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# Evaluate opportunities in the German senior care market for Carlton Life

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**Abstract:** This thesis is based on the CEMS business project *Evaluate opportunities in the German senior care market for Carlton Life*. It focuses on the development of an optimal strategy for Carlton Life, a Portuguese senior care operator, to enter the German senior care market by attracting German seniors to Portugal in order to reach its ambitious growth objectives. The project was conducted in collaboration with Menlo Capital, a Portuguese private equity firm and minority shareholder of Carlton Life. A new business model is proposed that focuses on offering short-term stationary care in collaboration with hotel partners.

Keywords: market entry, private equity, senior care, strategy.

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# Glossary

**Ambulant care**: Individuals in ambulant care are cared for within their own homes by ambulant care professionals who regularly visit them. It is one of the three types of care.

**At-home care**: Individuals in at-home care are cared for within their own homes by their families. It is one of the three types of care.

**Dependency level I**: Individuals with dependency level I require on average at least 90 minutes of daily care.

**Dependency level II**: Individuals with dependency level II require on average at least 180 minutes of daily care.

**Dependency level III**: Individuals with dependency level III require on average at least 300 minutes of daily care.

**Facility (stationary care)**: A facility is defined as one physical location of a stationary senior care provider with one or more housing units. An average facility has a capacity of 60 beds.

**Large-sized ambulant player**: Ambulant players with more than 6 operating offices.

**Large-sized stationary player**: Stationary players with more than 15 facilities.

**MDK**: The MDK ("Medizinischer Dienst der Krankenversicherungen") is responsible for the regulation, governance and classification of dependency levels of people in need of care. The MDK also regulates the pricing of senior care operators and is supported by the health insurance funds as well as the German government.

**Medium-sized ambulant player**: Ambulant players with 2 – 6 operating offices.

**Medium-sized stationary player**: Stationary players with 5 – 15 facilities.

**Operating office (ambulant care)**: An operating offices is defined as the base of the ambulant care provider and serves on average 100 clients within a limited geographical radius.

**Private / public provider**: Since the MDK regulates the pricing of senior care based on an operator's cost structure, the industry's profit margins are slim to non-existent. While the costs equal pricing for most public (non-profit) providers, resulting in no profits at all, only some private (for-profit) operators are able to generate small profit margins since they are not bound to the nursing staff's regulated labor agreements and are thus able to hire a more cost-efficient workforce.

**Small-sized ambulant player**: Ambulant players with 1 operating office.

**Small-sized stationary player**: Stationary players with less than 5 facilities.

**Stationary care**: Individuals in stationary care live in a senior care facility full-time and are cared for there. It is one of the three types of care.

# 1. Business project context

## 1.1 Problem definition

The business project's deliverable was to develop an optimal strategy for Carlton Life (CL) to enter the German senior care market in collaboration with Menlo Capital (MC). Since CL considers the German senior care market as a potential expansion opportunity and means to reach its growth targets, the project's objective is relevant to the company's long-term goals.

## 1.2 Client

The client, CL, is a senior care operator based in Portugal which manages stationary care facilities in Porto and Estoril. The company's main objective (cf. slide 8f.)[1] is to grow extensively in the following years with a revenue target of 27.2M € for 2020 up from the 1.7M € in 2014 (MC, 2014). Incorporated in 2004, CL underwent major corporate restructurings with the company being acquired by HPP in 2010, the company being bought out by management in 2013 and the company selling 49% of its shares to private equity firm MC in 2014.

The collaborator, MC, is a Portuguese private equity firm and minority shareholder of CL (49% stake) since 2014. Founded in 2013 and having invested into two portfolio companies, MC's investment in CL is intended to support the company's rapid expansion plans. In order to achieve CL's growth targets, MC decided to consider the German senior care market as a potential expansion[2] opportunity.

## 1.3 Current client situation

CL's mission is to offer diversified, customized and specialized solutions for seniors in need of care through a superior service and by leading the market in terms of the value-for-money ratio. The target group is composed of seniors above 65 years of age who are looking for long-term care, have functional dependency or chronic diseases, and belong to the upper middle or high income class. CL currently operates out of three facilities located in Porto (2) and Estoril (1). CL's total bed capacity amounts to 159 with an average occupancy rate of 78% (MC 2014). All facilities exclusively offer stationary care which is the primary business unit of CL with the envisaged ambulant care business unit still not being operational. Monthly prices for a stay in CL's facilities are based on an individual's respective dependency level and range from 1 738 € to 3 138 € (CL 2014). These prices represent an all-inclusive package and include rent, food and care services. Additional costs are incurred by the senior when opting for an individual room (800 €) instead of a standard shared double bedroom or staying for rehabilitation (600 €). While CL's revenues were 1.7M in 2014, they are expected to grow to 27.2M in 2020, implying growth at a CAGR of 52% (cf. slide 160). Similarly, EBITDA margins

are expected to increase from -10% in 2014 to 19% in 2020. The growth is planned to be realized by increasing the bed capacity from 159 to 1 000. CL's growth execution plan stipulates a focus on the following: organic growth instead of growth via the acquisition of rival operators; micro units with a capacity of 48 beds close to urban areas which enable potential customers to live close to their relatives; renting new properties instead of acquiring; targeting privately-insured customers exclusively. In order to achieve and fill the set bed capacity, CL now considers the German senior care market as a potential expansion opportunity.

### 1.4 The business project challenge

The main challenge of the project was to come up with an optimal recommendation for CL in regards to the market entry strategy and its execution that is *feasible* for CL. Factors such as the German market's complexity, CL's individual characteristics such as limited financial means and a lack of market power, and the absence of a suitable "best practice" comparable company[3] made it challenging to arrive at a solution that can be genuinely described as feasible for CL.

# 2. Business project reflections

## 2.1 Methodology

### 2.1.1 Hypotheses

A hypothesis-driven consulting approach was applied to the project in order to quickly eliminate false leads and only focus on promising ones. A broad array of entry strategies were considered initially, based on the preliminary data and due diligence provided by MC (MC 2014). The early Steering Committee meetings with CL and MC, in addition to expert interviews (Böhmer 2015; Hamm 2015) however reduced the number of possible strategies to four, the effect being the formulation of four hypotheses. Formulating hypotheses proved to be a useful tool to form tentative answers to the project's problem and helped in guiding the direction of the subsequent analyses while simultaneously avoiding a too broad scope. The hypotheses were designed to be mutually exclusive and collectively exhaustive (MECE) in regards to the *attainable*[4] segments for CL, with each hypothesis representing one distinctive strategy choice for CL to consider.

- H1: The optimal entry strategy focuses on attracting German seniors in need of care who are living in Germany by offering long-term and stationary care[5] (rejected)
- H2: The optimal entry strategy focuses on attracting German seniors in need of care who are living in Portugal by offering long-term and stationary care (rejected)

- H3: The optimal entry strategy focuses on attracting German seniors in need of care who are living in Portugal by offering long-term and ambulant care (rejected)
- H4: The optimal entry strategy focuses on attracting German seniors in need of care who are living in Germany by offering short-term and stationary care (accepted)

A hypothesis was considered to be true if the final evaluation of the respective entry strategy yielded the most favorable assessment (cf. slide 101).[6] The final assessment was based on the following criteria: demand size & dispersion (35% weight given to the criteria), capital requirement (15%), pre-requisites fulfillment by CL (15%), customer acquisition difficulty (35%). The analyses of all four hypotheses advanced the project on two levels, with the accepted hypothesis providing a clear and definite course of action to take while the rejected hypotheses eliminated unsuitable options that could potentially be harmful (i.e. expensive or time-wasting) for the client if pursued further.

