

Longevity case study

[Business](#)



Longevity Healthcare Systems Case Study Longevity Healthcare Systems, Inc developed from a couple in which both are familiar and involved within the healthcare system. Kathy is a registered nurse and her husband is a medical doctor. This is very important to note because in the beginning of the establishment of their business they were able to see an opportunity within the healthcare system that they are involved that others may not have been able to envision.

They also were able to set-up their business with inside knowledge regarding the necessary protocols and regulations for such a business, and they also have expertise in clinical knowledge to operate such a business. This gave them an advantage over others who may have considered entering the market with a similar business in the Grand Rapids area. Longevity expanded within the Grand Rapids area with nursing homes adding more beds for patients and increased services to cater to all the needs of the elderly patients, which increased their target market.

The foundation of Longevity was built on nursing care for older patients who needed help with daily living. Due to the couple's expertise and Astrakhan's husband's connection to the community as a medical doctor for elderly people their expansion of nursing home beds and services were successful due to referrals from hospitals, physicians, and healthcare insurers.

Their facilities operated at full or near full capacity giving them maximal profit opportunities in the Grand Rapids Area. They also expanded into subacute care, as the demand was high with little supply.

This proved to be successful as they were able to care for acute patients at half the cost of a full hospital. By adding only 80 total beds for subacute care they were able to generate \$9 million dollars in revenues. This means they generated \$112,500 per bed per year, which is substantially higher than their main strength of nursing home beds.

Their nursing home beds generated more revenues because of the increased volume, but per bed they generated \$45,000 per year. They then also expanded into the pharmacy business by purchasing and incorporating a pharmacy facility in Michigan as well.

Longevity expanded into several different areas of business within the healthcare industry. They have nursing care, subacute care, rehabilitation services, and pharmacy business. Now they want to continue to expand, but they lack vision or the future of their business.

While vertical integration in healthcare allows for more control in many aspects of the system, it is difficult to achieve and maintain. The company was founded on its nursing home care and standards and now is in multiple arenas with uncertainty as to where they should be headed in the future.

The L ETC services and facilities have been their strength throughout the company's existence accounting for 80% of their total revenues in 2008. Now they are in several different businesses that are spreading out their capital and getting away from their strengths thus reducing their sustainability and identity. With all the new business they have undertaken they are now unsure what direction they are heading in and this is one main

issue for Longevity as they are approached with several new business opportunities.

They have begun to overextend themselves and pulled themselves in different directions and into different types of business.

For example they acquired a pharmacy, which is a notoriously low margin, high upstart venture. The net income generated from their pharmacy services was only 6% of their overall business revenues and the cost of this small operation accounted for over 80% of their net revenue. Only having one pharmacy is very difficult as well because of a lack of central resources such as drug warehouses and facilities and also no purchasing power or relationship with drug suppliers to increase margins.

Longevity needs an overall marketing strategy to form an identity with their business and decide what they will be focusing on for services and whom they will be focusing on for those services. Starting with Longevity nursing home business they have a well-known and established facilities in Grand Rapids that offers high quality care at a cost point people are willing to pay.

They function at nearly full capacity and have the support of other healthcare personnel that refer their patients. The aging population makes their business an attractive one and they already have an established business within the marketplace.

The Grand Rapids area also is significantly less saturated than that of Toledo in terms of number of beds and homes, which gives their business more opportunity for growth in the Grand Rapids area where they are strongest.

Marketing is their weakness in deciding how they can continue to receive new patients with competition from the hospital moving in. Although, it is commended that they can offer services at a lower rate while still maintaining quality care, which is an advantage for their company.

They offer a wide range of services with four levels of care, rehabilitation services, and subacute care, which means when they get a patient they are likely able to sustain them as a paying customer for their services. Next Longevity subacute care portion of their business is still very untapped as far as growth and profit goes. They have the great advantage of being first in this market in the Grand Rapids area and can continue to expand this business and be sure they are operating at a full capacity.

Due to the high level of Medicare and Medicaid patients in Toledo, which is much more saturated with nursing homes, there is an opportunity to provide these subacute care facilities to patients at a cost much lower than hospitals, which can help increase profit margins in Toledo while also increasing operating capacity to maximize their profits. It would be a great advantage to have these facilities in the Toledo area to separate themselves from the competition and being able to take a larger portion of patients and avoid the lack of reimbursement in the general nursing home facilities in Toledo due to the lack of private paying patients.

