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## Generation Solutions of Lynchburg (B)

### **Cover Page Footnote**

This case was prepared to support analysis and discussion of a business situation. It is not intended to represent either effective or ineffective business practices.

# Generation Solutions of Lynchburg (B)

A Case Study

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## Introduction

It was head-scratching time again. Tulane Patterson, owner of Generation Solutions of Lynchburg (<https://www.generationsolutions.net>) had just put down the latest reports of his company's financial performance. While he was pleased with the results, he knew that the markets that his company competed in would become increasingly competitive, and he had been mulling over five possible paths for growing his business.

One involved taking his existing business model and reducing the costs of service delivery to serve customers further down the income and wealth scales than his current clientele. A second path would be to innovate in the services offered or the means of delivering them and thus leap-frog his competition. A third path would be to grow by acquiring other similar firms. He had received overtures in the recent past from similar businesses interested in selling out to him, and was certain he would receive others. A fourth path would be for him to sell his business to someone else. He was receiving one or two calls a week from hedge funds and other firms inquiring whether he would entertain an offer to that effect. The fifth, and final, path under consideration was to grow the business organically by expanding Generation Solutions' reach into other geographic markets.

For reasons that differed from path to path, Tulane did not find any of the first four paths particularly attractive – especially if the fifth path offered enough promise. At the moment Generation Solutions customers were located in the Lynchburg and Roanoke, Virginia metropolitan statistical areas. Tulane was interested in knowing if other areas in Virginia would offer market opportunities similar to those which Generation Solutions already enjoyed.

## The Current Business Model

Generation Solutions (hereafter Generations) existed to provide home care services for seniors who wished to stay in their homes in their later lives. As noted on their website, Generations provided:

- visits by nurses who assisted with medication management and skilled nursing;
- persons who provided companionship, assisted with meal preparation, transportation for appointments, shopping, and medication reminders among other things;
- home health aides who assist with personal hygiene, bathing, medication management, recording of vital signs, and other tasks;
- geriatric care managers who perform client assessments and develop detailed care plans, supervise in-home care, and as liaison with family members;

These were provided under two different business “roofs”.

## The Government Pay Market

Services under the first roof – the government pay market – where services are contracted through the U.S. federal government’s Medicare administration, were offered in Lynchburg only. The initiating event for most patient care under the government pay roof is discharge from a hospital or other medical treatment facility. Generations constructs a plan for providing for the care needed by the discharged patient in their home environment, including skilled nursing, speech therapy, physical therapy, and occupational therapy. The patient’s care plan must be filed within 24 hours after discharge from the hospital. Medicare will then pay for home health aide visits under the plan. The typical home-care visit lasts between 25 minutes to an hour, and the aides can only perform health care services authorized under the plan. Generation Solutions files the care plan, with all the necessary diagnostic codes, with Medicare at the start of the 60-day episode of care. The company receives 60% of the authorized payments from Medicare (generally within 3 to 5 days) on filing the admission plan, with the remainder received (generally within a month) after the final bill is reconciled at the end of the 60-day period. Generation Solutions files for payment through a Medicare approved vendor which charges the company for its services.

As with so many other care providers, Generations was finding itself squeezed by changes in Medicare eligibility and reimbursement rates. Services provided under this roof had been profitable in the past, but Generations had found itself losing money in government pay services in 2016 – a problem that had only been narrowly reversed during 2017. While it remained part of Generations’ mission, government pay services would not offer much in the way of profit growth in future. The emphasis, thus, would have to be placed on services offered under the second roof, the private-pay market.

## The Private Pay Market

Clients in this market paid for Generations’ services using a variety of sources. The first source was the income earned from defined income retirement plans or retirement plan assets (such as 401-K plans) accumulated during the person’s working lifetime. A second source was provided by private savings or investment accounts also accumulated while the person was working. A third source was retirement (and in some cases, disability) income provided through the U.S. Social Security Administration. A fourth source of payment was provided by family members who

contributed from their personal resources to their elder’s care. A fifth source was drawn from the equity in their home built up over time. This could be “tapped” using a home-equity line of credit or through a reverse mortgage, although most elders were reluctant to use these unless it was truly needed. Finally, payments made by insurers under long term care insurance plans could provide for in-home medical and personal care expenses. Such payments had been relatively rare in the past as most long-term care plan policies had only been written during the last twenty years or so. Those policies were now “maturing” along with their owners and were growing as a source.

