

# Making Innovation Work

## *A Blueprint for the Seniors Housing & Care Industry*

By Ryan Frederick

### EXECUTIVE SUMMARY

“What this [demographic shift] means for housing is that the  
***past cannot be relied upon as a predictor of the future...***

What they [Silent and Baby Boomers] will want is likely to be quite different  
from what today’s housing communities for seniors provide.”

– Urban Land Institute’s Report “Housing in America: The Baby Boomer Turns 65”

For a variety of reasons – including demographic, psychographic and government-related – the Seniors Housing & Care industry is set for tremendous change in the years ahead. This change will represent new opportunities for growth, additional channels of revenue and novel ways to add value to consumers. However, it will also challenge the industry’s existing business models and paradigms of thinking. In this changing environment, successful leaders must prepare their organizations for the future while also continuing to execute on their business plans of today. How can this be done?

A well-documented and proven body of research, across many industries, has led to a new blueprint for organizations to thrive today *and* tomorrow. In business academia, “**Ambidextrous Organizations**” are able to balance exploiting their current business while also exploring new opportunities.

Leaning on the lessons from companies in other fields that have successfully navigated times of significant change, the process for becoming an Ambidextrous Organization in Seniors Housing & Care includes:

- Question Core Assumptions of the Industry, Current Business
- Create a Compelling & Clear Vision and Reason for Growth Led by CEO & Board
- Evaluate Current Organization and Initiate Changes to Position for Success
- Introduce a New Vernacular and Way of Thinking about Innovation
- Establish Accountability for Both Today and Tomorrow

An Ambidextrous Organization utilizes a strategic planning process that is dynamic and iterative and capable of balancing between optimizing for today and placing bets on the future.

This white paper outlines specific steps that leaders and their organizations within Seniors Housing & Care must take to stay a step ahead. While by many measures the industry is performing better than ever, this is not a time to be complacent. The leading organizations of tomorrow will be preparing for the future today.

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## A LOOK INTO THE FUTURE BY LOOKING INTO THE PAST

In 2000, Nokia, a Finnish company, was the envy of the mobile telecommunications industry. Founded in 1871 with roots in the rubber and paper goods industries, the company evolved to become the world's largest mobile phone manufacturer. It boasted the strongest brand, created blockbuster phones – notably the Nokia 3310 – which was released in 2000 and sold over 125 million units – and even had an iconic ringtone (the “Nokia ringtone”).<sup>1</sup> With a market capitalization exceeding \$200B, track record of innovation and global reach, Nokia was one of the most admired companies in the world.

Yet, today, fifteen years later, Nokia is a shadow of itself. Its mobile handset business collapsed and has been absorbed into Microsoft, once a rival. Its market capitalization is a tenth of what it was in 2000. Verizon Wireless, the largest wireless network operator in the United States, no longer sells Nokia phones. What happened?

No doubt, there are a number of reasons for Nokia's fall. But, perhaps the primary reason for the company's challenges is that it was too late transitioning from the traditional mobile handset business to the smartphone business. Their leadership focused too much on the current business and not enough on their future business. At the same time, they framed their scope of business too narrowly. They did not expect non-traditional mobile handset companies, such as Apple, to become their primary competitor. Part of the irony of Nokia's collapse is that, at the same time, the market of mobile users exploded.

Like the mobile telephony industry, the Seniors Housing & Care industry (“Seniors Housing”) – or perhaps better defined as housing and services serving the age 70+ segment<sup>2</sup> – is poised to grow tremendously over the next fifteen years. In light of the Nokia story, however, one of the central questions is whether today's leading Seniors Housing organizations will maintain their leadership position in 2030. If so, organizations will need to simultaneously solve for the present and the future. They will need to become “**ambidextrous**.” This will be a huge and exciting challenge. Given what's involved, the time to prepare for tomorrow is today.

## TODAY: THE INDUSTRY COULD NOT BE BETTER

The Seniors Housing industry is thriving. Occupancy rates have nearly returned to pre-recession levels.<sup>3</sup> Investors of various types, including institutional, equity and private investors, have increased their interest in the segment.<sup>4</sup> Returns in 2014 were higher than any other real estate asset class<sup>5</sup> and transaction activity exceeded \$17 billion, the second highest on record for the industry.<sup>6</sup>

A key industry driver is demographics which are favorable in the near and long-term. Over the next five years, the 75+ demographic is expected to increase by approximately 3M people, or 15%, to 20.2M people.<sup>7</sup> However, by 2030, this same demographic is expected to increase by 14M people, or nearly 70%, to 34M people.<sup>8</sup> Assuming the current industry penetration rate – or the inventory of private pay Seniors Housing units divided by the number of age 75+ households – of 10%<sup>9</sup>, there will be a need for an additional 80,000 units in the top 31 markets by 2020 to keep up with anticipated demand based on demographic growth.<sup>10</sup>

## TOMORROW: SEEDS OF CHANGE LOOKING AHEAD TO 2030

While the industry is performing well, there is change ahead. In the near term, industry experts are concerned about the risk of rising interest rates, potential for overbuilding and headwinds if the macro economy slows for an extended period.<sup>11</sup>

In the long-term, looking fifteen years out to 2030, some of the same near-term concerns apply but the picture becomes much more complex.

