FRESH PERSPECTIVES: CHINA’S EMERGING SENIOR CARE INDUSTRY

A COMPILATION OF INTERVIEWS WITH 6 LEADING INDUSTRY PLAYERS
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OVERVIEW

As little as five years ago, China’s senior care sector consisted of small, local, not-for-profit homes which provided care for the elderly in need. There had been some pioneering international firms in the late 1990s and early 2000s but they eventually agreed it was a little early for what they planned to offer. From there we fast forward to the year 2010, where we saw the first signs of renewed interest in the sector emerge from both domestic developers and international operators and architects.

What both Chinese and international organizations couldn’t ignore was the size of the potential market. 2010-2011 was the year of statistics, the debuts of several domestic retirement communities and the start of relationships between international operators and domestic developers. 2011-2012 was the year that resources were poured into the sector, relationships solidified and the first foundations laid. 2012-2013 is the year that the first international retirement communities were launched, which signaled an uptick in optimism following those debuts.

As we move into 2014-2015, we see more and more international and domestic care facilities open, business models being refined and support services becoming increasingly comprehensive. China’s senior care industry will start hitting its stride as more and more elderly Chinese move into care facilities and perceptions change. The future of this industry is promising.

History and the future of China’s senior care sector will be recorded by many people but only a few will get to write it. In this e-book, IMAPAC brings you interviews with just such people; some of the biggest names in the international senior living community – the influencers, the thought-leaders, the trend-setters!
Where do you see the growth opportunities in China?

Most aspects of the China aged care sector should have almost unlimited growth opportunities if one focuses on delivering a needed quality service that has some defined and sustainable competitive advantages. These advantages will generally be centered on staff training and services that will be offered.

What do you think are the challenges for foreign and local stakeholders in this part of the world today and how do you expect it to evolve in the next few years?

Each stakeholder needs to determine what value they can provide to the end customer and not trade-off off speed to the market, or a poorly constructed foreign/local JV structure, in exchange for delivering a high quality service that will establish a lasting market reputation.

What’s your forecast for the 2020 Chinese retirement living market map?

By 2020 the Chinese retirement living market will likely have little resemblance to today – in terms of the numbers of operators, of the variety of services offered by those operators. Based on the foundation of established residential aged-care facilities and operators I expect that we will see a vibrant home care market that provides quality services, much of which is of international quality.

In the current Chinese senior living era, what should be the strategy to drive value and returns in a sustainable way?

I would recommend a strategy that is less about price and that instead emphasizes the delivery of high quality services in high quality facilities (new or renovation) that match the services that are being offered. Focus on quality and the establishment of your brand image and do not try to win based on low cost.

How far is the Chinese senior care market from achieving a true financial sustainability? What needs to be done for this matter?

The Chinese senior care market is on the verge of achieving very significant risk adjusted financial returns if the focus is on meeting the demands of both Chinese seniors, and their families, for high quality services that allow a senior to live a meaningful and full life independent from their family, with reliable care and support services available if and as required.
Where do you see the growth opportunities in China?

China already faces a major challenge from the ageing of the population, and the situation will only get more difficult over the next few years. The country already has close to 200 million over-60s, and they account for around 9% of the population. By 2050, this percentage will rise to 25.6%, and 30% of them will be over 80 years old.

Even though most of the very elderly will be able to live at home or with their family, 15-20% of them will have to be housed in specialised geriatric facilities because they require long-term care. China thus needs to build a massive number of high-quality nursing homes capable of looking after the dependent elderly, many of whom suffer from neurodegenerative conditions, such as Alzheimer's.

ORPEA is the European leader in this field with over 40,000 beds at 431 facilities. It has close to 25 years of experience in providing long-term care for the elderly. Building on this positioning, ORPEA has developed special ways of caring for residents who suffer from neurodegenerative conditions, including a whole architecture geared to this illness, a non-drug-based approach with innovative solutions such as reminiscence or Snoezelen environments (dedicated to multisensory stimulation), and special training for teams looking after this type of patient.

In the current Chinese senior living era, what should be the strategy to drive value and returns in a sustainable way?

To rise to the challenges posed over the next 30 years, all participants in the care sector—from both the public and private sector—will have to play their part. Part of the population, especially in towns and cities, will be on the look-out for facilities offering services and a high-quality environment in strategic locations at the heart of the country’s large conurbations. The private sector has the investment capacity to meet this demand.

By providing a high-quality offering in a sector boasting high visibility given the deep-seated demographic trends, participants will be able to pursue a strategy of profitable growth over the long term. Foreign participants, such as ORPEA, can provide the benefit of their expertise in care, quality processes and staff training.