These sources can quickly become strained from the needs generated by old age and infirmity. (See the Appendix for a discussion of the latter.) Expenses for personal care in old age are substantial as Table 1 shows. Contracted services delivered in the home can run considerably more. At a typical charge rate of \$22.00 per hour, the total can mount rapidly as the hours contracted for expand. Private pay providers like Generations typically bill between \$10,000 to \$11,000 a month for around-the-clock care. Only a few households can afford to pay expenses of this magnitude for long periods of time.

	Median Daily Cost	Median Monthly Cost
<b>Homemaker Services</b>	\$119	\$3,623
<b>Home Health Aide</b>	\$122	\$3,716
<b>Adult Day Care</b>	\$46	\$1,408
<b>Assisted Living Facility</b>	\$130	\$3,950
<b>Nursing Home, Semi-private Room</b>	\$221	\$6,714
<b>Nursing Home, Private Room</b>	\$244	\$7,422
Source: Genworth Financial		

The alternative for around-the-clock care is a nursing home, however movement to a nursing home is not a happily anticipated event. Besides the expense, most elderly would strongly prefer to stay in their own home and neighborhood community rather than uproot and move, even if it is to a nearby facility. The loss of familiar surroundings and possessions, getting to know a whole new set of acquaintances, and being governed by schedules and routines they did not personally establish are all off-putting. The move to a nursing home is often resisted, but staying in the home becomes increasingly problematic and even dangerous, especially when no children live nearby and daily visits are obviated by distance. Still, about 5% of those over 65 reside in a nursing home with the percentage rising as age advances. Eleven percent of those 85 and older live in a nursing home and nearly 50% of those 95 and older do.

Table 2 2014 Income Percentage of Households by Income Bracket			
	\$100,000 to \$149,999	\$150,000 to \$199,999	\$200,000 and Up
<b>Lynchburg Office</b>			
Lynchburg City	8.6%	2.6%	2.4%
Amherst County	11.3%	1.5%	1.0%
Bedford County	13.9%	4.5%	3.1%
Campbell County	11.5%	2.6%	1.5%
<b>Roanoke Office</b>			
Roanoke City	6.8%	2.4%	1.7%
Roanoke County	15.2%	4.9%	4.1%
Source: U.S. Census Bureau, American Community Survey Estimates			

Table 2 shows the percentages, by pre-retirement income bracket, for the populations in Generations current service areas. The first four areas listed are serviced by the Lynchburg office. The two that follow are serviced out of the Roanoke office. Households that could afford the kind of around-the-clock care that Generations provides fall into the two upper income brackets in the table in terms of pre-retirement income. A typical Generations private pay customer would be retired and have an annual income of about \$50,000 (often more), much of it derived from investments. Most of the people in these households had worked in professional or technical fields or were small business owners. Their net worth was well above the median for their communities, with investment portfolios worth \$1-1.5 million and home equity values of \$500,000 or more.

Table 3 contains a breakdown, by major age group, for the population in Generations current market territories. Given advances in medicine and changes in employment patterns, many of those in their late 60's or early 70's will continue to work and earn income, but age eventually takes its toll. As noted in the Appendix, by the mid-70's the debilities of old age (particularly senile dementias and Alzheimers) begin to manifest themselves in increasing degree. These end the period of work and increasingly necessitate reliance on others to assist with routine functions of life.

	<b>Headcount</b>	<b>Ages 65 to 75</b>	<b>Ages 76-85</b>	<b>Ages 85 and Over</b>
<b>Lynchburg Office</b>				
Lynchburg City	79,047	5,199	4,438	2,029
Amherst County	32,062	3,294	1,747	643
Bedford County	77,095	8,302	4,164	1,212
Campbell County	55,101	5,530	2,806	1,101
Total	243,305	22,325	13,155	4,895
<b>Roanoke Office</b>				
Roanoke City	99,774	7,372	4,085	2,785
Roanoke County	93,979	9,293	5,418	2,470
Total	193,753	16,665	9,503	5,255
Source: U.S. Census Bureau, American Community Survey Estimates				

Fortunately for Generations, the population in their current service areas is expected to grow as Table 4 illustrates. In the areas serviced by the Lynchburg office, Bedford County – reflecting the growth in suburban communities like Forest, was projected to grow the fastest, with 2030 headcounts increasing by 11.9% over those of 2014. For the areas serviced out of the Roanoke office, Roanoke county – at 10.7% - was projected to grow more by 2030 than Roanoke City.