### 2.1.2 Work plan

The original work plan structured the project into five distinct and successive phases: market analysis, competitive landscape analysis, internal analysis (cf. chapter 1.3), market opportunity analysis, and entry strategies' analysis. The reasoning behind this structure was to first gain an understanding of the market in order to realize what to focus on in the competitive and internal analysis. While the first three parts can be regarded as interconnected since numerous aspects of the market analysis were encountered again in the competitive and internal analysis (e.g. pricing analysis of the entire industry vs. pricing analysis of an individual player), the market opportunity analysis has a more separate position since it concentrates on Portugal's key characteristics regarding the attraction of foreign seniors in need of care. The original work plan concluded with the definition of several entry strategies as well as the selection and mapping of an optimal entry strategy. However, as client and collaborator demands increased, the initial scope was expanded to the inclusion of an execution proposal and future roadmap regarding the recommended strategy (cf. slide 5). It was reasoned that the project's value to the client can be maximized by including a specifically-tailored execution proposal including an action plan, financial forecast and risk analysis, as well as a future roadmap outlining in detail additional strategic options after the project's recommendation has been implemented.

## 2.2 Analysis

The analysis is based on data gathered from secondary research such as publicly available statistics, reports, company websites, financial records, scientific papers as well as several in-person interviews with industry experts, a visit to CL's Porto facility and internal documents from CL and MC.

### 2.2.1 Market analysis

The market analysis commences with an industry overview (cf. slide 11ff.) which analyzes the supply and demand side of the German senior care market and reveals that there is an increasing demand for care services (CBRE 2011; CBRE 2012). Also, it shows that the market, with its 13 000 stationary care facilities and 12 700 ambulant care operators, is highly fragmented (Destatis 2015a). The overview concludes with an introduction of all relevant players within the market such as regulatory entities, insurances and the social welfare system, and illustrates the various players' interconnectivity (cf. slide 13). The German senior care industry has a market volume of 27B € (Statista 2011) and is the largest senior care market in terms of revenues in Europe.

The market analysis then focuses on the analysis of demographic data (cf. slide 15ff.) which shows that while the total German population is declining, the proportion of elderly individuals is constantly increasing which in turn leads to the population in need of care growing at a CAGR of 1.8% (Destatis 2015a; Destatis 2015b). In 2014, Germany's total population amounted to 80.8M inhabitants including 2.5M individuals in need of care. Due to the demographic change (cf. slide 28), the number of seniors in need of care is expected to increase to 4.5M by 2050. In terms of gender, it is expected that females will represent 64% of the population in need of care by 2050. Moreover, it is crucial to understand the care preferences of the total population in need of care: 70% are taken care for at home, mostly by family members, while only 30% reside in a stationary care facility (Destatis 2013). However, despite the clear preference for being cared for at home, the proportion of people in stationary care increases with age. This phenomenon can be explained by the fact that dependency levels increase with rising age, with higher dependency levels generally requiring a more professional care environment such as found in stationary care facilities (Demografie Portal 2011). In fact, this explanation is confirmed by statistics showing that the proportion of people in stationary care increases as dependency levels rise (Destatis 2013).

The market analysis proceeds with the pricing and cost analysis (cf. slide 22ff.) which first analyzes the average cost structure of a stationary care[7] facility in Germany. It is shown that the costs incurred by a facility are determined by lodging costs, capital expenditures and human resources costs (EV

Heimstiftung 2015). With 70%, human resources costs are the largest contributor to a facility's costs and are comprised of nursing costs, i.e. salaries for caregivers, nurses and medical providers, as well as salaries for other human resources, i.e. management. Ignoring salaries for other human resources, nursing costs make up for 56% to 68% of the total costs incurred by a facility per patient compared to the 70% average of total human resources costs (BMG 2011; Pflegemarkt 2014a). The variety in nursing costs results from the increases in nursing costs as customers' dependency levels rise since customers with a higher dependency require additional nursing staff.[8] Similarly, the average pricing[9] for ambulant and stationary care increases significantly with dependency levels rising and range from monthly 850 € to 3 500 € for ambulant care and monthly 2 300 € to 3 300 € for stationary care (Pflegestufen 2014).[10] However, it has to be noted that prices for senior care greatly vary across geographic locations as well as the facilities' quality (Careapps 2015; Pflegekostet 2014). The German care insurance system subsidizes part of these monthly expenses, with the subsidy's size ranging from monthly 244 € to 1 550 € depending on an individual's dependency level and the chosen type of care (PKV 2014). Consequently, the amount to be paid (coverage gap) individually by the senior depends on the price of the care service and the monthly care subsidy. If the coverage gap cannot be paid for privately, the social welfare system of the German government guarantees an additional subsidy payment covering any remaining differences which de facto makes care treatments available to everyone irrespective of one's wealth (Hamm 2015; Sehlbach 2015).

The market analysis continues with the presentation of several industry trends.[11] Firstly, the ongoing demographic changes among the German population, caused by an increasing life expectancy and reduced birth rates, will shape the industry's future and increase the competition within the industry by attracting European players to the German market (Ernst & Young 2011). Secondly, an increasing labor demand and the industry's challenging job design will lead to sourcing and recruitment challenges (CBRE 2012). Lastly, stagnating revenues and rising costs will alter the competitive landscape by encouraging industry consolidation (The Guardian 2012).

The market analysis goes on with the regulatory analysis of Germany and Portugal (cf. slide 32ff.) which analyzes the regulations regarding the care services, the care facility and HR qualifications, before concluding with a comparison of both countries' regulations and an analysis of the German regulation's relevance to CL. While the comparison shows that there are several overlaps regarding specific regulations such as range of offered services and code of behavior, the majority of regulatory items differ (BMFSFJ 2006; BMG 2011; Dejure 2007a; Dejure 2007b; Heimgesetz 2009; HeimMindBauV 2003; ZQP 2014). For instance, the training of the nursing staff differs, with the

German system relying on 3-year practical apprenticeships for becoming a nurse and the Portuguese system trusting in 4-year professional degrees. Also, staffing requirements such as the minimum daily amount of care in minutes differ among both countries which leads to implications for CL. While CL is in line with Portuguese regulations (Catalogo nacional de qualificações 2014; Diário da República 2012) regarding the offered amount of daily care for all dependency levels, the company currently offers too little daily care for seniors with the highest dependency level if German regulations are applied (Böhmer 2015).

The market analysis concludes with an overview of the payment procedure with its different contributors such as pension funds, care insurances and the seniors themselves (cf. slide 36). Firstly, it is assumed that the senior is receiving care in Germany. In this scenario, the payment procedure depends on the type of care provider (public or private) chosen by the senior. When opting for a public provider, care insurances and pension funds alike transfer the monthly payments directly to the care facility, leaving only a possible coverage gap to be transferred by the senior (Hamm 2015; Web care 2012). If a private care provider is chosen, care insurances and pension funds transfer monthly payments first to the senior who then has to fully pay the care provider. Secondly, it is assumed that the senior receives care in Portugal, in which case the senior receives payments from the care insurances and the pension funds also directly. However, the amount received by the care insurance depends on the type of care chosen, with ambulant care receiving significantly less payments compared to the subsidy received when staying in Germany.

