A new world of competition

From 2017 new market entrants and price competition will challenge many existing home care providers and shake up the industry, writes MARK SHELDON-STEMM.

The move to shift home care package funds from the provider to the consumer as part of the Federal Government's increasing consumer choice and control measures sets the scene for the future. Providers which currently hold home care packages will no longer be in possession of them after February 2017. Given this, what are the likely changes for home care services?

Firstly, it is safe to envisage an increase in competition from inside and outside of the aged care sector. Subject to the following players becoming approved providers, this competition will likely stem from:

- Home care franchise groups that have commenced operations over the last few years. There are several homegrown groups, as well as those from overseas, that have established themselves and are currently operating in the fee-for-service or brokerage markets.
- Health groups that currently provide services to the elderly, but often through an agreement with current providers, will have the ability to offer services directly to consumers and therefore eliminate the middle man.
- Those who currently provide services under the Commonwealth Home Support Program and have been unable to obtain packages through the Aged Care Approvals Round (ACAR) in the past.

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- Residential aged care providers who do not have packages.
- Agencies that supply care and nursing staff on a casual basis. Often referred to as labor hire companies, they already have a significant workforce and the available systems and flexibility to provide services directly.
- Retirement village operators will be able to service those living in their villages.
- The entrepreneurial carer, nurse or other professional who may have been working in aged care, has good personal skills and wants to "do their own thing" will be able to set up services very quickly and operate a low-cost model.
- Entrepreneurs that see the possibility of making a successful business from the operation of home care services.

This is not a complete list, but these groups are already showing interest in playing a role in the future home care marketplace. It is interesting that in the workshops I hold (on transitioning to the new CDC market) nearly half of those attending are not currently approved providers and are from the above groups looking at what they need to do to be part of the future home care market.

STAYING COMPETITIVE

In addition to enticing new players into the industry, the reforms will have significant implications for current providers. New competitors will challenge the market and changes will need to be made by existing providers or they will face losing their home care clients.

To stay competitive in the future providers will need to:

- Provide services to clients that meet their needs and do so with a competitive level of staffing (and therefore cost).
- Offer a competitive hourly charge-out rate. The future will not include any administration fees or advisory costs as clients will be offered one hourly rate for direct services. Quotes in terms of hourly rates are standard for most other purchases a client will make and will become the norm in home care.
- Introduce systems that are integrated across all parts of the service and allow flexibility to change as the need arises. Many of the current systems are unable to do this and new entrants will bring sophisticated systems that are planned and focused on client services and cost recoveries.

The implications for current providers are not difficult to see and a very quick calculation will demonstrate this. The average rate currently being charged to CDC clients is around $39 to $45 per hour for personal care/domestic services. On top of this is an administration and case management fee in the range of 20 to 40 per cent. The movement to an hourly rate would convert the above charges to around $62 per hour (give or take). This is based on an hourly rate of $42 plus an administration fee of 30 per cent on a Level 2 package with an average of 5 hours of service per week.

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Therefore, the rates that providers currently charge are likely to sit between $55 and $70 per hour for this type of service. The new market is likely to produce a range of rates in the order of $38 to $45 per hour. The ability for new entrants to operate at these rates can be demonstrated by the current rates that agency staff are charged to residential care of around $37 to $40 per hour by the various labor hire companies. They are paying their staff, covering their overheads and making a margin.

In the future when a new client has to choose between service providers and they are quoted $62 per hour by one and $40 per hour by another it doesn't take much imagination to work out which way the client will go. Reputation will account for something, but with new clients it will probably not amount to a difference of $22 per hour.

To the client, who is now at the centre of all of this, they will merely want the best service at the best rate.

Existing providers must start preparing for this future. There are three things that providers will need to do in order to compete in the new home care market:

- Have an understanding of their total service costs.
- Review their systems and implement those that will assist to reduce costs, add value to the service and be able to monitor how the service is performing from a client's perspective as well as the operation of their business.
- Be prepared to make the necessary changes to current business models and provider culture. This will involve some difficult decisions and cultural changes to their workforce, the way services are delivered and how they operate their business model.

Finally, the simple answer to a successful future is to ask the hard questions to reveal the relevant answers. Good systems make great people. Get these two right and you will have the key to success. Your prosperity depends on it. ■

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