	<b>2014 Total Headcount</b>	<b>2020 Projected Headcounts</b>	<b>2030 Projected Headcounts</b>
<b>Lynchburg Office</b>			
Lynchburg City	79,047	80,229	83,840
Amherst County	32,062	33,353	34,386
Bedford County	77,095	77,257	86,235
Campbell County	55,101	57,834	60,459
Total	243,305	248,763	264,920
<b>Roanoke Office</b>			
Roanoke City	99,774	99,287	101,174
Roanoke County	93,979	98,413	104,063
Total	193,753	197,700	205,237
Source: Weldon Cooper Center, University of Virginia			

Fundamental demand for Generations' services was poised to grow, but whether that would meet Tulane's goals for revenue growth was another question. Services revenue for the Lynchburg private pay business had been growing at slightly over six percent per year for several years. With the population projected to grow at over seven percent per year it seemed that expansion of primary demand would be sufficient to meet his goals for the Lynchburg office, but not for the Roanoke office where population growth would fall short of six percent per year.

Moreover, Tulane knew that competition was about to heat up in his existing markets which already hosted a number of major competitors. In the Lynchburg area there were ten other competitors including Centra Health (a major hospital) and a number of franchise chains like Home Instead. Others (e.g., Visiting Angels) were expected to enter soon. Generations already had ten competitors in the Roanoke area, and more were expected to enter over the next year or two. (See Table 5 for a listing of competitors in Generations' current markets.) While the service population would be growing, the market pie would be sliced ever more thinly. It was clear that Generations would need to find additional markets to serve if it was to meet its six percent plus revenue growth goals.

## Where Next?

Tulane had been mulling over a map of Virginia (See <http://geology.com/state-map/virginia.shtml>) and the communities where Generations had yet to establish a presence. Generations currently had 200 private pay customers, with roughly equal numbers in the Lynchburg and Roanoke areas, and Tulane would like to see the total number of customers grow.

There were possibilities within reasonable drive times from Generations' current offices. The Blacksburg area, for instance, could be serviced from the Roanoke office. Similarly, Lexington or Charlottesville could be taken care of by the Lynchburg office. More distant areas such as Fairfax in northern Virginia or Richmond in the tidewater area would require establishing new offices, although internal cash flow from the existing businesses would allow for that if the market potential was high enough. Going outside of Virginia, say to North Carolina, would entail navigating the intricacies of a different regulatory environment – something that Tulane was not prepared to do.

Wherever it was located, a new market area would have to offer an adequate number of prospective clients like those that Generations already had. Additionally, a new area could not be crowded by existing competitors. Developing the profiles and potentials for new market areas was going to take a lot of time and web work. At the moment, neither Tulane nor any of his staff had time they could peel away for the effort. He wondered if an intern from a local college might be able to do the job. Perhaps they could do the spade work to identify where the company should market its services next.



Table 5				
Virginia Home Care Providers				
Company	Number Of Locations	Hospital Affiliated?	Affiliate In Lynchburg?	Affiliate In Roanoke?
Home Instead	20		Yes	Yes
Amedisys Home Health	15		Yes	Yes
Team Nurse, Inc.	14		Yes	Yes
At Home Care	13			
Interim HealthCare	13			Yes
Care Advantage	12			Yes
Home Recovery HomeAid, Inc.	10		Yes	Yes
Sentara Home Care Services	10			
Bon Secours Home Care	9	Yes		
Gentiva Health Services	9		Yes	Yes
Personal HomeCare, Inc.	7			
Riverside Private Duty	7			
Carillion Home Care Services	6	Yes		Yes
Comfort Keepers	5			
The Concordia Group, Inc.	5			
Advanced Heath Services, Inc.	4			Yes
At Home Care Staffing, Inc.	4			
Continuing Care Personal Services	3			
Gentiva Hospital	3			
Bayada Home Health Care	2			
CareSouth	2			
Centra Home Health	2	Yes	Yes	
Centra Home Hospice	2	Yes	Yes	
Divine Home Care, Inc.	2			
Generation Solutions	2		Yes	Yes
Helping Hands Home Health Care , Inc.	2			
PSA Healthcare	2			
ResCare HomeCare	2			Yes
Riverside Home Health	2			
Senior Independence	2		Yes	
First Dominion Home Health Care	1		Yes	
Seven Hills Home Health	1		Yes	
Other agencies with one location	60			