### 2.2.2 Competitive landscape analysis

The competitive landscape analysis starts with the analysis of Germany's large-sized players (cf. slide 40f.). An overview of Germany's large-sized stationary players shows that for-profit chains are among the largest stationary care providers in terms of bed capacity, with the 15 largest private stationary care providers representing 11.7% of the market's total stationary bed capacity (Pflegemarkt 2013). It is shown that despite the increasing consolidation at the top of the market, none of the largest private providers commands more than 1.5% market share. The overview of the large-sized ambulant players reveal that even the largest ambulant operators only offer a limited number of operating offices with most of them only providing services within a specific geographical region (Pflegemarkt 2014b). It is further illustrated that even if only large-sized players are considered, the ambulant care market in Germany is highly scattered, unclear and dominated by large welfare organizations organized on a local level which prevents a more detailed analysis. Benchmark

company analyses (cf. slide 177ff.) of both a large-sized stationary and ambulant player conclude the analysis of Germany's large-sized players.

The analysis of Germany's medium-sized players (cf. slide 43) follows which again distinguishes between the stationary and ambulant care market. It is shown that both the medium-sized stationary and ambulant senior care market is highly fragmented with approximately 7 000 care providers for each type of care service (Destatis 2015a). However, while the medium-sized ambulant care market is dominated by public players (79%), the medium-sized stationary care market is relatively balanced in terms of market share distribution between private (55%) and public (45%) players. Again, two benchmark company analyses (cf. slide 183ff.) conclude the analysis.

Following behind is the analysis of Germany's small-sized players (cf. slide 45). The stationary segment overview shows that there are 3 551 small-sized stationary care facilities which are equally distributed among private (50%) and public (50%) operators (Celexo 2013; Destatis 2015; RWI 2011). The facilities usually specialize on specific diseases to serve a niche market and are often family-owned (private operators) in succeeding generations or owned by the regional government (public operators). The ambulant segment overview reveals that there are 1 792 small-sized ambulant players which are mainly (83%) operated by private facilities of very high service quality. Both segments are characterized by their fragmentation and focus on regional areas, and are further examined via the example of two benchmark companies (cf. slide 189ff.).

Subsequently, the analysis of Germany's premium players (cf. slide 47) points out that there is a premium segment in Germany with a market volume of ~25 000 seniors (Sehlbach 2015). Premium players offer the experience of a hotel-like stationary care experience and greatly exceed the care-related regulation requirements (Premium-Wohnen im Alter 2015). Premium players are not limited by the price regulations of the MDK thanks to a specific contract design: customers have separate contracts for rent, nutrition, care and other services that allow premium operators to circumvent the regular pricing regulations. Since the premium segment features a clientele with a high spending power, it has been identified as a potential role model for CL. In addition, the benchmark analysis of one premium player (cf. slide 195ff.) serves as reference point to further improve CL's product offering.

Lastly, the competitive landscape analysis concludes with an overview of European players targeting foreign seniors (cf. slide 49). The overview of the European market shows that there are currently only four senior care facilities focusing on foreign customers in Portugal, compared to 30 in Spain

(ABC Mallorca 2010; Wohnen-im-Alter 2015).[12] Furthermore, most facilities in Spain targeting foreigners are located close to the sea as are the four facilities in Portugal which are all located in the Algarve region. This leads to the conclusion that the optimal location for CL regarding a stationary care facility targeting Germans should be close to the sea. Additionally, three European players are benchmarked and compared to CL's current service offering (cf. slide 50ff.). The comparison reveals that while CL provides a broad product offering, the company is still behind its competitors regarding non-mandatory service offerings such as quality of accommodation, social activities and residential medical care.

### 2.2.3 Market opportunity analysis

The market opportunity analysis (cf. slide 56ff.) approaches the question why or why not Portugal might be attractive to German seniors in need of care. Firstly, it is highlighted that Portugal ranks significantly higher than Germany on the global retirement index due to Portugal's superior performance in the following criteria (International Living 2015): climate, cost of living, fitting in, health care system and real estate. Additionally, in Portugal, German seniors represent the second largest group (9.0% after the UK with 24.1%) of European immigrants with a permanent residence (Roldao & Machado 2012; INE 2009). Based on the 1 600 German seniors officially having a permanent residence certificate for Portugal, the ratio of certified German seniors to the entire certified German population in Portugal, and the presumed number of German individuals actually (certified and non-certified) living in Portugal, it is extrapolated that ~7 900 German seniors are living in Portugal (Böhmer 2015). Secondly, Portugal's positive features that are relevant concerning the attraction of German seniors are highlighted in detail and, if applicable, compared to Germany's respective counterparts: cost of living, integration, climate, leisure, health care system, infrastructure, and health benefits (benefits of sunlight, sea water, sea air and fresh fish). In addition, Portugal's potential tax benefits for German immigrants are highlighted as the interplay of two separate concepts – a double tax agreement between Germany and Portugal, and the special residential status of "residente não habitual" – enable German immigrants to effectively avoid income tax payments in both Germany and Portugal under a particular set of circumstances (cf. slide 208ff.). Lastly, Portugal's negative features are explored and consist of the emotional distance to family, physical distance, cultural differences and language barrier.

### 2.2.4 Entry strategies' analysis

The subsequent entry strategies' analysis is based on the initial four hypotheses and the previous analyses. The rationale behind the strategies' analysis is to first define the specific strategy and its

target group. Secondly, the demand for the specific strategy is calculated. Thirdly, the pre-requisites CL would need to fulfill to follow the strategy are defined. Lastly, based on the first three steps, an overview of the advantages and disadvantages of the specific strategy is developed and analyzed.

#### 2.2.4.1 The 1st strategy – Long-term, stationary and living in Germany

The 1st strategy (cf. slide 68ff.) focuses on attracting German seniors in need of care who are living in Germany by offering long-term and stationary care. Its target group is comprised of male and female German seniors above 65 years of age who are living in Germany, with dependency level I or II[13], medium to high income, and who are interested in receiving long-term stationary care in Portugal. In addition, several assumptions are made in order to estimate the demand for the strategy and a total demand of 86 to 172 seniors (cf. slide 69) is estimated. Following behind, eight pre-requisites CL needs to fulfill in order to attract seniors living in Germany for long-term care are identified. However, CL currently only fulfills one of these pre-requisites by offering an attractive pricing strategy that can compete with the pricing of competitors in Germany.[14] The unfulfilled pre-requisites[15] consist of: reputation for quality care services among seniors in Germany; knowledge about the German senior care protocol; German-speaking staff with working experience in Germany; expertise on how to treat German seniors; relocation to an attractive location; upgrade facilities and service offerings; knowledge of how to sell and promote in Germany. In a final step, the comparison of the strategy's advantages and disadvantages reveals that the strategy is an unattractive choice for CL given that there is only one positive aspect to the strategy which is the possibility to leverage Portugal's positive features for the attraction of Germans compared to numerous negative aspects of the strategy. These include: majority of pre-requisites not being fulfilled by CL; large-sized investment required to fulfill the remaining unfulfilled pre-requisites; small potential market; difficulty of attracting seniors due to the lack of brand reputation in Germany; difficulty of attracting seniors due to the lack of geographic proximity; requirement of a life-changing decision by the senior.

