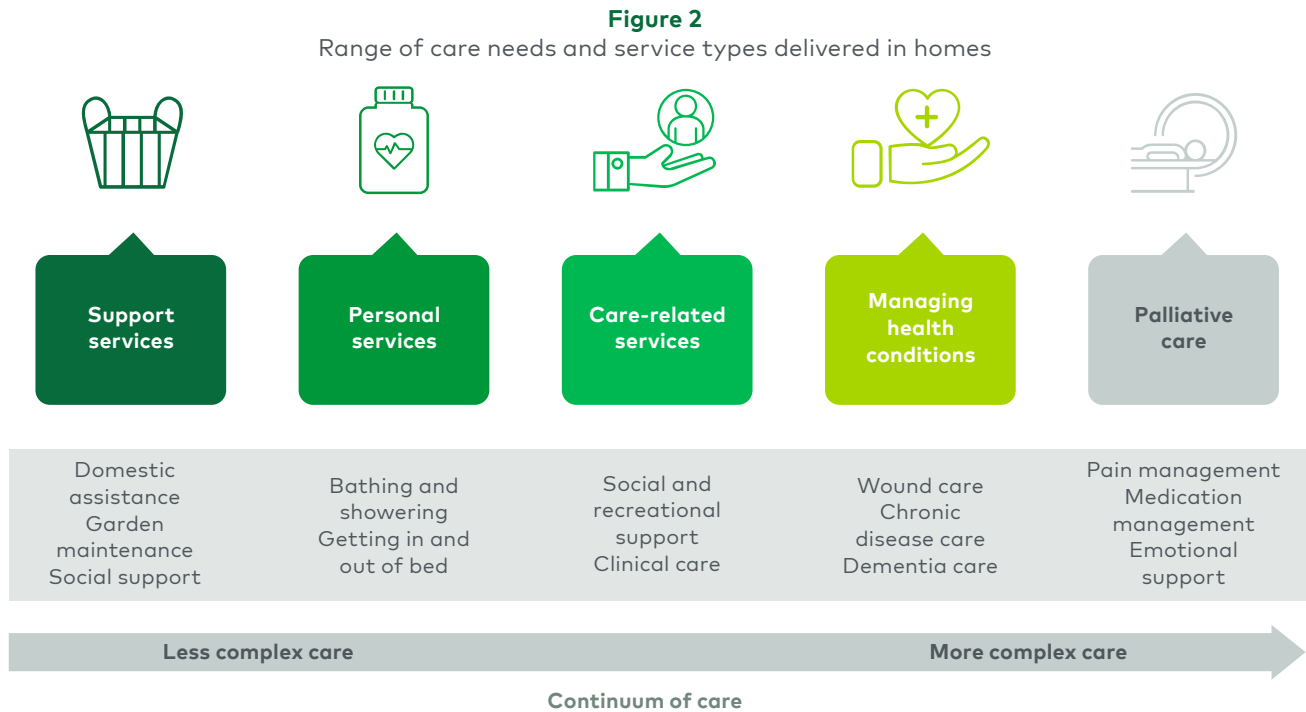
The informal networks that have cared for the elderly are also ageing. In many developed markets, unpaid caregivers are typically older than the average adult, and the median age of these unpaid caregivers is also increasing faster than the national average.

Industry developments

Furthermore, aged care operators worldwide are facing worsening labour shortages, which impedes their ability to deliver care. Operators find it challenging to secure new talent due to declines in workforce supply, driven by funding constraints and immigration policies. In some markets, there is a shortage of aged care nurses equivalent to nearly 20% of the workforce.

Government policy preferences are also shifting towards more aged care delivered in the residences of the elderly as opposed to in a residential aged care setting. This is due to the relatively lower cost to the government of reimbursing home care rather than residential care. As a result, funding for home care services, including both personal and medical care capabilities, is increasing across many countries at a much faster rate than funding for residential care.

Several leading aged care operators around the world are responding to these trends by broadening their care offerings. That is, they are expanding the range of settings and care services they deliver to their residents across the full continuum of care, as illustrated below (see Figure 2).



Source: L.E.K. research and analysis

A broad care offering allows operators to follow the resident journey and government funding pools, maximising the funding streams accessible. For operators with mixed retirement village and residential aged care models, a continuum of care offering also facilitates retaining residents within their ecosystem for as long as possible. While this may impact deferred management revenue in some models, it can be help moderate churn and reduce customer acquisition costs in light of increasing competition from home care and other external care providers. For premium operators, broadening their care offering also allows them to both better align their offering to consumer expectations and support premium price positioning for their offering in appropriate markets.

How are leading operators delivering a broader continuum of care?

We have observed leading operators delivering a broader continuum of care in the following five ways, as illustrated below (see Figure 3).

