

Constructing a Value Chain for Long-Term Care Businesses — An Examination of Viable Business Strategies for the Future

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1. Introduction

The Long-Term Care (LTC) Insurance System introduced last April is about to complete its first year of operation. While a number of issues have surfaced — including problems with certification of need and quality of care managers — the Ministry of Health, Labor and Welfare reports that the number of applicants for LTC insurance has reached 2.7 million. In addition, a survey by the Japan Federation of Senior Citizens' Clubs indicates that over 80 percent of users are satisfied with the quality of service under LTC insurance. Thus the insurance system appears to be taking root and off to a good start. While critics cite the large number of complaints about LTC services as an indictment of the LTC insurance system itself, these complaints could also be interpreted instead as growing pains, since many of the complaints predate the system, and have actually surfaced due to the heightened awareness of users' rights under the system.

A key concern of the LTC insurance system is whether private service providers can capitalize on business opportunities in the LTC market. Already, two major home care providers who had been competing vigorously nationwide have later run into difficulties and been forced to downsize their home help services. While some observers are concerned about the large risks confronting private providers, it would be premature to pass judgment at this time since businesses are not expected to turn profitable for three years nor to erase debt for five years. But as care service providers enter their second year of business in 2001, they face a critical year that will severely test their business models.

In addition, as the Internet continues to grow and application service providers (ASPs) emerge in the long-term care field, the adoption of information technology (IT) in business models will be a key issue for management.

In this paper, the writer, who is engaged in formulating LTC business initiatives for Nippon Life Insurance Company, examines how the value chain creation approach can be applied to formulate viable business strategies for the future.

2. The LTC Value Chain

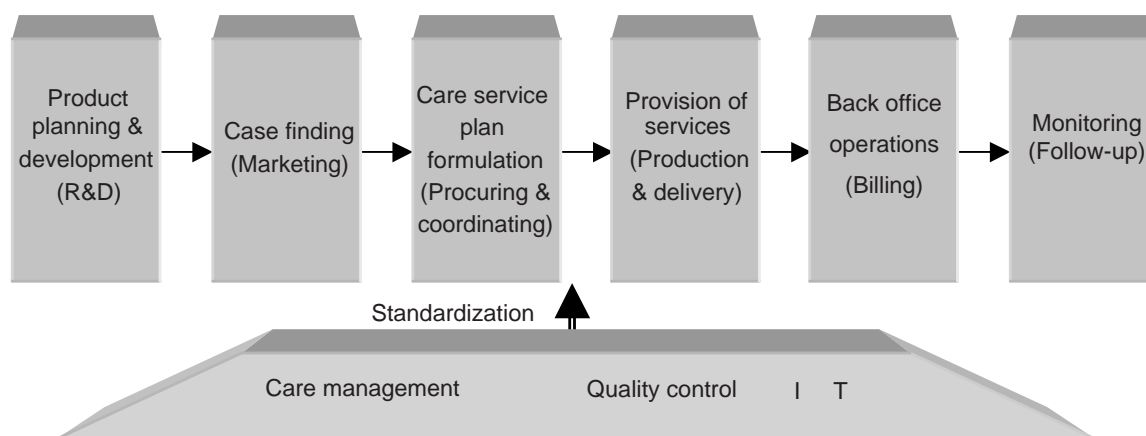
(1) Defining Value Chain

The concepts “value chain” and “supply chain” have become widespread in business analysis. Value chain analysis looks at the overall flow of activities, with the goal of delivering maximum value to the end user for the least total cost. To be more specific, it reexamines the total process flow across corporate divisions and even across companies, from product planning and development, to procurement and production, marketing and sales, and servicing, and seeks to optimize overall efficiency through information sharing and radical reform of business processes.

Applied to LTC services, the value chain begins with case finding (marketing and sales functions), and then proceeds to formulation of care service plans and procurement of services (procuring and coordinating), provision of services (production and delivery), billing users and filing LTC insurance claims to the National Federation of Health Insurance Societies (billing function), and finally monitoring (follow-up function; Figure 1). By applying the value chain approach to this process flow in the same way ordinary businesses do, we can expect not only to streamline administrative procedures, but speed up decision making and reduce costs.