#### 2.2.4.2 The 2nd strategy – Long-term, stationary and living in Portugal

The 2nd strategy (cf. slide 76ff.) focuses on attracting German seniors in need of care who are living in Portugal by offering long-term and stationary care. The strategy targets male and female German seniors above 65 years of age who are living in Portugal, with any dependency level, medium to high income, and who are interested in receiving long-term stationary care in Portugal. Again, various assumptions are made to estimate the strategy's demand and a total demand of 163 to 277 seniors (cf. slide 77) is estimated. The strategy requires the fulfillment of six pre-requisites out of which two are fulfilled: reputation for quality care services among seniors in Portugal; offering of an attractive

pricing strategy that can compete with the pricing of competitors in Portugal. However, four pre-requisites are not fulfilled: knowledge about the German senior care protocol; few[16] German-speaking staff; expertise on how to treat German seniors; being closely located to where German seniors live[17]. Comparing the strategy's advantages and disadvantages shows that the positive aspects of the strategy considerably outweigh its negative aspects and thus make it a valid option. The strategy's advantages include: opportunity to take advantage of CL's reputation for quality care in Portugal; feasibility of attracting German seniors since they are already living in Portugal; only a medium-sized investment is required to fulfill the remaining unfulfilled pre-requisites; limited need to comply with the German care protocol as the target group is not likely to consider German facilities as reference point when evaluating CL's care services; easy familiarization of the target group since it is already used to the Portuguese culture. The strategy's pitfalls are its small and dispersed[18] market size and the lack of fulfilled pre-requisites.

#### 2.2.4.3 The 3rd strategy – Long-term, ambulant and living in Portugal

The 3rd strategy (cf. slide 83ff.) focuses on attracting German seniors in need of care who are living in Portugal by offering long-term and ambulant care. This strategy is very similar to the second strategy with the target group being the same except that this strategy focuses on seniors who are interested in receiving long-term ambulant care in Portugal. Moreover, the demand size here differs with an estimation of 125 to 212 seniors (cf. slide 84). The strategy also requires the fulfillment of the same six pre-requisites of strategy two, with the only difference being that now the reputation for quality care is not fulfilled since CL has no experience in offering ambulant care services. Hence, the comparison of the strategy's advantages and disadvantages also resembles the one of strategy two with only minor differences and reveal that the strategy is also a valid choice for CL. The advantages now do not include leveraging CL's reputation but are expanded by the possibility of using the strategy as a complement for other strategies since implementing the strategy only requires a low investment.[19] On the other side, the disadvantages now also include the need to create expertise regarding offering ambulant care services.

#### 2.2.4.4 The 4th strategy – Short-term, stationary and living in Germany

The 4th and final strategy (cf. slide 90ff.) focuses on attracting German seniors in need of care who are living in Germany by offering short-term and stationary care.[20] This strategy is highly promising since the same product, i.e. short-term stays with care services can be marketed in a variety of ways, i.e. via product segmentation. The general target group consists again of male and female German seniors above 65 years of age who are living in Germany with medium to high income. However, this

strategy focuses only on seniors with dependency level I since it is assumed that seniors with higher dependency levels would not embark on a stressful round trip plane journey solely for a short-term stay compared to the permanent stay of the 1st strategy. Product segmentation enables the creation of two segments based on the same product, i.e. short-term stays with care:

- The care tourism product segment, i.e. tourism with care involved, targets seniors in need of care wanting to go on vacation with or without their families.
- The rehabilitation product segment targets seniors requiring short-term recovery post-surgery or after specific diseases.

A demand size for each segment is calculated, with the care tourism product segment having an estimated demand of 2 950 to 3 965 seniors (cf. slide 91) compared to the rehabilitation product segment's demand of 207 to 278 seniors (cf. slide 92). The high demand of the care tourism segment compared to the demand of previous strategies is largely based on seniors' increased willingness to come to Portugal for a short-term stay as opposed to a long-term stay. The rehabilitation segment's comparatively low demand results from the fact that there are significantly less seniors requiring rehabilitation compared to seniors in need of care. Thereupon, six pre-requisites for the successful implementation of the 4th strategy are identified, all of which are currently not fulfilled.

- Reputation for quality care in the German market: CL needs to create awareness among German seniors living in Germany regarding its quality care services and build up its brand reputation in the German market.
- Knowledge about the German senior care protocol: CL needs to offer German seniors an equivalent care service and standard to the one they are used to in Germany, i.e. CL needs to adapt to the German senior care protocol.
- German-speaking staff with working experience in Germany: CL needs to recruit German-speaking staff with working experience in Germany. In particular, a German facility manager is required who can oversee a German business unit in Portugal.
- Expertise on how to treat German seniors: CL needs to develop cultural awareness for the differences between German and Portuguese customers. In addition, the company has to adapt to different ways of communicating and interacting.
- Relocation to an attractive location:[21] CL needs to obtain a facility in an attractive location close to an urban area which simultaneously offers access to nature, e.g. proximity to the beach.

- Upgrade of facilities:[22] CL need to upgrade its facilities based on German seniors' needs, e.g. offering access to gardens and swimming pools.

The advantages of this strategy are the following:

- Large market size and increasing potential demand: Accounting for both the care tourism and rehabilitation stay segment, the potential market size is 3 157 to 4 243 German seniors. Due to the increasing number of Germans in need of care and the estimated future undersupply of care treatments in Germany, the estimated market size has a high probability to further grow in the future, especially considering the fast-growing medical tourism market (PBB 2014).[23]
- Unique product offering: The proposed product of a short-term stay with care services does not yet exist in the Portuguese market and CL can benefit from being the first-mover in Portugal.
- Potential transformation to long-term stay customers: The proposed product can serve as an enticement to attract German seniors for a short-term stay to Portugal and offers the possibility of transforming these short-term stay customers to future long-term stay customers.
- Possibility of increasing prices: The prices charged by CL can be benchmarked against the higher prices in the German and Spanish market[24] since prices charged by German and Spanish facilities will serve as a point of reference for German seniors. Therefore, CL is offered the possibility to exploit these reference points by increasing its pricing.
- Marketability of the product: The short-term stay product can be marketed to the care tourism and rehabilitation segment.
- All major key advantages of Portugal are leveraged: All of the identified key advantages of Portugal as a destination for seniors are leveraged by the short-term strategy.
- Not being a life-changing decision: Going for a temporary stay to Portugal is not a life-changing decision and can be regarded as an attractive change of environment for a period of time, especially in the winter months.

The disadvantages of this strategy are the following:

- Moderate investment required: Capital expenditures for facility upgrades and possibly relocations are required. Further expenditures will account for staff development and changes in the currently offered services.
- Required change in business operations: CL has to fully adapt to the German care protocol and needs to adjust its service offering based on German standards.

- Unfamiliar environment for the senior: Even a temporary relocation to Portugal can be troublesome for a senior who will have to adapt to an unfamiliar environment. Moreover, the proximity to reference people such as relatives is not given and cultural differences can cause additional integration problems.
- Lack of brand reputation: CL's brand is not known in Germany leading to the general challenge of attracting German seniors in Germany to Portugal. In addition, the lack of awareness and reputation of CL in the German market may make it challenging to win established industry players in Germany as partners.
- All pre-requisites are not yet fulfilled by CL: The feasibility of the strategy depends on the willingness and possibility of investing in order to fulfill all pre-requisites.