If their 280 beds in Toledo were subacute facilities they would generate over \$100 million in revenues based on their average price of \$1,000 per day in subacute care, which has a high demand that needs to be met, especially in a market such as Toledo that has over double the number of basic nursing

home beds. It would cost them \$7 million to convert all 280 beds to subtract, which would easily be regained should they have a marketing strategy to fill the beds and provide care. Even a mixture with partial subtract care could help increase their profits raging being sabotaged by poor Medicare and Medicaid reimbursement.

The Alchemist's business is another opportunity for Longevity. This business is attractive for Longevity due to the 50% increase in the market demand.

They already have facilities that can handle many levels of nursing care. Converting beds costs per bed, but the cost per patient is 15% less, which would help improve profit margins for the Toledo area due to high rates of Medicaid and Medicare patients. This would be an attractive option for the unused beds in the Toledo area with demand being so high. Occupancy rates are one of their major issues in Toledo ND typical Alchemist's facilities operate at 95% capacity or more.

Converting all 280 beds would cost at most \$84, 000 and at full capacity the first monthly revenues would be \$952, 000, which would easily cover the cost of the conversion.

A combination of Alchemist's care beds and subtract care beds may be favorable as well to be open to a larger market. The demand is high so beds would be filled and after making gains they would be able to reinvest and expand in the Toledo area. Also it is known that Alchemist's providers have better relationships with referral services and this would e an extra bonus to have more support and marketing for Longevity business as a whole.

Lastly, Longevity needs to decide on the future of their pharmacy business. This is a very large market that is known for low margins and can be difficult for a small or independent company to survive. Also this is an extremely different market from the current one that Longevity is in with nursing care.

Many pharmacy companies specialize in filling for nursing facilities and also fill retail and thus have many routes for profits while also having chains throughout the country.

These large companies have an extreme advantage in contracting with Payers and insurance providers to get the best reimbursement rates because they have such control of the market. Also because of their size these companies have great purchasing power and contract with drug suppliers receiving prices many smaller and independent pharmacies cannot compete with. This business is much different from where Longevity began and from the new opportunities they are looking into. Also with the change in healthcare this market could become very volatile and is high risk without having an established presence in the market.

The Toledo pharmacy has a lower profit margin than Longevity's current Grand Rapids pharmacy and they predict they will only retain 60% of the homes the pharmacy fills for and if the nursing homes in Toledo don't work out then Longevity wouldn't be able to fill that gap.

Also the revenue per bed of \$1,450 is significantly lower than all other revenues per bed in Longevity's biggest business of nursing home care. One last big issue Longevity has is its lack of vision and an overall marketing

strategy. They are unsure which supermarkets to pursue in regards to nursing care and if they should expand to Indiana.

They also are unsure about their pharmacy business and if they should expand it to their Toledo facilities. Lastly, they have to have a consistent marketing strategy for their nursing homes and their services, and also need a protocol for customer service to ensure all residents are happy and satisfied regardless of the quality of care in order to continue to have good standing in the community. Being pulled in all different directions can be detrimental for Longevity, as they have not completely established themselves in the current markets they are in other than their nursing home status in the Grand Rapids area.

It would cost Longevity over \$6 million dollars just to acquire nursing homes in South Bend and the pharmacy in Toledo, and that doesn't include changing beds to Alchemist's care or subtract care. This would exceed their entire revenues from 2008, which would leave them with no capital and would require more debt, which they have decreased over the last year. First for recommendations with regards to expansion in the pharmacy industry, Longevity should not purchase the Toledo pharmacy for just over \$1 million dollars.

This industry as previous stated is very tough to enter and maintain without a harmony network and purchasing power from drug suppliers. The pharmacy venture in Toledo is also risky because of the lack of retention Longevity predicts if they are to purchase it.

Even if the pharmacy is successful the margins will be very small due to such a small operation without connections for distribution throughout the country. Also pharmacy is a completely different market and business than nursing home services.

Longevity cannot afford to allocate a sixth of their revenues to a venture that is risky and volatile due to healthcare reform. The strength of Longevity is nursing home care and doesn't involve pharmacy. Along with this Longevity should also liquidate their pharmacy assets in the Grand Rapids area.