Below we outline the value chain for the LTC business while examining management and operation issues and discerning future directions.

Figure 1 Value Chain for Long-term Care Businesses



(2) Product Planning & Development (R&D Function)

For most companies — especially manufacturing companies — the ability to develop new technologies can be critical to corporate survival. However, since LTC services are difficult to differentiate,

providers tend to focus heavily on customer service. While not denying the importance of customer service, we believe that a deeper examination of product planning and development for long-term care is in order.

Let us examine what is meant by product planning and development with respect to LTC services. A classic example is Comsn's development of a 24-hour visiting care service in 1994, which overturned the conventional concept of stationary nursing services. In addition, care management — now a central function in the LTC insurance system — can also be described as a breakthrough product. So too are group homes, which go beyond at-home care and facility-based care. There are two key points in planning and developing these types of new products.

1. Identifying the market

First, when developing new products, the potential market must be identified. There are two main market currents in the LTC field today: a shift from the elderly market to the disabled market, and a shift from the long-term care market to the prevention and health management market. The types of products developed will differ depending on which market is targeted.

Shift from elderly to disabled — In November 1999, the Ministry of Health, Labor and Welfare released a report (“Social Welfare Structural Reform”) calling for a service provider system for physically and mentally disabled persons that allows users to choose services. This is an intentional application of the market-oriented approach of long-term care to enhance the welfare of disabled persons. Several model projects are underway nationwide to examine how recently developed long-term care concepts such as care management and protection of elderly rights can be applied to the disabled.

Shift from long-term care to prevention and health management — The MHLW has already begun programs at the local level to prevent illness and support daily life for healthy elderly persons not relying on LTC insurance. Furthermore, a new national campaign called Healthy Japan 21 aims to prevent persons from becoming bedridden and from developing lifestyle-related illnesses such as high blood pressure, high cholesterol, and diabetes.

The distribution of persons who have applied for long-term care under LTC insurance shows that persons needing assistance (a milder level than care) and ineligible persons comprise almost 20% of the total applicants (Figure 2). If we also consider the many persons who have not yet applied for certification, it is clear that prevention and health management will play an increasingly important role ahead.

Figure 2 Certification Status of Applicants by Level of Care

Level of care	No. of persons certified	Proportion of total
In eligible	131,624	5.3%
Support (assistance)	315,284	12.6%
Level 1	595,569	23.9%
Level 2	423,461	17.0%
Level 3	338,043	13.6%
Level 4	363,986	14.6%
Level 5 (severest)	326,518	13.1%
Total	2,494,485	100.0%

Source: Materials distributed at the MHW National Conference of LTC Insurance Managers (July 31, 2000).

2. The science of long-term care (R&D function)

The second point is to emphasize research and development by collecting data on long-term care, scientifically analyzing the data, and using the results for new product development.

At the national level, the government is working to discover the mechanism causing senile dementia. In the private sector, companies need to balance their emphasis on short-term profits with long-term goals for scientific research into long-term care.

(3) Case Finding (Marketing & Sales Function)

1. Collaboration with medical institutions

Case finding is a marketing term used in the LTC business to describe the generation of new business. There are two patterns: the first is initiated by users either by direct consultation with a service provider or by referral from another facility; the second is initiated by care managers and subsequently linked to care management. The first pattern usually involves institutions such as the local government, social welfare council, or home care support center. In the second pattern, care managers search for persons who have just been discharged from designated nursing homes or hospitals and need care management. Whichever the case, from a marketing perspective it is clearly important for providers to collaborate with these facilities.

2. Building new networks

A new movement is underway in communities to build networks transcending the conventional long-term care framework of local government, social welfare councils, agricultural coops and consumer

coops. For example, some local financial institutions (regional banks and credit banks) jointly operate fee collecting centers for LTC service users, and carry a staff of long-term care consultants and care service agents to serve customers.

Local chambers of commerce are using long-term care to revitalize commercial districts and stimulate small businesses. For example, the Tokyo Chamber of Commerce and Industry has set up a “Living & Welfare Environment Development 21” program, which seeks to develop long-term care and welfare businesses by training living environment coordinators and other initiatives.