### 2.2.5 Brief analysis of the strategies' execution

Following the entry strategies' analysis is a brief analysis of the strategies' execution. It is assumed that there are generally two options regarding a strategy's execution: independent execution by CL or execution by CL and a partner.[25] Regarding the first strategy, the possibility to have a German senior care operator as a partner is not considered given the per se lack of financial incentive for a potential partner facility to give a client to CL as well as the high potential payment CL would have to pay to a partner if such a partner in fact agreed to give a client to CL. Since the second and third strategy both focus on attracting German seniors who are already living in Portugal, the possibility of a partnership is disregarded. However, regarding the fourth strategy, both an independent execution and a partnership are viable ways of executing and are considered. While an independent execution gives CL control and independence regarding all decisions, it also requires the company to come up with all resources needed to meet the strategy's pre-requisites and deal with the difficulty of attracting German seniors to Portugal independently without the support of a German partner. A partnership reduces CL's levels of control and independence, but risks, costs and resources such as knowledge, network and reputation can be shared among CL and the partner. Additionally, a partner with a strong presence in the German market can simplify the process of attracting Germans to Portugal. On account of this, it is regarded as highly preferable to enter into a partnership with a German player compared to an independent execution.[26]

### 2.2.6 Strategies' probability of success examination

As stated previously in 2.1.1, the strategies' final assessment was based on the following criteria: demand size & dispersion (35% weight given to the criteria), capital requirement (15%), pre-requisites fulfillment by CL (15%), customer acquisition difficulty (35%). The fourth strategy was

evaluated twice given its two viable options of execution. The final evaluation of all strategies with their respective ways of execution (cf. slide 99) selected the fourth strategy in combination with an execution via partnership as the strategy with the highest probability of success for CL (cf. slide 101).

## 2.3 Final recommendation

The final recommendation consists of the strategy recommendation and its execution.

### 2.3.1 General overview

Given the lack of synergies between CL's current business and the proposed short-term stay strategy, it has to be highlighted that the proposed strategy must be regarded as a standalone strategy (cf. slide 105) and not an add-on to CL's current strategy. Firstly, CL's current facilities should not be used to pursue the proposed strategy since they are not appropriate to fulfill German seniors' needs regarding a short-term stay. German seniors coming for a short-term stay share characteristics of tourists and demand a broad range of services and amenities (e.g. wellness centers and swimming pools) which are currently not offered by CL. Secondly, CL's current personnel is not trained according to the German care protocol. Consequently, existing staff cannot be deployed for the proposed strategy's implementation. Lastly, the proposed product of a short-term stay is very different from CL's current product offering which is not tailored to German seniors' needs and focuses on long-term stays which results in the necessity of pursuing a different pricing strategy for the proposed product.

Regarding the strategy's execution, it has to be highlighted that there is a high likelihood of establishing partnerships with the recommended strategy since mutual benefits (cf. slide 102f.) are created.

For the care tourism product segment (cf. slide 107ff.), there is the possibility of forming partnerships with hotel providers. Hotel partners would benefit from partnering with CL by having more customers during the low-season period when the hotel's occupancy rate is traditionally low. In 2014, the occupancy rate of hotels in Portugal dropped on average 35% from the high-season to the low-season period (Turismo de Portugal 2014). Benefits of the partnership for CL include the possibility for the company to focus on its core competencies, i.e. providing care services for seniors in need of care instead of having to deal with the real estate aspect of the business. In addition, there is no need for CL to invest in a new facility by renting out high-quality hotel rooms that already meet the needs of CL's customers. Lastly, CL can benefit from the hotels' know-how and reputation in the tourism sector which is crucial for the proposed short-term strategy and its focus on the care tourism segment. German tourism operators can also be won as partners since they would benefit from having

additional customers and thus additional commissions. CL profits from partnering with a tourism operator since a partnership would lower CL's marketing expenditures regarding customer acquisition.

Pertaining the rehabilitation product segment (cf. slide 112ff.), CL has the opportunity to form partnerships with German insurance companies which are actively seeking for alternative care facilities due to capacity saturation and increasing care and rehabilitation costs in Germany. Insurance companies further benefit from partnering with additional rehabilitation providers since it increases their clients' range of choices. Since insurance companies pay for the rehabilitation treatments, they have an incentive to form a partnership with CL since they would incur lower treatment costs compared to the respective rehabilitation costs of a partner in Germany. As the insurance companies place customers themselves in a rehabilitation facility, CL would benefit from such a partnership by not having to be concerned with customer acquisition. Furthermore, the previously described possibility of partnerships with hotels is valid for the rehabilitation segment as well.

### 2.3.2 Care tourism product segment

The care tourism product segment targets seniors who want to enjoy a vacation but still need to receive daily care. Seniors tend to prefer vacations lasting for 5 to 9 days, thus offering a minimum stay duration of 5 nights is proposed in order to maximize occupancy rates[27] for CL while simultaneously accounting for the seniors' preferences (Alén, Domínguez & Losada 2012). Additionally, the product should be offered exclusively during the low-season period from October to May since hotel bedroom rates drop on average 25% from the high-season to the low-season and hotels have low occupancy rates during the summer. This makes it cost-efficient for CL and ensures that there will be no capacity issues from the hotels' side which could prevent CL to accommodate its customers. Moreover, seniors tend to prefer the low-season because it is usually calmer and the weather is more pleasant.

The proposed process chain of the care tourism product segment (cf. slide 108f.) is characterized by the interaction of the customer with tourism operators, hotel providers and CL. Firstly, the senior pays the whole product price of his short-term stay to the tourism operator who is preferably specialized in the senior tourism market and who is responsible for booking the senior's stay with CL. The tourism operator is responsible for informing the senior about CL's product offering and for all advertising activities. Consequently, the tourism operator is regarded as a marketing partner and helps CL to attract potential customers. Secondly, the tourism operator then keeps a 10% commission (Rezdy 2014) and pays the remaining 90% of the product price to CL. Lastly, CL pays the hotel

provider a pre-determined discounted rate for the senior's bedroom and provides the care service on-site of the hotel. The hotel thus provides the senior's bedroom and additional hotel services such as nutrition and room cleaning. These hotel-specific services are included in the price the customer pays initially to the tourism operator and must also be negotiated between CL and the hotel partner.

### 2.3.3 Rehabilitation product segment

The rehabilitation product segment offers a stay in a hotel combined with care services and rehabilitation programs. The offered rehabilitation programs target seniors with general age-related restrictions or medical conditions such as lung diseases, orthopaedic disorders and stroke-related limitations. Given the average duration of rehabilitation stays of 21 days in Germany and seniors preferring vacations lasting for 5 to 9 days, CL should offer stays ranging from 5 days up to 4 weeks. Hotel partnerships are envisaged for the rehabilitation stay as well.[28]

The interaction of the customer with insurance companies, medical partners, hotel providers and CL defines the proposed process chain of the rehabilitation segment (cf. slide 113f.). Firstly, the senior is diagnosed by a doctor in Germany who recommends the type of rehabilitation treatment. Secondly, health insurance companies place the senior in a rehabilitation facility based on the doctor's recommendation and the senior's preferences. Since the insurance companies pay for the rehabilitation treatment, they have an incentive to inform the senior about CL's service offering since CL's prices are considerably lower compared to German rehabilitation facilities. If the senior chooses CL, the insurance companies pay the full amount CL charges for its service offering to CL. Lastly, CL pays the hotel provider and any medical partners such as doctors and therapists which are required for offering rehabilitation services.