Below are some of the key elements that will have influence on the future of the field:

1. **Existing Consumer Profile is Changing.** Sparked by the recession, the profile of the resident in Seniors Housing has changed. In general, residents are older, frailer and sicker. Indeed, as of 2012, the average age of entry in Independent Living is 83 years, an increase of six years over just a decade.<sup>12</sup> This trend has a number of key implications which are explored in detail in the Point Forward Solutions white paper “Why Aging in Place Matters.” One of the questions facing the industry is whether this trend will abate, continue at the same pace or accelerate.
2. **Prospective Consumer has Different Psychographics.** The psychographics – the study and classification of people according to their attitudes, aspirations, and other psychological criteria<sup>13</sup> – of today’s and tomorrow’s consumer differs considerably from that of the historical consumer. The current product was designed with yesterday’s consumer in mind (i.e., the Greatest Generation) and the success of the segment will depend on its attractiveness to the prospective consumer (i.e., the Silent Generation and Baby Boomers). The following summarizes some of the key differences:<sup>14</sup>
  - Less subject to peer influence and status issues – they are more likely to do it their way
  - Less responsive to embellished claims – want to see the facts and will do their homework
  - Less sensitive to price and more sensitive to value (assuming they can afford it)
  - Greater interest in having choice
  - Greater interest in intergenerational interaction
  - Greater interest in well-being and programming to support it
  - Greater interest in walkability to outside services and amenities
  - Greater comfort with technology
3. **Affordability will be of Greater Significance.** Many people need additional financial assistance in order to pay for today’s Seniors Housing – a challenge that is certain to be more significant in the future. For example, median rent for Assisted Living and Independent Living as a percentage of the median 75+ household income is approximately 135% and 95%, respectively.<sup>15</sup> With increasing longevity, decreasing prevalence of pensions, likely reform of social security and lower personal savings, many of the next generation of consumers will have a harder time affording today’s Seniors Housing options.

- 4. Prospect of Increasing Options.** Given the psychographics of the next generation consumer and the attention that the size of this demographic will attract, more alternatives to today's Seniors Housing will undoubtedly emerge. One of the more high-profile movements is that of the "virtual village" led by the not-for-profit organization Village to Village Network which supports over 250 villages across the country. This network provides services to people largely in their single family homes who wish to age in community.<sup>16</sup>

We should also expect for profit organizations outside of the field to offer new residential and service options that aim to better appeal to the consumer at more affordable prices. For example, Smart Living 360 is a new residential development and services company targeting older adults with select services on a la carte basis in walkable, mixed-use, intergenerational locations.<sup>17</sup> Its first community opens later this year in the Washington DC metro market and offers some of the key benefits of traditional Independent Living but at a significant price discount to traditional Seniors Housing.

- 5. Impact of the Evolution of our Health Care System.** Our healthcare system is undergoing an unprecedented transformation from a fee for service model to one which values health outcomes. The Center for Medicare and Medicaid Services (CMS) is focused on a "triple aim" of simultaneously solving for (i) better health for the population, and (ii) better care for individuals while at the same time (iii) lowering cost. The implications are significant for post-acute care as well as Seniors Housing. For post-acute care, we can expect increased scrutiny around cost and health care outcomes. Some industry experts expect significant changes in reimbursement methodologies within 6 to 18 months.<sup>18</sup> For Seniors Housing, we can expect greater importance in tracking health care outcomes and well-being measures, some of which may involve investment in technology systems to support.
- 6. Increasing Role of Technology.** The rapid change in technology – both consumer facing and infrastructure-related – will have a significant and growing impact on the field. With a greater desire to be in control and comfort with technology, the next generation of prospective consumers will expect more in regards to technology than in-building wifi. With the "internet of things" set to explode in the coming years<sup>19</sup>, future consumers will have much more technology to manage and they will expect their living environments to help support, not hold back, their ability to stay connected and age well using technology.