They are again not an established presence in the market and do not have the resources and knowledge to succeed in the market. By liquidating their pharmacy assets they can invest that money into their nursing home services to gain larger profit margins, expand, and increase capacity.

Their current pharmacy operations produces a much lower revenue per bed compared to their nursing home services and they only net \$390, 000 from the pharmacy, which is a minor fraction of their business. They need to move on from pharmacy and focus on their nursing services to ensure they maintain and grow their market. Nearly all nursing homes use pharmacy chains or special nursing pharmacies that specialize in that specific industry. Selling their Grand Rapids pharmacy will allow them to maintain focus on their more lucrative business, while still being able to use the pharmacy services to which they sell.

This costs Longevity nothing because the pharmacy receives reimbursement from third party or government insurance programs. There is no cost to Longevity to use the pharmacy, rather the pharmacy will be fighting for their
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business due to the large number of beds and medications that will be inevitably be needed to operate the nursing services. Longevity can use the capital they save from not buying the Toledo pharmacy and the profit from selling their Grand Rapids pharmacy to invest in their nursing home services. One area they clearly need to expand in is the subtract facilities.

They are in high demand, have good profits (\$1, 000 per day per bed), and Longevity is able to offer these services at a significantly lower price than competitors such as hospitals and their acute care facilities. This also gives patients young and old an experience with Longevity services.

This will lead to transfers of older patients to their other facilities, which maintains customers for an extended period of time. It will also allow more patients to become familiar and confident with their services so family members, friends, and patients themselves in the future will use their services.

This opportunity is especially important in Toledo. This area is saturated with typical nursing home services and Longevity is operating under maximum capacity while also having a reduced margin from government program reimbursement. Converting to subtract will allow them to reduce costs, increase capacity due to high demand and an aging population, while also increasing margins.

This will establish Longevity in the Toledo region as they gain recognition for their services and begin running at a higher capacity.

This will give them the opportunity to establish relationships with hospitals, physicians, and insurance providers. Investing in this opportunity will bring clear vision into Longevity and their target market and the industry they will be in, which is the business of nursing home care with supermarkets involved. The current evacuate care beds that Longevity has is significantly less than their general nursing home beds, but they make significantly more revenues from those subtract care beds. This indicates a need to expand and further extend their business into the market with this specific type of care.

Alchemist's care is another area of opportunity for Longevity.

This is another market they need to get involved in and it fits in well with their current business of nursing homes and subtract care. The aging population and the expected dramatic increase in Alchemist's patients makes this market very appealing, especially since Longevity already has the space, beds, and qualifications to enter the market at a lower risk and cost level of new entrants. These patients cost is 15% less than typical nursing home patients due to decreased care.

However, these patients may also have co-morbid conditions and may need use of other services, which increases profits for Longevity. The cost of converting a bed is easily recovered as previously mentioned, which makes this market a must for Longevity. It maintains their current business in the industry while diversifying using their current facilities and resources.

This is another business that is very appealing to bring to the Toledo region because of the need for this care and the large supply of general nursing care and the lack of reimbursement from Medicare and Medicaid.

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Longevity could change 100 beds in Toledo each to subtract care and Alchemist's care while maintaining 80 beds for nursing care. This would cost them roughly \$280, 000, which they could cover with their profits from selling their pharmacy to a well-established pharmacy company with a system in place. Longevity could then fill their beds in Toledo increasing occupancy and increasing margins to gain a profit. It would take them no more than two years to gain this initial cost back, which is considerably less than a new entrant needing to construct new facilities to compete.

This is very important for Longevity as well because Alchemist's providers perform a service that is well respected in the healthcare community and often create better relationships for referrals from physicians, healthcare systems, and insurance providers. They can use this to their advantage to market all their services. It is key to diversify in these lower risk ventures that are still in the same general business of Longevity with minimal cost and overlapping resources with an excellent outlook for future gains from a growing market.

Also it should be noted that Longevity should not currently at this time expand into South Bend because the cost is too high for a risky region with which Longevity has no established presence. They first need to solidify themselves in the Toledo marketplace and turn a profit on their business there before branching out to more regions.