### 2.3.4 Action plan

The action plan (cf. slide 117ff.) provides a detailed outline of the steps to follow for CL to successfully implement the final recommendation. It is structured into four different phases: pre-planning, planning, pre-operational execution and operational execution. Each phase consists of high-level activities which are assigned to a respective responsible party such as CL, MC or partners. The pre-planning phase is expected to last for 2 quarters with its only main activity being market screening. Market screening is further split into various sub-activities such as "short-listing of potential hotel partners" and "identification of potential candidates for the German manager position" which are further illustrated by remarks concerning their execution and relevance.[29] The subsequent planning phase is estimated to last for one and a half quarters with its activities being recruitment, decision-making and potential partner management. The following pre-operational execution has a

time horizon of three quarters and consists of the following activities: recruitment, training & development, operational change, investments and partner management. The action plan's final phase is the actual operational execution which starts midway through the pre-operational execution phase and lasts indefinitely. Its main activities are capacity planning, daily operations, HR management, business development and reporting. It is estimated that after six quarters of operational execution, the business will have stabilized and CL may opt to pursue further expansion plans, i.e. establishing a presence in new geographies (cf. 2.3.7).

### 2.3.5 Potential partners

The selection of potential hotel partners is based on four criteria: location & size, quality standards & pricing, attentiveness to handicapped persons, and amenities. Since CL already has operations in Estoril and MC being located in Cascais, it is advised to first implement the recommendation in the Estoril / Cascais area before expanding to locations further away. Both areas are suitable for implementing the recommendation since they are located next to the ocean while also being close to an urban center with Lisbon. The pre-determined criteria are fulfilled by three possible hotel partners (cf. slide 124) closely located to CL's and MC's current operations. Similarly, the selection of insurance fund partners is based on three criteria: type & size, customer base, and insurance strategy. Given these criteria, eight potential partner insurance funds (cf. slide 125) have been identified. Other potential partners include tourism operators, medical providers and institutions offering specific trainings such as language training centers. Given the abundance of these partners, only a non-exhaustive list with exemplary potential partners has been created (cf. slide 126).

### 2.3.6 Financial analysis

#### 2.3.6.1 Financial model

Several assumption were taken into consideration regarding the creation of the 5-year financial model (cf. slide 132f.). Firstly, seasonality effects are considered and it is assumed that the product is only offered during the low-season period from October to May.[30] Therefore, it is assumed that during the high-season period from June to September, no bedrooms are occupied which results in no revenues during that period. Despite no revenues being estimated for that period, personnel and operational costs such as equipment (e.g. leased cars) are assumed to be retained during the high-season months. Hence, operational costs are still incurred during the high-season. In regards to personnel, the decision to retain it during the summer takes into account the previous investment in training and language education. Consequently, it is not reasonable to part from the previously trained personnel during the

high-season. Moreover, it is assumed that the rent per hotel room is a variable cost and is therefore not incurred during the high season.

Secondly, the growth in occupied bedrooms is considered. During the low-season, i.e. the period of time when the product is offered, the number of occupied bedrooms grows constantly with a grow-rate of 4% month-over-month until full capacity is reached by the end of year three. Given the previously estimated market sizes of both product segments – care tourism and rehabilitation – and the assumption that CL can capture 10% of the care tourism market and 40% of the rehabilitation market, it is assumed that the optimal maximum capacity for care tourism bedrooms is 50, while the optimal maximum capacity for rehabilitation bedrooms is 14.[31] Therefore, the ratio of care tourism bedrooms to rehabilitation bedrooms is assumed to be 3.57 to 1. Costs shared among both segments are split with the same ratio regarding the individual financial forecasts.[32]

Thirdly, the two product segments are priced differently. Taking into consideration the pre-determined rate for a bedroom with the hotel provider, CL's variable costs for a care tourism customer and the pricing of the competition, a price point of 120 € per night per customer was calculated for the care tourism segment (cf. slide 129). Since the tourism operator is estimated to charge commissions of 10% on the final price, CL's revenues are assumed to be 108 € per night per customer for this segment. The pricing for the rehabilitation stay is derived in similar fashion and takes into account the pre-determined rate for a bedroom, CL's variable costs for a rehabilitation stay customer and the pricing of the competition. The final price point for the rehabilitation stay segment is 140 € per night per customer which also represents CL's revenues per night per customer (cf. slide 131). The pricing only considers core offers of each segment, i.e. revenues are potentially underestimated by disregarding any possible additional services the senior might demand and for which the senior would need to pay on top.

Fourthly, costs are split into fixed and variable costs. Fixed costs consist of administrative costs and a German manager's salary for both product segments. Given the determined bedroom ratio and additional assumptions (cf. slide 136), monthly total fixed costs for the care tourism segment amount to 10 087 € while the rehabilitation segment amounts to 3 656 €. The variable costs for the care tourism segment consist of personnel (nursing staff), consumables, marketing, transportation (based on. details such as leasing rates, the car's gas consumption, gas price and monthly distance travelled), communication (e.g. prepaid cards for CL's staff) and rent (rates paid to the hotel partner). These variable costs result in daily variable costs of 82 € per customer of the care tourism segment (cf. slide 137). The rehabilitation segment includes all the types of variable costs of the care tourism segment,

but its marketing costs are lower per customer due to the assumed partnership with insurance funds while the personnel costs are significantly higher since rehabilitation requires additional staff such as specialized therapists and medical professionals. The totaled variable costs for the rehabilitation segment per night per customer are 93 € (cf. slide 138).[33]

Lastly, several miscellaneous assumptions are made such as a month having 30.4 days, the occupancy rate being constant throughout each month and that every customer stays in a single bedroom.

The estimated total investment costs for a capacity of 50 bedrooms for the care tourism segment and 14 bedrooms for the rehabilitation stay segment are 204 528 € (cf. slide 134). The investment costs consist of costs regarding room equipment, salaries, training, language courses, industry fairs and travel.

#### 2.3.6.2 Financial forecast

The 5-year revenue and EBITDA forecast (cf. slide 135) of the care tourism and rehabilitation segment combined shows that revenues of 1.8M € and EBITDA of 220 811 € (12.3% EBITDA margin) are estimated to be realized once full capacity is reached (year four onwards). Splitting the forecast by the two segments, it is shown that the care tourism segment (cf. slide 139) is estimated to generate revenues of 1.3M € and EBITDA of 136 724 € (10.4%) while the rehabilitation segment (cf. slide 140) is estimated to reach revenues of 0.5M € and EBITDA of 84 087 € (17.6%) once full capacity is reached.

Additionally, the break-even-analysis reveals that regarding the care tourism segment, CL will break-even for a given month once 13 beds (cf. slide 141) are occupied while the rehabilitation stay segment only requires three beds (cf. slide 142) to be occupied in order to break-even. The rehabilitation stay segment realizes its break-even point significantly earlier due to its higher gross margin (33.6% compared to 24.1%).

Moreover, the sensitivity analysis for both segments examines the effects of varying levels of full capacity[34] on revenue and EBITDA. In regards to the care tourism segment (cf. slide 143), a positive EBITDA margin is always reached by year two onwards although revenues and EBITDA vary greatly across the different scenarios. Once full capacity is reached, the yearly EBITDA generated by CL ranges from 50 824 € (pessimistic scenario) to 263 366 € (optimistic scenario). Pertaining the rehabilitation segment (cf. slide 144), positive EBITDA is always reached from the first onwards independent from the chosen scenario with the yearly EBITDA ranging from 50 778 € to 115 455 €.