At the same time, it is important to not underestimate the role technology will have in creating alternatives to today's Seniors Housing. From the inevitable medical breakthroughs through the personalization of medicine to the ease of delivery of products and services exemplified through Amazon and Uber to the prospect of driverless cars being advanced by Google, it is hard to imagine the possibilities of tomorrow. These and other technological advances may create viable alternatives to today's product and have a profound impact on demand.

## TIME FOR A NEW ERA: AMBIDEXTROUS ORGANIZATIONS

Given the above, to properly address the challenges and opportunities of today and tomorrow, organizations must reorient how they think of themselves. Organizations must create a dual capacity: the ability to continue to *exploit* their current business but, at the same time, develop competencies to *explore* new business opportunities. In other words, they must become “**Ambidextrous Organizations**”.

Professors Charles O’Reilly of Stanford Business School and Michael Tushman of Harvard Business School are leaders in researching organizations that have become ambidextrous.<sup>20</sup> They have observed that leaders need to fully appreciate the differences between successfully managing mature businesses (“Exploitative”) and emerging businesses (“Exploratory”). Without an appreciation of these differences and careful strategy to see that both succeed, the exploratory business often struggles to compete for time, attention and resources amidst the more dominant exploitative business.

The following graphic depicts the key differences between Exploitative and Exploratory Businesses within an Ambidextrous Organization.<sup>21</sup>

*Chart 1: The Composition and Characteristics of an Ambidextrous Organization*

Ambidextrous Organization		
	Exploitative Businesses	Exploratory Businesses
Type of Innovation	Sustaining Innovation	Disruptive Innovation
Strategic Intent	Cost, Profit	Learning, Growth
Critical Task	Operations, Efficiency	Adaptability, New Products
Controls, Rewards	Margins, Productivity	Milestones, Growth
Culture	Efficiency, Low Risk, Quality	Speed, Risk Taking, Flexibility
Leadership Role	Authoritative, Top Down	Visionary, Involved

In their research, O'Reilly and Tushman have studied successes and failures of large companies seeking to innovate. Among success stories, IBM's transition from a technology company to a broad-based solutions provider was particularly noteworthy. In order to achieve this change, Lou Gerstner, then CEO, scrapped their historical strategic planning process in favor of a more dynamic process that accounted for the differences between their exploitative and exploratory businesses. They observed similarly successful execution techniques for initiatives within Cisco, USA Today and Davita, among others, and differences in failures at SAP, among others.

Ultimately, O'Reilly and Tushman conclude that the following five conditions increase the odds of organizations successfully becoming ambidextrous:<sup>22</sup>

1. **Compelling Strategic Intent.** There needs to be a compelling reason for organizations to justify the energies and risks associated with pursuing both exploration and exploitation.
2. **Common Vision and Values.** Shared vision and values provide for a common identity across exploitative and exploratory units and align interests and motivation. This proposition often requires a sufficiently broad identity (e.g., 'we are in the transportation business' vs. 'we are in the railroad business').
3. **Leadership Owns Success of Ambidexterity.** A senior team that explicitly owns the unit's strategy of exploration and exploitation; there is a common-fate reward system; and the strategy is communicated relentlessly. A CEO driving this effort is an absolute necessity.
4. **Separate but Aligned Organizational Structures.** Exploratory businesses need enough autonomy to not be squashed by how an organization manages its current exploitation businesses.
5. **Hold Tension at the Top.** The ability of senior leadership to tolerate and resolve tensions arising from separate alignments.

## ***Different Types of Innovation***

As part of this change, organizations must proactively think and plan for innovation. They must also have a nuanced understanding of the different types of innovation and how it applies to the organization. Two common types of innovation are **sustaining innovation** and **disruptive innovation**.