ORPEA currently has more than 25,000 employees working in five different countries across Europe and it has introduced effective tools to provide specialised training for its teams and also to encourage them to make progress, as well as helping care assistants to forge a long-term career within the Group.

In the constantly changing market place, what are the opportunities and challenges in the Chinese senior care industry?
Given the extent of demand, long-term care requires a whole range of solutions, including a set of in-home services—assistance and medical care—and specialised nursing homes. Development opportunities abound in the nursing home sector. They include building modern facilities capable of caring over the long term for sufferers of the conditions prevalent along the very elderly, introducing Quality processes encompassing care, services, the daily life of the facility, etc., and hiring, training and motivating teams. That is precisely what ORPEA has done successfully for close to 25 years, thanks to its know-how in every aspect of the process, including in-house architects and internal project managers, constantly enhanced quality procedures, and ongoing internal and external audits. Residents’ well-being and safety lie at the heart of ORPEA’s strategic concerns. As the sector takes shape, the principal challenge will be rolling out a precise regulatory framework ensuring that Quality is maintained in each facility. In addition, it will be very important for foreign groups to adapt to the local culture. With its presence in five countries, ORPEA has always worked closely with the supervisory authorities in each country to create a permanent dialogue and to adapt to local needs.

What are the development priorities in China likely to be for foreign groups?

Given the surge in the population of the very elderly and the large number of cities in China, a private group can aim gradually to develop specialised facilities, especially those looking after people requiring significant care in the countries large and medium-sized cities. For example, over the past five years, ORPEA has invested close to €2 billion and created more than 7,500 jobs in Europe as part of its drive to build or refurbish high-calibre facilities. It is pursuing the exactly the same priorities in China, i.e. meeting strong demand, while contributing to the economic life of cities and forging a close relationship with public authorities. ORPEA, which has been listed on the NYSE Euronext Paris market for ten years and has market capitalisation of €1.7 billion, possesses not only the expertise but also robust investment capacity. One of the imperatives will be to adapt to the culture of the Chinese population, as ORPEA has done successfully in the various countries in which it already operates.
What do you think are the key challenges for the industry players? How should these future challenges be handled?

The first challenge would be the lack of spending power. The income of the elderly comes from either their savings or from social welfare benefits. The 80 years old elderly group in China belongs to the era when China's economy was still in the infant stage and hence, their income is low, they do not have sufficient funds, resulting in a lack of spending power. Hence, they will not be able to enjoy what the market has to offer them.

The second issue is the ever-increasing costs. Retirement living homes, being a highly labor-intensive segment, is extremely dependent on human resources. As a result, labor costs form the most important part amongst all overheads. However, labor costs are always increasing due to shrinking workforce, caused by the aging population in China. At the same time, the society’s diluting sense of respect and care for the elderly makes it even more difficult to attract talents. Hence, retirement living homes will find gradually more difficult to cope with overhead costs with the continuous effect of the deteriorating aging population in China.

Thirdly, government support for this industry is still in its infant stage. The government believed that retirement living should be supporting and for non-profit, rather than perceiving it as an emerging service market. However in reality, there is still a lack of effort by the government in supporting the NPOs. Furthermore, there are only a handful non-profitable retirement homes around all of China due to the lack of governmental efforts in supporting such organizations.

What would the infrastructure of China’s retirement living industry be like in year 2020?

1) With possibilities of MNCs hitting China, the home care segment of this industry will develop rapidly. This would form a key solution to helping the elderly retire.

2) Most of the non-governmental organizations within the industry will remain the way they are. However, if the government opens up policies to the profit-making retirement living market, there could be possibilities of the NGOs shifting towards business entrepreneurship. In addition, elderly can be ensured more transparency in admission procedures to retirement homes as each region retains its governmental retirement homes.

3) There would be greater transparency in retirement living investment and operation procedures due to the influx in the acquiring data and information within the market. As a result, funding, venture capital and other investment related activities would increase as well.
In this fast pace industry, what are some of the opportunities and challenges presented to the retirement care industry?

Opportunities:
1) Demand for such services increases as a result of the development of this industry.
2) Born after the 1950s and 1960s "Wealthy" elderly with spending powers will form the target market; effectively raising the demand.
3) Government efforts in supporting the aged care market would increase due to national emphasis on life after retiring. This could also bring about the emergence of aged care insurance and subsidies.

Challenge:
1) The lack of human resource due to China's birth control policy.