At the national level, insurance companies aiming to sell private LTC insurance are building up their LTC-related service offerings, while electrical makers have introduced care equipment and goods in some outlet shops to stimulate business.

For private care service providers, who have struggled particularly in non-metropolitan areas since the LTC insurance system began, building such networks and establishing collaborative ties should prove to be effective marketing strategies.

(4) Care Service Plan Formulation (Procuring & Coordinating Functions)

According to a survey by the Japan Home Care Service Providers’ Association (“Survey of Business Conditions,” September 2000), the average user spends 66,285 yen per month on care services, down from 70,121 yen in fiscal 1999 before LTC insurance was implemented (Figure 3). Moreover, only 43.2 percent of the limit allowed under LTC insurance is actually used (MHLW).

Several reasons come to mind for this under-usage. First, before LTC insurance was initiated, a composite service was established combining physical care and housework assistance, and some users of physical care services subsequently switched to the lower costing composite service. Second, since LTC insurance carries a 10 percent deductible, persons who had begun using services before LTC insurance was initiated have reduced their usage.

A third — and important — cause is that the care manager’s function is not being performed adequately, and as a result the needs of users are not being fully met. The problem with care managers can be attributed to their lack of expertise, and to the fact that care managers are hounded by LTC insurance paperwork and cannot concentrate on their job. These problems need to be resolved quickly.

Figure 3 Revenue and Costs of Care Service Providers

(Unit: ¥1,000)

	2000 (average per location)		1999 (average per location)	
	Amount	% of revenue	Amount	% of revenue
Revenue	7,079		4,635	
Labor cost	6,315	89.2%	3,459	74.6%
– direct	3,438	48.6%	2,580	57.8%
– indirect	2,877	40.6%	799	16.8%
Other costs	1,833	25.9%	1,967	42.4%
Total cost	8,149	115.1%	5,426	117.1%
Revenue – Total cost	–1,070	15.1%	–791	–17.1%
Average revenue per user	66		70	

Source: Japan Home Care Service Providers' Association

(5) Securing Manpower and Providing Services (Production & Delivery Function)

For LTC services, the production and delivery function corresponds to securing manpower for home help services, and providing these services.

1. Securing manpower

First, the securing of staff for home help services — which corresponds to production capacity — is a particularly acute problem in urban areas. In the short term, the problem can be somewhat alleviated by conducting more training seminars for home helpers. But in the longer term, labor will need to be imported from overseas (for home helpers and nurses). The “Second Basic Plan for Immigration and Emigration” announced by the Ministry of Justice in March 2000, calls for examining the acceptance of foreign workers in the care worker field. Extensive deliberation will be necessary before accepting foreigners with different cultures and customs into an area as delicate as long-term care. However, we need to operate on the assumption that a labor inflow will occur in the future primarily from Asia.

2. Providing services

According to an efficiency study of care services conducted in Tome, Miyagi pref. by NLI Research Institute in 1999, home helpers who make either brief or extended care visits spend only 39.7 percent of their time actually providing care, compared to 46.5 percent traveling and waiting (delivery of service). In addition, the study also found that managers spent most of their time arranging visitation routes. Care service providers thus clearly need more efficient service delivery so that more time can be spent providing services. One solution being tried is an automated vehicle dispatching system connected to ITS (intelligent transport systems to reduce traffic congestion). But a genuine solution — establishing a way of defining the business area, and introducing logistical concepts from the distribu-

tion industry — will take more time to develop.

(6) Back Office Operations (Billing Function)

According to the *Business Conditions Survey* cited earlier, labor cost accounts for 89.2 percent of total cost, which is significantly larger than before LTC insurance was initiated (Figure 3). While the direct labor cost for field staff has declined to 48.6 percent from 57.8 percent, the indirect cost for managers and office staff has surged to 40.6 percent from 16.8 percent. This surge can be attributed to new operating burdens imposed by the LTC insurance system, requiring providers to perform complex benefits management, and to file claims to the National Federation of Health Insurance Societies.

In addition, if delays or mistakes occur in billing the insurer or users, service providers can experience cash flow problems.

Reducing indirect costs and creating a more efficient operation requires computerization. However, the tight financial situation of providers tends to make them reticent about investing in information technology. In fact, only about half of the service providers file claims to the insurer in electronic format.