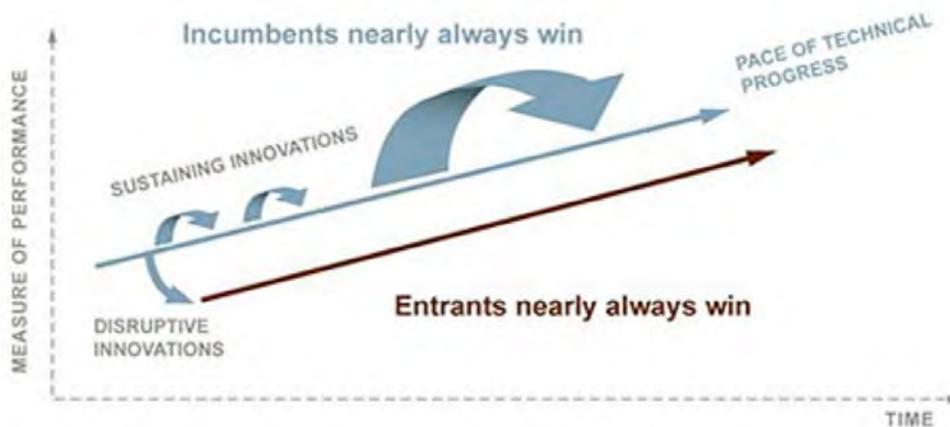
Sustaining innovation is an innovation that does not create new markets or value networks but rather only evolves existing ones with better value, allowing the firms within to compete against each other's sustaining improvements.<sup>23</sup> Sustaining innovations may be either 'discontinuous' – i.e., there is a transformational or revolutionary advancement in the field – or 'continuous' – i.e., there are more incremental changes. Examples may include improved automotive engines for cars, faster and cheaper microprocessors for computing devices, etc. Examples within the Seniors Housing field may include pricing model changes such as a la carte pricing instead of bundled pricing, a trend towards larger (or smaller) apartment unit sizes, adding home health care services to support aging in place, among other examples. In our observation, most sustaining innovations within Seniors Housing have been continuous in nature thereby improving the customer value proposition but not in a transformational or revolutionary way.

In contrast, disruptive innovation is an innovation that helps create a new market and value network, and eventually disrupts an existing market and value network.<sup>24</sup> The term was first coined in 1995 by Clayton Christensen of Harvard Business School. It is used in business literature to describe innovations that improve a product or service in ways the market does not expect, typically first by designing for a different set of consumers in a new market and later by lowering prices in the existing market (also called "new market disruption"). Examples include automobiles vs. rail transport, downloadable media vs. CDs/DVDs and smartphones vs. traditional mobile phones, among many others.

One of the best examples within the Seniors Housing field was the introduction of private pay Assisted Living in the 1980s as an alternative to skilled nursing. In this instance, Assisted Living attracted the lucrative private pay consumer and was able to create a scalable business model with attractive profit margins, longer resident length of stay and limited regulation. Meanwhile, skilled nursing lost its most profitable consumer segment and has struggled with the quality of its payor mix and increased regulation.

It is important to note that sustaining innovation tends to favor incumbents within an industry whereas disruptive innovation tends to favor entrants as the following graph illustrates.<sup>25</sup> This poses a risk for Seniors Housing providers who wish to rely on demographic growth for their continued success; when the next disruptive innovation is introduced to the field, complacent incumbents are most at risk.

*Chart 2: Comparison of Sustaining Innovation and Disruptive Innovation*



For Ambidextrous Organizations, pursuit of both sustaining innovation and disruptive innovation is important. Effective sustaining innovation helps increase the success of the organization’s exploitative business; disruptive innovative helps spawn exploratory businesses that may be pivotal for the organization’s future. In addition, internally created disruptive innovation can serve as an insurance policy against others who may introduce disruptive innovations that would otherwise disrupt an organization’s exploitative business. In other words, sometimes the best defense is a good offense.

Finding the proper balance between optimizing for today and preparing for tomorrow can be a challenge. The following two hypothetical examples in Seniors Housing illustrate the risks of falling too far behind or getting too far ahead of the market, respectively.

### Hypothetical Example in Seniors Housing #1: *An Imbalance Towards the Existing Business*

Imagine a Seniors Housing provider with a portfolio of high-end Independent Living and Assisted Living communities. Occupancy is strong and rent growth has been positive. However, average age of entry has increased and length of stay has decreased. The provider is in a good place but wants to improve its position through renovation of existing communities and new developments of its prototypical model. Observing the marketplace and based on resident and family feedback, the provider elects to create larger units, higher quality dining venues and add more services & amenities. The intention is to attract an affluent, younger consumer. However, the outcome is a more expensive offering that may not necessarily interest the next generation consumer.

<u>Advantages</u>	<u>Disadvantages</u>
<ul style="list-style-type: none"> <li>Incorporates sustaining innovations with regards to unit design, dining and other services &amp; amenities</li> </ul>	<ul style="list-style-type: none"> <li>Anchors perspective on current industry conventions; resources were not allocated to understand future business, future consumer</li> </ul>
<ul style="list-style-type: none"> <li>Execution risk is limited given familiarity with operating and development model</li> </ul>	<ul style="list-style-type: none"> <li>Sustaining innovations add features but with costs that, in combination, may not be compelling for future consumers</li> </ul>

*In the end, a commitment to solely improve the existing business exposes risks to disruptive models that may offer a more compelling value proposition for the next generation of consumers.*

### Hypothetical Example in Seniors Housing #2: *An Imbalance Towards the Future Business*

Imagine a Skilled Nursing provider that recognizes a need for change. Facilities are dated, Medicare census has declined and its reputation has been negatively impacted. With health care reform's shift from fee for service to population health, the provider decides to retool its short-term rehab business to become the most attractive destination in each of its markets. It invests heavily in technology and systems, modifications to the physical plant and a customer-focused culture. However, in the process, it neglects its existing business and bets on a future business before the government-driven economics were clear enough to properly underwrite.