Has the Chinese public accepted the concept of the retiring community?
"Retire relying on social services; not family" is a concept that has been widely accepted by the public. However, they are not into executing this idea yet as they have only been exposed to low quality retirement homes due to a lack of high end retirement villages that ensures a comfortable and dignified retirement life.

What are some challenges facing international players? How can they effectively manage their expectations?

The biggest challenge is - not using the existing profit model. First and foremost, the profit models used in foreign lands are built upon their own respective social system, which includes retirement pensions, medical insurance, aged care insurance and so on. When enterprises enter China, they would realize that the returns they used to reap changes entirely due to the differences in situation. Profitability cannot be forecasted here.

Secondly, there is a lack of understanding in Chinese elderly due to the cultural differences. It would be difficult to use existing meals, activities and marketing programs here.

Thirdly, due to the constraints brought about by costs and language barriers, it would be impossible for foreign organizations to bring in their own team of expertise care givers. Instead, they have to employ local nurses. However, recruiting educated local care givers who can understand foreign languages will be difficult due to income and status issues. This would bring about difficulties in communication with their staff. Even though the market here in China is huge, we believe that it would be difficult for foreign organizations to simply implement their current strategies due to the mentioned reasons. Therefore, the best strategy for them to leverage their strengths would be to combine their superb experience in capital ventures, skilled architectures and systemized service training with local companies that specializes in operating within thin field.
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Interview Four – Patricia Will

What was the moment that made you and the Belmont team decide to get involved in China?

We have been looking at the China market for senior living for about 4 years. From the get go we were convinced that demand would be compelling. That said, we needed three critical ingredients before deciding to enter the market. The first is leadership. With Tony Wang at our CEO, we believe we have the best possible individual to lead a Chinese-American venture in senior housing.

The second is a strong local partner. We are very excited about our collaboration with Beijing State Assets Management.

Finally, although our team will be largely Chinese, we needed to gain the buy-in of our US leadership. We are moving one of our leaders, Donna Hermann, to Beijing this Fall.

What are the steps that need to be taken in China, in order for Chinese to say, “I felt confident that a family could leave a relative there and be assured that they would be in great hands”; as a reviewer wrote about Belmont’s Burbank facility?

We have to demonstrate to Chinese families that we can deliver. In order to do that, we are using the time for the construction cycle of our first projects to build a best in class operating organization. This cannot wait until the buildings are finished. We are making a large investment in people, systems, and training now, years before we will take our first residents.

What do you think are the challenges for foreign and local stakeholders in this part of the world today and how do you expect it to evolve in the next few years?

Probably the greatest challenge is effective communication. To bridge the gaps—cultural, linguistic, time zones—we are making a large investment in people. Today Belmont Village has 5 Chinese nationals—all with top notch skills—working in our US operation. We are committing experienced US managers to our Beijing office this Fall. The task is not to graft our US operation onto China. Rather, it’s to take the experience and know how that has brought us success—programs, risk management tools, IT, and human relations—and adapt it to a new set of cultural norms.

Another huge challenge is product awareness. The value proposition of need-driven seniors housing—especially Assisted Living and Memory Care—has not been established because in China there is such scant supply. Collectively, Belmont Village and its competitors need to create a market. Nearly 15 years ago, we we opened the first built to purpose, fully licensed assisted living community in the City of Los Angeles. Hardly anyone we dealt with then understood what Assisted Living was. Today, in LA Assisted Living is a household word, broadly accepted by seniors and their families. We are looking forward to a similar evolution in Beijing and Shanghai.
How far is the Chinese senior care market from achieving a true financial sustainability? What needs to be done for this matter?

In the United States senior housing has been the most resilient asset class, even through the down cycle. That’s because the industry has managed to bundle real estate, hospitality and care into one package that seniors and their families will pay for.

I believe that the same value proposition will lead to financial sustainability in China. It will take five to ten years to demonstrate. During this time developers will experiment with different pricing models, product offerings, and locations. In the end I believe that products designed to meet special senior needs, such as assisted living and memory care—will demonstrate the best long term performance.

One of the things visitors to Belmont facilities in the US comment on is how well trained and friendly the staff is, how do you ensure that this reputation will be maintained in China?

We worry more about this issue—the people equation—than anything else. It’s impossible to do a good job in senior housing without a terrific work force. When we entered this business in the US, we set out to be an employer of choice.