Lastly, the return on investment (ROI) is calculated given the estimated EBITDA values and investment costs. A cumulative (over five years) simple ROI yields a return of 338.5% while a cumulative ROI with a discount rate of 25% results in a return of 148.5% (cf. slide 145). It is shown that the ROI decreases significantly if a reasonable discount rate is applied. Hence, depending on the investors' expectations and risk assessment, the projected discounted ROI might overestimate its true figure.

### 2.3.7 Risk analysis

The risk analysis identifies five potential risks pertaining the care tourism and rehabilitation segment, one potential risk specific to the care tourism segment and three potential risks specific to the rehabilitation segment (cf. slide 147ff.). The analysis first describes the potential risk, estimates its probability of occurrence and then suggests suitable mitigation actions. Firstly, the general risks concerning both segments are a dependency on partnerships, low occupancy rates, high fixed costs, higher-than-expected investment costs and difficulty in recruitment. Secondly, the risk specific to the care tourism segment is the difficulty to recruit a tourism operator which simultaneously acts as a marketing partner for CL. Lastly, the risks specific to the rehabilitation segment are the difficulty of recruiting insurance funds as marketing partners, the difficulty of recruiting medical partners and not meeting the German regulation's requirements.

### 2.3.8 Future opportunities

The future roadmap identifies six different strategic options that can be pursued by CL post-implementation (cf. slide 151f.): expansion to Porto with the recommended short-term stay and hotel partnership concept; expansion to the Algarve region with the recommended short-term stay and hotel partnership concept; establishment of an ambulant care unit; establishment of a rehabilitation business unit; expansion to additional foreign markets; expansion to the Algarve region by building an own facility. The roadmap describes the strategic options in detail and outlines their relevance to CL. After analyzing the proposed future strategic options in regards to impact, priority and required effort, it is recommended that CL should expand to the Algarve region with the same concept (short-term stays in combination with hotel partnerships) after the implementation of the final recommendation in the Estoril / Cascais region.

# 3. Reflections on learnings[35]

The following chapter is written in the first person since it is an account of my personal experience and evaluation of the business project. Moreover, the pronouns "we" and "us" refer to the CEMS business project team.

## 3.1 Applied and adjusted learnings from the Masters

During my four Masters semesters I authored five business plans which were all conducted in a team environment similar to the one of the business project. In my opinion, the structure[36] and required content of a business plan greatly overlaps with the development of a company's entry strategy for a new market. Therefore, I found that the skillset I had acquired earlier in my entrepreneurship classes was directly transferable to the development of the business project.

Firstly, writing a business plan requires problem-solving abilities. Identifying a customer's "pain" is a challenging task, as is developing a viable solution to eliminate it. Moreover, a business plan requires a business model which can often feature innovative characteristics such as a non-conventional monetization model[37] or an innovative distribution model[38]. Similarly, we came up with an innovative business model for CL that relies on hotel partnerships in order to bypass vast investment costs for building new facilities.

Secondly, a business plan entails a market analysis which not only requires researching skills in order to find the data necessary for the analysis, but also skills in data analysis for interpreting the researched data. The business project's market analysis required us to detect and access more than 50 reports, databases and surveys, in addition to interviewing eight industry experts in order to gather all the required data for a sound analysis. The analysis itself demanded aptitude in the interpretation of tables and graphs, the deployment of statistical methods such as multiple regression, and the application of mathematical concepts such as extrapolation.

Thirdly, a business plan inherently deals with uncertainty, especially concerning the financial forecast and the market's size, which is why a business plan generally has to rely on a number of assumptions. For instance, when a startup develops a new product, it is difficult to come up with an accurate market size since there is a lack of comparison. This in turn makes it challenging to develop a reasonable P&L since not only the potential number of customers is unknown or unclear, but also because there is no explicit indication regarding customer adaptation of the new product, i.e. it is ambiguous how much market share can be captured. The business project required us to engage in several market sizing exercises concerning the four distinct strategies which demanded the development of several

reasonable assumptions. Moreover, the financial forecast required us to rely on additional assumptions regarding the growth rate of occupied bedrooms, CL's market share and the evolution of CL's cost structure.

Lastly, a business plan's arguably most important part is the executive summary since oftentimes investors will base their decision whether or not to continue reading a business plan based on this crucial first impression. The business project also demanded the drafting of an executive summary which summarizes the most important aspects of the project which was a very challenging task since over 150 slides of the final report had to be condensed to two pages, especially when compared to a business plan's typical size of 20 to 30 pages.

However, I also noticed several key differences in developing the business project compared to writing a business plan which required me to adjust the previously acquired knowledge and skillset.

A business plan is usually expected to feature a detailed sales & marketing strategy which outlines extensively the go-to-market strategy including integrated tactics to connect with the company's customers and the required organizational processes. While the business project includes an action plan and the selection of various marketing partners, its main focus is on the high-level entry strategy without describing the nuanced details on how to get there. While this is typical for strategy projects, it also bears the risk that the client will not integrate the proposed recommendations given the execution's lack of detail.

Furthermore, the feasibility of a business plan, especially regarding early-stage ventures, relies heavily on the quality of the company's management team since typically the company itself mainly consists of the management team. Since the business project was not developed for a startup, the quality of CL's management was given far less significance in regards to the final recommendation. The extensive industry experience of CL's CEO was merely considered in the action plan regarding the estimated duration of securing partnerships. However, instead of thoroughly considering CL's management, the company itself was given far more consideration in comparison to a traditional business plan. Its past performance, current assets and organizational capabilities were factored in regarding the development and feasibility of our recommendations.

In addition, the projected cash-flows are arguably the most important part of a business plan's financial analysis. Early ventures are generally more concerned with the cash-flow statement compared to the P&L since the company's liquid funds may decide over the company's short-term survival. Reducing the cash-conversion-cycle is a mission-critical activity for many startups in order

to maintain the ability to pay the company's suppliers. Since CL is already established in the Portuguese market and generates a stable monthly cash-flow in addition to being financially backed by MC, the development of a cash-flow statement forecast was not required for the business project. Instead, the focus was given to the P&L which highlights the profitability of our proposed recommendation.

### 3.2 New learnings

While the business project did not teach me any new theoretical frameworks, it provided me with a valuable real-life lesson. The required accuracy of our analysis, the expected level of detail of the project's content and the time commitment far exceeded the typical standard encountered at Nova SBE. During the regular Steering Committee meetings, up to three business project advisors challenged us on every detail of our analyses. Not only was it expected that every data point can be backed up by a credible source during the meetings, but also that we became true industry experts whose knowledge go beyond merely having an overview of a specific topic. For instance, we were expected to know subtle details of the German tax code and German care regulations. While fulfilling these high expectations was very challenging and required us to exceed the formal requirements of the business project regarding scope and time exposure since the client regarded us as real consultants, the analysis became more accurate and led to a sophisticated final recommendation This experience taught me that going the proverbial "extra mile" can make a significant difference in the outcome of a project.