<u>Advantages</u>	<u>Disadvantages</u>
<ul style="list-style-type: none"> <li>Recognizes opportunity to create a disruptive innovation and capture greater market share of short-term rehab business</li> </ul>	<ul style="list-style-type: none"> <li>Invested in an opportunity before economics were clear enough to properly underwrite investment</li> </ul>
<ul style="list-style-type: none"> <li>Invested to better understand the needs of the next generation consumer</li> </ul>	<ul style="list-style-type: none"> <li>Focus on new business marginalized the importance of executing current business</li> </ul>

*In this case, focus on a new business before the market was ready exposes the provider to greater risk.*

### ***Increasingly Common Approach to Innovation: Thinking of Innovation as a Process***

While innovation is aided by a visionary leader, innovation is more of process, not a single-minded stroke of genius. It involves the capacity for creativity and execution. As part of this process, the ability to prioritize and eliminate ideas is a key competency.<sup>26</sup> For ambidextrous organizations, this process must make considerations for both sustaining innovation and disruptive innovation.

The process for gaining key insights for sustaining innovation is becoming more popularized in business circles. One trend is the use of design thinking. Design thinking, as defined by Tim Brown CEO of IDEO, is “innovation powered by a thorough understanding, through direct observation, of what people want and need in their lives and what they like or dislike about the way particular products are made packaged, marketed, sold, and supported.”<sup>27</sup> It is rooted in understanding the targeted consumer in a more personal though not statistically significant way than other forms of market research, such as broad-based macro studies of the targeted consumer. It advocates rapid idea generation, rough prototyping of possible solutions and testing solutions with real prospective consumers for candid feedback.<sup>28</sup>

The process for achieving disruptive innovation looks different. While developing empathy for the targeted consumer is important, reframing the opportunity and paying heed to developments outside the field is even more important. Clayton Christensen, for example, suggests that disruptive innovators need to unlearn what managers often accept as golden rules, chief among them is to listening and responding to the needs of one’s best customers.<sup>29</sup> One approach that we have found particularly helpful is using the Blue Ocean Strategy framework to help encourage outside the box thinking and challenge core hypotheses.<sup>30</sup> Blue Ocean Strategy recommends to look outside the current “red ocean” where existing competition generally only differentiates on price and to focus on uncontested market space with a differentiated value proposition.

Innovating solely using internal resources can be challenge, particularly when considering disruptive innovation. Leaders are often not fully aware of their biases or blind spots. They also may not be as in tune with best practices both within and outside of the field in the area of innovation. Partnering with outside organizations which have an unbiased perspective and can safely assume a devil’s advocate position can be immensely valuable in identifying these opportunities for innovation.

## HOW TO BECOME AN AMBIDEXTROUS ORGANIZATION IN SENIORS HOUSING

For a number of organizations in Seniors Housing, becoming ambidextrous will not be easy. Some organizations have been in existence for decades and have well-established cultures based on a traditional exploitative business model. Some firms have limited first-hand experience with innovation as a process, particularly disruptive innovation. It is likely a transition to become an ambidextrous organization will require a different mindset and involve a steep learning curve.

It should be noted that this transition may be more challenging for not-for-profits than for profit organizations. At the same time, the rewards may also be greater (see inset).

In our experience in working with organizations in Seniors Housing, a move to transform into an ambidextrous organization typically involves the following five steps:

1. **Question Core Assumptions of the Industry, Current Business.** One must explicitly outline and question the key assumptions underpinning the industry and an organization's business model. It is important that the questions are sufficiently broad and that leaders understand that some questions are not easily or quickly answered. For some of the most important and most challenging questions, leaders may have to 'live in the questions' – meaning that they may have to struggle with these questions for some time and bring to bear additional information and perspective to refine their position. Fresh eyes looking at an organization – such as those from new employees, board members and strategic partners – can be instructive to see what is otherwise unseen by leaders of the organization.

Below are an example of some questions for organizations in Seniors Housing to consider:

- *For Independent Living:*
  - Why do 90%+ of independent seniors choose not to move into Independent Living communities?
  - What are the implications if the profile of new residents follows the current trend of older, frailer and sicker?
  - For Entrance Fee CCRCs, what if the Entrance Fee and bundled services business model is no longer viable or compelling to consumers?