Figure 3

Five ways aged care operators are delivering a broad continuum of care

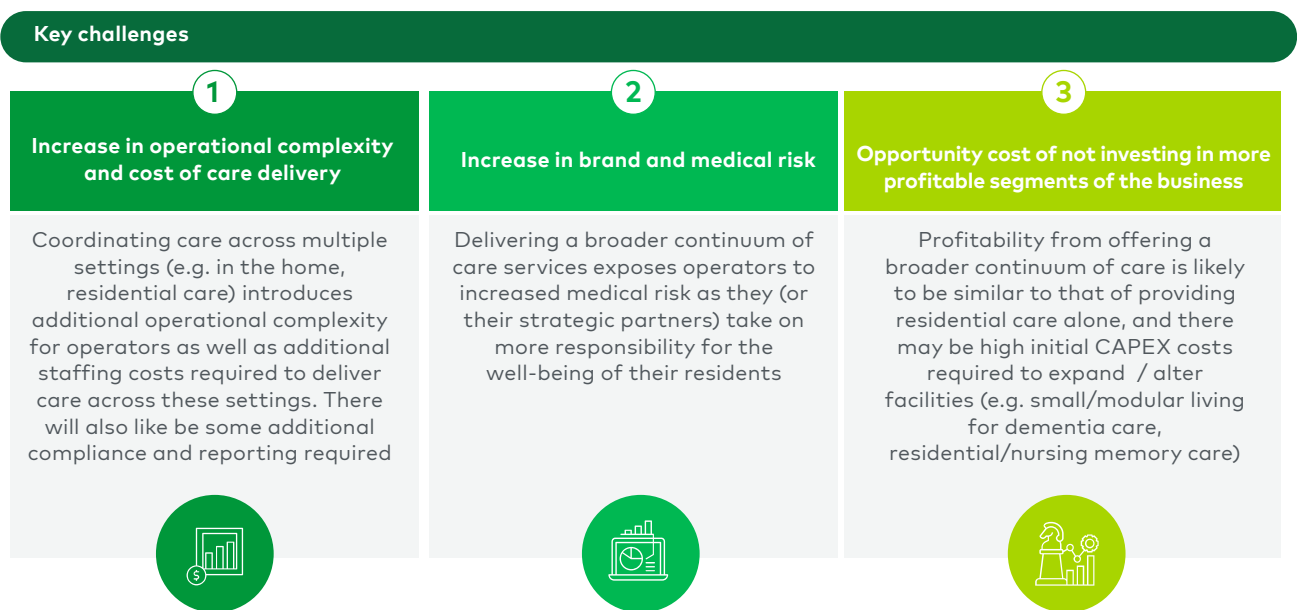
Key themes	Description and examples
 <p>Develop vertically integrated models</p>	<p>Develop in-house capabilities that support flexible care delivery across a continuum of settings, from delivery of care services in independent living units to small group homes to residential aged care. For example, continuing care retirement communities in the US offer fully integrated communities where residents can seamlessly transition across independent living, assisted living, memory care and skilled nursing facilities in one location.</p>
 <p>Establish dedicated business units</p>	<p>Establish dedicated business units that provide care services targeting specific parts of the care continuum (e.g. home-based care) to provide care for residents as well as adjacent communities. For example, a large retirement village operator in the UK delivers home care services in its retirement villages and the surrounding communities through a separate business unit.</p>
 <p>Integrate wellness and preventative care services</p>	<p>Integrate care/wellness centres and clubs into village design to allow residents easy access to services such as nutrition planning and exercise classes, with future potential to expand to on-site provision of a broader suite of allied and primary care services. For example, a leading retirement village operator in the UK has invested in 13 luxury health clubs associated with its retirement villages. These health clubs offer a wide range of health and wellness services, ranging from beauty treatments to fitness and exercise classes, that are accessible to homeowners as well as broader community members.</p>
 <p>Outsource care provision through partnerships</p>	<p>Develop strategic partnerships with third-party care providers to deliver flexible care services (e.g. home care) for residents. For example, one of the largest retirement village operator in France, partners with monitoring technology and telemedicine platforms to facilitate the delivery of care to its residents. Similarly, a retirement village operator in Australia, has partnered with service provider to provide residents with access to home care services.</p>
 <p>Leverage technology and operating model innovations</p>	<p>Leverage specific technology solutions (e.g. home care service platforms) through partnerships/investments that enable operators to deliver a broad continuum of care services to residents while managing the complexity and cost of delivering care. A good example here is a leading European aged care operator which has developed its own tech-enabled home care business unit, to coordinate home care delivery for customers. It has also acquired or taken a stake in a variety of different technology providers that are developing telehealth solutions, care planning solutions and digital patient experience tools.</p>

Source: L.E.K. research and analysis

However, global operators that have broadened their care offering have yet to show a clear financial uplift directly related to their care strategy, and in fact have consistently faced three key challenges, as illustrated below (see Figure 4).

Figure 4

Key challenges facing aged care operators in implementing a broadened care offering



Source: L.E.K. research and analysis

Operators will need to carefully develop their care strategies in order to take into account a range of factors in the relevant markets under investigation, including:

- Maturity of the public funding model for different parts of the care continuum
- Consumer needs, attitudes and willingness to pay privately for care services
- Competitive landscape and positioning of key players
- Operators' own internal capabilities, risk appetite and financial goals

Overall, the next few years are set to be an exciting time for the aged care industry globally as operators grapple with the challenges and opportunities outlined in this report.

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About the Authors



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Stuart Westmore is a Partner at L.E.K. and leads the Australian Mergers & Acquisitions and Retail and Consumer Products practices. Stuart works extensively in the area of mergers and acquisitions, on both the purchaser and vendor side of transactions, and has advised a diverse range of corporations, domestic Australian PE teams and Asia-Pacific and Global PE clients on acquisition due diligence. He has also led a range of other merger and acquisition projects undertaken in many diverse sectors.



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Neale is a Partner at L.E.K. based in the Sydney office. He began his consulting career in London in 2001 and brings extensive experience in strategy consulting in the Australia, Asia and European markets. As a leader in L.E.K.'s Healthcare practice, Neale works closely with clients from across the continuum of care on many of their most pressing strategic priorities including corporate and business unit strategy development, international expansion, identifying and evaluating acquisition opportunities, and value activation strategies.



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Manoj is a Partner based in the Melbourne office. He has over 10 years of experience in the broad healthcare/life sciences sector and has worked on a number of strategy projects across all parts of the sector including aged care, healthcare services, pharma and medtech. He holds a Ph.D. in Physics from Vanderbilt University and a M.B.A. from Melbourne Business School.

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