Recently, application service providers (ASP) have emerged in the care services field. ASPs provide business support (formulating care service plans and supporting relationship management) by leasing software over the Internet. They offer care service providers advantages by containing investment and maintenance costs in computer systems, and facilitating adaptation to the frequently changing LTC insurance system by consolidating data management.

3. The Three Pillars of the Value Chain for Long-term Care

Thus far we have followed the value chain in examining the issues confronting the long-term care business.

The value chain uses IT to gather comprehensive data across all functions, and ultimately enables the prediction of demand and optimization of processes. To build a genuine value chain for the long-term care business, the following three pillars must be erected.

(1) Emphasis on Care Management

Care management is the act of matching the diverse needs of persons needing care as well as their families to available social resources. As the first step in creating a value chain, it is important for providers to conduct care management meticulously. Care management performs three important func-

tions within the value chain.

1. R&D

As stated earlier, product planning and development requires a scientific approach in which long-term care data is collected and analyzed. Care management is truly a fundamental part of this scientific approach. In cases where care management has produced results, both qualitative and quantitative data have been aggregated on user needs. In particular, this data is crucial for developing products in the domains of disabilities and prevention and health management.

2. Needs-oriented sales (FP function)

One of the roles of care management is to identify the latent needs of users by relying on the care manager's expertise. Arranging an appropriate mix of services can increase the use of services, and thus boost the average revenue per person. In marketing, this function is called needs-oriented sales. Moreover, insofar as users' needs are to be considered in conjunction with their financial condition, the financial planning (FP) function also comes into play.

3. Quality control

The care management process (initial assessment — setting case objective — assessing daily life needs — setting assistance objective — formulating care service plan — service implementation — monitoring) is identical to the principle of quality control (plan — do — see). Thus the faithful execution of care management should lead to quality enhancement.

(2) Quality Management and Standardization

As seen from the huge increase in complaints against providers under the new LTC insurance framework, users have clearly become more sensitive to the quality of service. From the provider's perspective as well, poor quality increases costs and reduces earnings.

There two aspects to quality: suitability and dependability. Simply put, suitability refers to whether a service takes into account the user's situation, while dependability refers to whether the same quality of service can be expected regardless of the provider.

One method to regulate the suitability of LTC services is to evaluate providers using customer satisfaction surveys (which some local governments have implemented).

Dependability is regulated with the "silver mark" awarded by the Silver Service Promotion

Association, and the ISO quality standard, which is an international standard. The silver mark focuses on structural factors such as size of staff at each establishment, while ISO aims to standardize processes by documentation in detailed manuals.

Since construction of the value chain entails transcending individual providers, its realization requires not only that individual providers implement quality control, but that evaluation criteria and process standards be established at the industry level.

(3) Comprehensive Adoption of IT

Information technology is crucial to value chain construction. Alongside the rapid proliferation in society of the Internet, cellular phones, and IC cards, information technology is rapidly being adopted in the long-term care field in the form of application service providers, home helper dispatching services that use cellular phones, and local welfare information systems such as the WAM network (Social Welfare and Medical Service Corporation).

These endeavors are still in their infancy and have yet to transcend the level of streamlining administrative processes. In the future, IT is strongly anticipated to become comprehensively adopted and integrated into the larger scheme of value chain creation.

4. Conclusion — The Importance of Stability for Long-term Care Businesses

In this paper, we examined future strategies for the long-term care business from the perspective of the value chain approach. This approach by no means contradicts the concept of supremacy of the user in long-term care insurance. Indeed, because it enables a greater range of services and quality enhancements, the construction of a value chain is beneficial to users as well.

More importantly, the construction of a value chain leads to greater stability of business management for service providers. A key difference between long-term care services and ordinary services (such as a hotel) is the importance of continuity of service. Hotels serve customers for finite periods, and need only to satisfy users during this time so that their utility is maximized. However, long-term care services must support users day after day, for which continuity of service is of utmost importance. No matter how good a service is, if it cannot be sustained, users stand to lose the very essence of their daily life. In the future, both users and society will increasingly hold providers responsible for preserving stability and trust. These demands on long-term care providers make the construction of a value chain all the more important.