- *For Assisted Living:*
  - If “Yelp for Assisted Living” existed and was widely available, how favorably would your community be rated?
  - What are the implications if your community becomes primarily residents with dementia?
  - If acuity trends continue, what infrastructure is required, including the appropriate staffing and training, to provide excellent care and deliver top health care outcomes?
  
- *For Post-Acute Care and Skilled Nursing:*
  - If “money follows the person”, why should a person choose your skilled nursing facility?
  - For rehabilitation services, what clarity is there on reimbursement rates – esp. in a bundled payment or Accountable Care Organization (ACO) model – and what can be done to create areas of competitive advantage or differentiation?
  - For long term care, what does long term care in a skilled environment look like in the future as alternative forms, including home care and Assisted Living, provide comparable quality at lower cost? Is this an attractive business to remain in?

At this stage, it is also important to look at non-customers in the industry. For example, what could be changed to attract younger or less affluent customers into the segment? Blue Ocean Strategy thinking is an important step.

2. **Create a Compelling & Clear Vision and Reason for Growth Led by the CEO & Board.** No one is more important than the CEO and Board in taking ownership of the questions and providing an imperative for growth. This vision may include very different avenues for growth than the organization has traditionally experienced; for example, it might come in the form of services rather than bricks and mortar.

The CEO and Board must be persuasive in this vision and be able to articulate it clearly to gain organizational alignment and clarity of purpose. It must not be overly ambitious. If new priorities are established to help plan for tomorrow, it is highly likely that other initiatives must be jettisoned or reprioritized. Typically, organizations try to take on more than they can handle and the quality and speed of all initiatives are compromised.<sup>31</sup>

- 3. Evaluate Current Organization and Initiate Changes to Position for Success.** Leaders need to critically evaluate their current organization, including talent, structure and culture, to assess whether the organization is properly equipped to transform into an ambidextrous organization. In our experience, changes are almost certain to be necessary.

One of the areas of change is the organization's budget. Dollars and management time need to be allocated to make bets on and learn about tomorrow's business. Some organizations call this an "R&D" budget. For traditional organizations focused on the exploitation of the current business, such allocations have not been necessary; for ambidextrous organizations they are part of the lifeblood for the organization's success. Some of these funds can be used on design thinking practices and other pursuits to identify potential disruptive innovations.

As mentioned previously and outlined in Chart 1 on page 5, the metrics for an exploratory business are markedly different than for an exploitative business. For an exploitative business, the return on investment tends to be strictly financial and more certain. For an exploratory business, the return on investment initially comes primarily in the form of learning and growth. Over time, however, the hope and expectation is that the financial return for the exploratory business exceeds that of the pre-existing exploitative business.

- 4. Introducing a New Vernacular and Way of Thinking About Innovation.** When transforming into an ambidextrous organization, it is also important to introduce new terms in a clear and understandable way. Employees at many levels of the organization need to be schooled on the philosophy behind ambidextrous organizations and be able to differentiate between sustaining and disruptive innovation. At best, this education will help various people on the front lines of the organization, particularly those in sales & marketing that interface with prospective customers on a daily basis, help identify potential opportunities for the organization.
- 5. Establish Accountability of Both Today and Tomorrow.** Leaders need to have a sense of ownership in the pursuit of becoming an ambidextrous organization. Key success factors and metrics need to be established for both mature businesses and the future businesses. These outcomes will be different. The tendency will be to focus on the mature business as it is more clearly defined and contributes more meaningfully to the current cash flow of the organization. However, to do so will starve the future business. Therefore, systems must be put in place that help create incentives that enable traction for both businesses. At a minimum, a CEO must be accountable for progress in both areas.

## THE UNIQUE CHALLENGES AND BENEFITS FOR NOT-FOR-PROFIT PROVIDERS

Based on the historical success and leadership role of the not-profit segment of Seniors Housing, select not-for-profit providers have the financial wherewithal and predilection to invest in innovation.

We have worked with a number of not-for-profit clients seeking to become ambidextrous organizations. We have observed the following challenges and benefits for this group:

### *Leading Challenges*

1. **Particular Need for Unified Leadership, Compelling Vision.** In the case of not-for-profit organizations, the Board and CEO must jointly create and own the vision for the organization. Together, they must positively influence the various stakeholders, including current and prospective residents and their families, staff, donors and other interested outside groups with an understanding that each may have unique needs to be addressed.
2. **Discomfort with Innovation.** For many not-for-profits in Seniors Housing, the cultural DNA has been rooted in providing compassionate care. Creating an innovative culture is not at odds with a caring culture but it requires a broader skillset. Key stakeholders must get comfortable with the costs and benefits of innovation and understand how it fits into the current organization, particularly as it relates to disruptive innovation.
3. **Resistant to Change.** Long-tenured leadership and staff can be blind to some of the gaps in their current organization and boards of directors, particularly considering their fiduciary responsibilities, can be predisposed to not change. It is critical that all parties understand the strategic imperative for change and work to overcome organizational inertia.