If they were to expand immediately to South Bend they could over extend themselves because they wouldn't have enough financial resources or ability to provide the proper care.

South Bend is less saturated in nursing care in general than Toledo, but again Longevity needs to stabilize themselves in with their current business before extending themselves more, especially for such a cost as \$5 million. The overall vision and marketing strategy is another key issue for Longevity. It is a necessity to have an overall corporate structure and strategy for their marketing. Longevity is a clear nursing home care provider, which is where they started and is where they are heading. They need to keep this key fact in mind when straightening the marketing approach.

Longevity should integrate all there nursing services together and market themselves as a full service care company in the industry of nursing care, subtract care, and Alchemist's care. As Kathy and her husband have become more involved in their growing business they are unable to be as hands on at a more basic level of marketing. Her idea to hire a marketing specialist can be justified given their new business ventures and increasing profits. This will allow the company to have one steady approach that can be applied to all their facilities.

Marketing strategy is very important for Longevity because they are established in heir business, but still have plenty of room to grow and gain marketers. They need to do this with their marketing strategy and need individuals dedicated to this task.

This team will create relationships with healthcare systems and their providers, Pam's and insurance providers, employer groups and community groups, and other avenues to continue to improve their image and brand name as a preferred and top nursing home care provider.

Longevity was able to produce excellent recognition and standing of their initial market in the Grand Rapids region. They need to maintain this and duplicate it in their new market of Toledo. Locally they need to market, but also need to have their corporate strategy show as well. This, along with their integration into other types of nursing home care, will allow Longevity an advantage over their competitors and achieve a significant gain in market share, which will allow them to continue to expand and grow their services and service regions. One very important piece to this strategy is customer satisfaction.

Longevity has been able to provide very high quality care due to their background in nursing and medicine. However, quality of care doesn't always translate to customer satisfaction. For this reason Longevity needs feedback from all their referral sources including healthcare systems, providers, and insurance companies, as well as current residents and their families. This needs to be a common occurrence and needs to be taken seriously by Longevity to improve the qualities that patients see as the most important other than direct quality of care.

Longevity can then improve from a patient or potential patient perspective rather than simply a medical perspective.

This will help ease marketing and encourage patients to seek their services and will help in gaining market share to increase profits and allow the nursing home care business of Longevity to expand to more regions throughout the country. This marketing approach is very important and should not be overlooked by the owners of Longevity for any reason. If they cut corners on

marketing to save costs it will end up crippling their business as a whole because it will become disconnected.

When this marketing strategy is formed and in place their new ventures will be able to thrive and continue to grow into new markets of nursing care and new regions. Longevity is a business that has made a name for themselves and has become a successful company.

However, they need some direction in their future business ventures and marketing opportunities. They need to remove themselves from the pharmacy industry because it is a very different landscape than their successful and current nursing home business.

They have a small pharmacy operation that doesn't contribute significantly to any earnings for the company, but it does take up resources and time away from the rest of the business. This venture is risky due to a volatile market and changing healthcare landscape. Longevity has many disadvantages against them compared to established companies in that market.

After retracting from this market Longevity can continue to grow their nursing home care services into high demand, low cost services based on the aging population and healthcare landscape.

These services include the general four levels of nursing care, and especially the areas worthy of expansion for Longevity, subacute care and Alchemist's nursing services. These services extend the abilities of the nursing services that Longevity already offers, but overlaps resources saving them money

and allowing for more opportunities to bill patients and gain profits. This will naturally increase recognition in their services and will increase the types of patients and number of patients that can be cared for by Longevity.

This will help Longevity realize its target market and the major asset of operations of their company, which is nursing services. Lastly, with an overall corporate market strategy Longevity will be able to have an identity and understand the products and services that they are most successful in providing.

Adding a marketing specialist or team will allow the Longevity to focus on marketing in their local markets of Grand Rapids and Toledo while also having a structure and strategy in place as an entire company.

This will provide consistency and gain marketers in the nursing services industry. Also with adding a component of customer satisfaction, Longevity will increase customer's perceptions to match their high standard quality of care. Putting these pieces together Longevity can be a very successful and profitable business while providing great care to patients in need. They will be able to expand further into their nursing services and brand themselves and a high quality, and well-established provider in the industry.