Today, we are among the highest in employee satisfaction in our industry. To get there, our executives spend a lot of time in the field listening to and learning from our line personnel. We celebrate success, live and in person. We demonstrate that we care about employee health and welfare. We train and re-train as our standards evolve. And we provide incentives to reward our associates. This will not be easy, but we expect to set the bar in China.
Interview Five – Benjamin Shobert

Benjamin, I understand that Rubicon Strategy Group provides consulting services on emerging economies. Very briefly, what advice would you give companies looking to enter the senior living market in China?

American and European senior care operators who want to build a market entry strategy for the China market need to keep several things in mind, of which two seem to be the most commonly areas where misunderstandings occur.

First, Chinese developers want to see a foreign operator bring more than just sweat equity and know-how to the deal. They also want financial capital. I hear a lot of frustration from very well established Chinese developers who feel the foreign operators who come knocking on their doors don’t understand the need for the US or European operator to bring capital to the opportunity. Chinese developers do not necessarily need the capital, which is part of what leads some foreign operators to assume they should not have to bring capital into the deal. What the Chinese developers wants capital for is to gauge the seriousness and commitment of the foreign operator.

Second, a lot of ink has been spilled on what it means to localize services and best practices. Without question, this is an integral part of what the foreign operator brings to the China market; however, it is especially important to narrow down to what parts of the overall operating model the Chinese developer is most interested in. Yes, the foreign operator knows how to do everything from architecture to amenities, from food services to hospitality training. But many times the areas where the Chinese developer needs the most assistance are specific to healthcare matters. This is a more limited portion of the overall know-how foreign operators have to offer, and many do not want to be pigeon-holed only into this part of their business model; however, much of what the Chinese developers know they are most in need of, and are willing to pay for, are specific to the healthcare needs within the operating model (especially those services that evolve as a developer thinks through how to move from independent to assisted living products).

As there isn’t currently a proven entry strategy in this market for foreigners, what in your opinion is the best route?

First, embrace the need to find a competent local partner. While in theory certain types of senior care products can be wholly foreign owned enterprises (WFOE), in practice what it takes to navigate China’s counter-productive regulatory systems and actually get land for development (or re-purposing) is a local partner.

Second, identify a Chinese partner who understands the time horizon inherent in owning and operating a senior care product. Even in developed economies where institutional capital is comfortable owning
senior care projects, these investors understand that senior living is a longer-term investment than what is common in real-estate investment portfolios. Consequently, foreign operators in China need to identify Chinese developers and, where they cannot, Chinese business partners, who understand the market opportunity and are committed to the time it will take for this business to present itself as a scalable business. It’s important to frame expectations around what you think will be the likely amount of time it will take to bring your model into China, and then to make it profitable. Don’t over-promise, be realistic, and you will see a number of developers who will walk away, and others who will ask more probative questions that indicate they are wrestling with what it will really take to build a portfolio in this area.

Third, your Chinese partner needs to have something within its current capabilities that indicates it knows the value of service. You can package this idea up in buzz words like “culture” and “values” and trivialize; however, they really do matter when picking a Chinese partner. Even if you assume as an operator you will be driving much of the services that interact with the clients, a Chinese partner who thinks these are unreasonable and unnecessary can quickly emasculate your efforts to equip a team and build a culture.

Fourth, focus on the overlap between the high-income and high-acuity market segments. This is probably not as big a market as some assume it to be, but it is the lowest risk residence market entry strategy. This is already reflected in what has been done by early foreign operators who are emphasizing things like rehabilitation, skilled nursing, and dementia care. As these foreign operators get more comfortable with their China capabilities, they will begin to develop models that allow them to move downstream into China’s middle class market, which I believe is absolutely necessary if foreign operators are going to have a viable future in the country.

At the upcoming RLW 2013 conference, you will be moderating a panel on the regulatory landscape in China. How are current regulations impacting the different stakeholders in this market? Also, what do you think was the biggest omission from the laws passed on July 1st?

This is a big question and one I am eager to hear more from the panel concerning. Several issues appear to be common themes specific to senior housing regulations, each of which I think could have had further emphasis in the July 1st laws. The first is a general problem in China, regardless of what sector in the economy foreigners are exploring; namely, the wild inconsistencies that exist between the central government’s laws and how provinces and municipalities implement those regulations. The second is the need to continue to make WFOE structures easier to build without the restrictions that remain today. Third, China needs to put a lot of time into redefining the “Medical Institution” classification. In China, many assisted living and home healthcare business models will not be deployed if the foreign firms have to go in under the “Medical Institution” license. This is a very onerous, costly and time-consuming license that was originally developed to be specific to hospitals. The government badly needs to work on either a third classification that embraces nurse-led senior care in both residences and home healthcare. Fourth, I continue to believe the government needs to add some additional requirements for developers to prove they have properly researched their senior housing developments before they are issued land rights. Too many Chinese developers are chasing senior housing as the next hot sector without adequate attention to the unique financial, healthcare and operating challenges.
Can you give us one major challenge each that foreigners and local players currently face in this market? How can they be overcome?