### *Leading Benefits*

1. **Ability to See and Plan Long-Term.** Not necessarily seeking or facing pressures of optimizing near-term profit, not-for-profits can take the long view and identify exciting growth opportunities.
2. **Empowering & Encouraging Board.** A talented and engaged board can help provide invaluable wisdom, encouragement and perspective to the CEO and the Leadership team.
3. **Power of a Strong Culture.** The same culture that can be resistant to change can later become a key enabler in the not-for-profit's future success. Rallying various parties around a new vision can be a challenge but, if achieved, these same groups can be the driving force behind lasting change. Each organization has a tipping point where the existing culture moves from an impediment to change to an enabler of change.

## NEED FOR A NEW APPROACH TO STRATEGIC PLANNING

Fundamental in the process of becoming an ambidextrous organization is rethinking strategic planning. In our view, strategic planning is not a top-down process led by a couple of individuals with specific mandates for the future with the implicit assumption that the future is reasonably certain. It is not based on a five, ten or fifteen year horizon where a plan is bound and placed in a bookshelf.

Rather, we see strategic planning as a dynamic process that may not necessarily have a clear beginning and end. Particularly for ambidextrous organizations, there is a constant calibration and balancing between optimizing for today and placing bets on the future. It involves a commitment to understanding and asking questions about the current business, industry and its non-customers and having the creativity and courage to envision and help shape the future.

With our clients, we use a three step, iterative process following the Point Forward Solutions' "GPS for the Senior Care" metaphor. The following graphic outlines the approach.

Chart 3: The Point Forward Solutions Dynamic Strategic Planning Process



## IMAGINING THE FUTURE – NOKIA OR APPLE?

In 2000, Nokia never could have imagined the path that would lead to irrelevance in the mobile handset industry in just fifteen years. They were unsuccessful at being ambidextrous. Apple, on the other hand, has marveled the world with their repeated success of exploiting their current business and exploring new businesses. At the end of 2014, their market capitalization is the highest in the world at nearly \$650 billion, more than 60% greater than the second highest company.<sup>32</sup> Their formula for operating as an ambidextrous organization is working and has survived the passing of its iconic leader, Steve Jobs.

Leaders in Seniors Housing should take careful note. The next chapter in the industry will be a high risk and high reward game. Changing sparingly or only incrementally, a successful strategy in recent decades, will not be a viable strategy in the future. Innovation – both sustaining and disruptive – will need to be competencies of all leading organizations in the field. “Innovate or die”, a common adage in Silicon Valley, will have direct applicability to the industry of Seniors Housing.

The key to the future is to become an Ambidextrous Organization. Such organizations are adept at simultaneously exploiting today’s businesses and exploring tomorrow’s opportunities. The transformation will likely be a challenge for many organizations in Seniors Housing. For those that are intent on this outcome, there is a formula to follow but it will be difficult to achieve on their own.

Looking out fifteen years to the year 2030 may seem far away. Over that time span, there will be massive change, only some of which is possible to accurately predict. However, the leading organizations of tomorrow will be actively preparing for the future starting today. To not do so may be the riskiest strategy of all.

## **ABOUT POINT FORWARD SOLUTIONS**

Point Forward Solutions is a strategy and innovation consulting firm serving the Seniors Housing & Care field. The firm serves as GPS for the Senior Care Industry in that it helps organizations identify where they are, where they should be headed and how best to get there. The firm has served dozens of clients ranging from national for profit operators and not-for-profit providers to Fortune 500 service providers to institutional investors.

## **ABOUT THE AUTHOR**

Ryan Frederick is the Founder and Principal of Point Forward Solutions and the Founder and CEO of Smart Living 360, a startup development and operating company focused on delivering innovative living experiences with a particular focus on well-being. He is recognized as a thought leader and innovator in the Seniors Housing & Care and related Health Care Services industries. He is a frequent panelist, speaker and instructor for organizations such as the National Investment Center for the Seniors Housing and Care Industry (NIC), Erickson School at UMBC, LeadingAge and Senior Living 100, among others. He has held leadership positions at leading operators, including Erickson Living and Sunrise Senior Living, two of the largest Seniors Housing companies. He has also been a Principal at a specialized private equity firm focused on the sector. He holds a BSEE from Princeton University and MBA from the Stanford Graduate School of Business.