Source: Virginia Association for Home Care and Hospice, Member Directory, 2015-2016

## APPENDIX

*“Age with stealing steps hath clawed me in his clutch.”*

As this quote from Shakespeare’s Hamlet notes, nature did not design humans for old age. Until advances in medicine in the 19<sup>th</sup> century began extending life spans, death before people reached their 60’s was common. Advances in medicine during and after World War II dramatically changed the picture. A man who reaches 65 today can expect to live, on average, until a little over 84. Women reaching 65 today can expect to live until nearly 87. One in four 65 year-olds today can expect to live past age 90, and one in ten past age 95<sup>i</sup>. This is up-ending a lot of calculations, especially those for Medicare – the primary source of health insurance for retirees.

The list of ailments that increase with age, particularly past 70, is long. Blood pressure increases, incidence rates for heart attacks and strokes rise and these can precipitate a sudden decline into debility. Osteoarthritis manifests itself and makes the normal motions of life increasingly painful and difficult. Joints swell and stiffen, particularly in the fingers, and along with deterioration in touch sensitivity make hitherto routine things like opening small containers or manipulating small items like pills difficult. Vision deteriorates. Light levels once sufficient to see things clearly are no longer adequate. Cataracts, macular deterioration, and other changes in the lenses or retina make it difficult to read fine print, see things at a distance, or to detect motion. Difficulty with hearing increases, particularly as sensitivity to higher frequencies declines, and understanding even simple speech becomes difficult. Even with regular exercise, muscle mass and strength decline. Sitting in or rising from a chair can become difficult, and negotiating stairs becomes an arduous exercise. Changes in the inner ear and brain render balance more precarious and falls become more frequent. Bone density decreases as osteoporosis sets in. Bones become more fragile and more easily broken under stresses they once would have withstood. The brain degenerates in its structure and functions, and these neuro-degenerative changes (e.g., senile dementia, Alzheimer’s) interfere increasingly with perception, cognition, and memory. Reaction times slow and the ability to detect changes in the immediate environment declines.

While the age of onset and speed of progression will differ from person to person, all of these will manifest themselves to some degree in nearly everyone, becoming acute in some respect for most people by the time they reach their mid-70’s. Normal functions of life such as preparing meals, bathing, or toileting become difficult or even hazardous. Medications for chronic conditions are skipped, taken at the wrong times, or in the wrong doses. Things get lost. Bills are not paid on time, or at all. The bank returns a check because it can’t make out the scrawl on the signature line. Falls begin to increase in the frequency and severity of their consequences. Remembering how to get to familiar places, like the grocery store or the doctors’ office, becomes problematic and elderly drivers often become lost.

Driving a car becomes hazardous. By age 85 Injuries suffered in car accidents by elderly drivers increase by nearly three times from what they were between ages 60 and 69. For the same time spans, deaths among elderly drivers from car accidents increases by a factor of nearly 10<sup>ii</sup>. Problems compound as elderly drivers who have a history of falling are 40% more likely to be involved in crashes than their peers<sup>iii</sup>. Elderly parents and their children are increasingly destined to have fraught conversations about giving up the car keys. A traffic accident often precipitates the need to give up driving and lose the independence and convenience it provides. Or, a severe fall and debilitating injury makes it clear that the elder can no longer adequately provide for themselves and will need daily assistance with the routine tasks of life.

And, the bills – especially the medical bills – mount as the resources to pay for them decline. Elderly parents and their children find themselves casting about for personal and health care alternatives to independent living.

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<sup>i</sup> <https://www.ssa.gov/planners/lifeexpectancy.html>, Retrieved 6/21/2016.

<sup>ii</sup> Motor Vehicle Crashes, Injuries, and Deaths in Relation to Driver Age: United States, 1995 – 2010. AAA Foundation for Traffic Safety.

<sup>iii</sup> Fall-Prone Elderly at Higher Risk for Traffic Crashes. AAA World, July/Aug. 2016, p.4.