Besides the reality that no one has a viable business yet, after several years of development efforts, I would say the single biggest challenge both foreign and domestic players face is talent. As an industry, we don’t have a model we know works, and whatever model finally is proven to work is going to be heavily reliant on finding, training and retaining a skilled work force. Those players who I believe are going to be successful are those who are willing to put a lot of up-front time and money to workforce development. Each part of this – finding skilled and non-skilled caregivers, localizing a training program, and building compensation and career plans – is in flux now. Without clarity on these issues, neither domestic nor foreign players are going to be successful.
Susan, you will be speaking on “Merging of care and caring” at the upcoming Retirement Living World China in October. Can you tell us what’s the difference between care and caring?

On the surface, many people think it is the same thing but we prefer to talk of our caring communities rather than care communities. In the context of a Seniors Living Community care implies a medical focus here the emphasis is on looking after physical ailments, or people who need constant assistance. Our communities are actually based on the antithesis of this: we are all about caring for the entire person and ensuring they remain well for as long as possible. The difference may be subtle in wording but a world apart in reality. Caring communities consider the individual needs and desires of each resident and provide the services and facilities to suit their lifestyle. This may mean caring enough to establish a particular hobby group to suit someone or to assist them to plan a holiday or pay a bill or even to walk their dog when they are away. Care provision also implies the person is not healthy or capable whereas our communities are for all seniors: ageing is not an illness, it is just another stage of life which comes with its own benefits and challenges. Certainly we provide care too – it is just that it is not our sole focus but one aspect of caring.

What do you view as the greatest challenge in implementing the merger of care and caring in China?

It is education. And by that I mean education of both staff and the greater community. It is not easy to create a new concept and have people understand it – how can someone understand something they have not seen or heard of previously? It will take time and perseverance to gradually demonstrate we are offering.

In your opinion, how does the “correct” caring model for the Chinese market look like? How is it different from what’s in Australia?

The Seniors Living industry in Australia has a much longer history than in China and it has passed through a series of stages of development. It is only in recent times that we have started to come to terms with the model which merges care and caring. For too long we created separate communities – those for healthy seniors and those for frail or sick seniors, when it is neither desirable nor necessary to do so. Regardless of their nationality, most seniors want to stay in their own home for as long as possible so it is not appealing to have to move when/if they become frail or ill. Seniors communities which are the home of active seniors can remain their home as they age. It is only if seniors need constant, high level medical attention that they may need to move to a specialist facility.
Certainly there is another challenge here: creating a culturally relevant community in which residents may either live an active, busy lifestyle or a more sedate, peaceful one, as they choose. This is why it is necessary to have both the East and West working together to create the new model which takes the learnings from the Western experience and applies them to the Eastern model.

We understand that IMG has recently executed a joint venture agreement with a Chinese developer, can you give us a sneak preview on the type of retirement communities that this exciting venture will be developing in China?

Yes, that is correct. I will be able to announce more details by the time the conference comes around but we have begun design development of our first community. It will cater for seniors of all levels of activity from fit and healthy to those who require extra services. With a strong hospitality focus the community will have all the advantages of a hotel but with a community atmosphere. It is an exciting venture which will deliver an innovative product.

You must have visited quite a number of retirement communities in China in the last 2 years. can you share with us on your opinions of what operating model do you see as working and what doesn’t?

I don’t think this is something that can be generalized into one successful type. The whole industry is still sorting its way through the financial modeling of various options for operating under. There are a few ideas which have potential in China but days are early and testing market acceptance will be painful for some. It is more likely that two or three models will eventually emerge as workable depending upon the specific target market for which a community is developed. I doubt anyone sees affordable developments being able to use the models being tested in more upmarket applications. If, however, the old English saying that ’Need is the mother of invention’ holds true, the overwhelming need to solve this dilemma will result in suitable models emerging.

What advice would you give to other aspiring senior living developers entering into this market in China?

We all understand that the Seniors Living market potential in China is immense but that does not mean it is easy to provide a product. You cannot take a foreign model and simply introduce that. Be prepared to spend a long time on research and coming to understand both the need and the challenge. Work with Chinese companies and learn from them. This is not a one way path from West to East but a meander together around and around a maze until you find the way through.
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