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- <sup>1</sup> Wikipedia on Nokia.
- <sup>2</sup> Properly defining the industry is important and can be somewhat arbitrary. For the purpose of this white paper, the definition is intended to be broad.
- <sup>3</sup> As of Q4 2015, occupancy was 91.3% and 89.3% for Independent Living and Assisted Living, respectively. Data from NIC MAP Data Service.
- <sup>4</sup> “Seniors Housing Stacks Up”, Commercial Investment Real Estate Magazine, Jan/Feb. 2015, Beth Burnham Mace.
- <sup>5</sup> NCREIF.
- <sup>6</sup> NIC MAP Data Service.
- <sup>7</sup> US Census 2012 National Population Projections.
- <sup>8</sup> US Census 2012 National Population Projections.
- <sup>9</sup> NIC MAP Data Service, As of Q4 2014. It is worth noting that there is some debate as to whether this penetration rate will increase, stay the same or decrease in the future overall and by segment of Seniors Housing. There are some industry observers who believe that the penetration rate for CCRCs has decreased in recent years due to the lack of new supply and continued population growth but there is insufficient data at this point to come to a conclusion.
- <sup>10</sup> Extrapolated based on NIC MAP Data Service, As of Q4 2014. Total number of units in top 31 Metro Markets is 534,481 as of Q4 2014.
- <sup>11</sup> “Seniors Housing Stacks Up”, Commercial Investment Real Estate Magazine, Jan/Feb. 2015, Beth Burnham Mace; NIC Insider Newsletter 2015, January Issue.
- <sup>12</sup> American Seniors Housing Association (ASHA), 2012.
- <sup>13</sup> Wikipedia on psychographics.
- <sup>14</sup> “A Voice to the Silent Generation”, Morrison Dining, 2007; “Senior Living for the Next Generation”, American Seniors Housing Association, 2011; “Housing in America: The Baby Boomers Turn 65”, Urban Land Institute, 2012. Note that as of 2015, the ages of the Greatest Generation, Silent Generation and Baby Boom Generation are 88 years of age and older, between 70 and 87 years of age and 51 and 69 years of age, respectively.
- <sup>15</sup> Based on a presentation for the 2014 NIC Regional Conference moderated by David Watkins of SHA Capital Partners.
- <sup>16</sup> Based on a press release from the Village to Village Network on January 6, 2015.
- <sup>17</sup> Smart Living 360 is a company founded by Ryan Frederick. Its first community, The Stories at Congressional Plaza, is developed in partnership with Federal Realty Investment Trust, a public retail REIT, and is located in the DC metro market.
- <sup>18</sup> Insights from 2014 Direct Supply Executive Operators Forum (EOF).
- <sup>19</sup> According to BI Intelligence, the number of connected devices is expected to increase from approximately 8 million in 2014 to nearly 20 million by 2018.
- <sup>20</sup> Professors O’Reilly and Tushman have written extensively on this topic of Organizational Ambidexterity including papers such as “Organizational Ambidexterity in Action: How Managers Explore and Exploit”, Summer 2011, California Management Review; “The Ambidextrous Organization”, Harvard Business Review, 2004; “The Ambidextrous CEO”, Harvard Business Review, 2011.
- <sup>21</sup> Adapted from “The Ambidextrous Organization”, Harvard Business Review, 2004.
- <sup>22</sup> “Organizational Ambidexterity in Action: How Managers Explore and Exploit”, California Management Review, 2011.
- <sup>23</sup> Wikipedia on Disruptive Innovation.
- <sup>24</sup> A value network is a business analysis perspective that describes social and technical resources within and between businesses. Source: Wikipedia on Value Network.
- <sup>25</sup> Courtesy of the Tippie College of Business at the University of Iowa.
- <sup>26</sup> See The Economist Survey “Something New Under the Sun: A Special Report on Innovation”, October 13, 2007, for additional insight on innovation as a process.
- <sup>27</sup> “Design Thinking” by Tim Brown, Harvard Business Review, 2008.
- <sup>28</sup> The Lean Startup: How Today’s Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses, 2011.
- <sup>29</sup> “Something New Under the Sun: A Special Report on Innovation”, October 13, 2007.
- <sup>30</sup> Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant, 2005.
- <sup>31</sup> “Essentialism: The Disciplined Pursuit of Less”, Greg McKeown, 2014. There is also a video available at <http://gregmckeown.com/essentialism-the-disciplined-pursuit-of-less>.
- <sup>32</sup> Yahoo Finance, as of December 31, 2014. Apple’s market cap was \$647B, the highest among publicly traded companies. Exxon was second greatest at \$391B.