### 3.3 Awareness of personal key strengths and weaknesses

During the course of the business project I became aware of several key strengths of mine. Firstly, I realized that I can easily come up with a reasonable structure for complex analyses. For instance, halfway through the market analysis I realized that it makes sense to split the analysis by type of care, i.e. stationary and ambulant care since both segments differ heavily from each other. This differentiation was retained for other parts of the project as well and allowed us to paint a more accurate picture of the senior care industry's reality. Without this structure, the entire analysis would have been undifferentiated and thus of less value for CL. Secondly, I realized that I excel under pressure. On several occasions during the course of the business project we were doing critical parts for the Steering Committee presentation last minute due to unforeseen personnel losses and change requests from the client. An example would be the challenge of changing a complex financial model consisting of more than 20 worksheets within only six hours. The high stakes of the situation did not intimidate me but rather encouraged me to prove it to my team and especially myself that I can

accomplish the task. Lastly, I am now also aware that I always keep the big picture in mind. I always urged the team to ask itself first "So what?" when adding a new slide during the creation of the presentation deck for the next Steering Committee. If a particular analysis or information did not advance the project in the grand scheme of things, i.e. it did not bring us closer to an optimal final recommendation and thus not closer to the maximum value for the client, I always elected to delete the particular information from the main deck and put it into the appendix or discard it all together. An instance of this happening is the exclusion of the analysis of Germany's intra-state differences regarding the average capital expenditures of senior care operators. While at first this analysis seemed relevant for advancing the project in regards to the cost analysis, it proved to be of little value in the end and it was discarded all together from the main deck although more than ten hours of analysis were spent on it.

However, I also identified one major weakness of mine. I realized that what I consider as direct and constructive criticism, can be perceived as over-the-top bluntness or frankness by others. While I generally do not like wasting the time of others and myself by being overly sensitive when giving feedback, I came to the conclusion that this is not the best approach since it can negatively impact a team environment if one is feeling attacked after me giving negative feedback or pointing out areas of improvements. My teammates taught me a good method for overcoming this flaw which I am already applying and planning to continue applying in the future. Instead of leading with stating my critical thoughts, I now start with finding and mentioning several positive aspects of one's work before I point out the negative parts. This way it is much easier for others to listen to my suggested improvements and there is an increased probability of keeping a team's harmony intact.

## 3.4 Personal retrospection

Besides the team's analysis, the input from the industry experts we interviewed and from CL were most valuable to the outcome of the project. The interviews led us early on in the right direction and allowed us to formulate the hypotheses which guided us through the business project. The experts we interviewed were highly knowledgeable regarding the senior care market and could quickly tell us where to look for certain kinds of information. Additionally, the visit to CL's facility in Porto and the few talks we had with CL's CEO helped us a lot in understanding the industry and especially CL itself. In hindsight, the collaboration between all involved parties of the business project, i.e. the CEMS team, MC and CL, could have been improved. While it was extremely valuable to have the regular Steering Committees at MC's office, CL's CEO was only in attendance twice. I think if he had witnessed all of our presentations, we could have gotten even more insights into the industry and

CL from his perspective, instead of mainly receiving MC's input, which might have resulted in an even better or at least more differentiated final recommendation. Moreover, the internal allocation of work packages was not always ideal. Since we all have our individual strengths and weaknesses, not every team member was always suited to perform a particular task. The sometimes sub-optimal allocation of work thus usually resulted in a non-satisfactory outcome which in turn lead to a complete revamp of the work by another team member. Engaging in such an inefficient process could have been circumvented by identifying one's strong and weak points early on in the project.

In conclusion, the business project was a valuable personal experience that enriched my personal development on a professional and social level. I am convinced that our work delivers value to CL and I am looking forward to see our proposed recommendation soon implemented in the real world.

# Endnotes

[1] This and future references to slides refer to the slides of the business project's final report.
[2] Due to the challenging German market characteristics, such as the regulatory framework and the number of industry players in combination with the lack of a market network as well as the lack of experience of CL and MC in the German market, the optimal market entry strategy implies to exploit the German market opportunity by attracting German seniors in need of care to Portugal to receive care-related services, as opposed to expanding operations directly to Germany.
[3] While there are senior care operators focusing on foreign customers, none of these operators follow precisely a strategy that is comparable to the project's final recommendation, i.e. a specialization in short-term stays and reliance on hotel operator partnerships.
[4] The chosen hypotheses are not collectively exhaustive in regards to the entire market of German seniors in need of care, but are only collectively exhaustive in regards to the part of German seniors in need of care that are considered attainable for CL (e.g. low-income German seniors are not considered).
[5] Since seniors require owning or renting real estate in order to be eligible for receiving ambulant care, a strategy offering ambulant care to German seniors in need of care coming from Germany to Portugal was discarded.
[6] Since the final evaluation yields assessments that can be put on an ordinal scale, there is an optimal choice as stated in the hypotheses. Thus, only one hypothesis can be accepted.
[7] Ambulant care prices are determined on a case-by-case basis since the service package is put together individually. This results in a "à la carte" service selection, making it difficult to determine an average cost composition.
[8] Thus, the final cost structure of a facility depends on its customer composition, e.g. many dependency level 3 customers increase nursing costs significantly.
[9] Since the MDK regulates the pricing based on an operator's cost structure, the industry's profit margins are slim to non-existent. While the costs equal pricing for most public (non-profit) providers, resulting in no profits at all, only some private (for-profit) operators are able to generate small profit margins since they are not bound to the nursing staff's regulated labor agreements and are thus able to hire a more cost-efficient workforce.
[10] Comparing the pricing of ambulant and stationary care is difficult since prices for stationary care include not only the care services offered but also other services such as accommodation and food while prices for ambulant care only include the offered care services.
[11] For a complete depiction of the chain of reasoning of all three industry trends, please refer to slide 28ff.
[12] It has to be noted that Spain is very popular among the German population which is aware of Spain's benefits such as quality of life and climate. Regarding Portugal, such an awareness does not yet exist.
[13] Based on interviews with industry experts, it is assumed that Germans with dependency level III are not able to embark on a plane journey to Portugal.
[14] Since CL focuses on German seniors living in Germany, German facilities have to be regarded as competitors.
[15] For a detailed description of the pre-requisites for strategy 1 to 3, please refer to Slide 70ff. of the BP.
[16] Since the target group is already living in Portugal and likely to be accustomed to the Portuguese language, it is not necessary to hire exclusively German staff.
[17] German seniors living in Portugal are usually living in Lisbon, Porto and predominantly in the Algarve region. These customers will have the same need as CL's Portuguese customers of being closely located to their families and friends.
[18] In addition to the small demand, the German population in Portugal is dispersed throughout the entire country (e.g. Lisbon, Porto and the Algarve region). This represents a challenge for CL to achieve a high penetration rate among the 163 to 277 seniors.
[19] The third strategy does not require any acquisition or modification of real estate but can be implemented already after new staff is hired or existing staff is trained for ambulant care.
[20] Since the fourth strategy is the basis for the project's final recommendation, the strategy is elaborated in greater detail compared to the first three strategies.
[21] This pre-requisite becomes irrelevant if CL can obtain a specific hotel provider as a partner.
[22] This pre-requisite becomes irrelevant if CL acquires a state-of-the-art facility or partners with a specific hotel provider.
[23] Care tourism and rehabilitation are part of the entire medical tourism industry.
[24] There are several providers in the German and Spanish market offering short-term stays with care services.

[25] A partner is defined as any German player in the senior care industry that might be beneficial to CL and help the company to attract German seniors in Germany to its service offering in Portugal. This includes competitors such as German care operators but also hotels, insurance funds and travel agencies.
[26] Please refer to 2.3 for a detailed rationale and feasibility analysis of entering into a partnership regarding the 4th strategy.
[27] It will be less challenging for CL to achieve constant high occupancy rates if customers have to stay for a minimum duration of several days compared to customers being able to check-out after just one night.
[28] The same two-sided benefits of hotel partnerships for the care tourism product segment apply.
[29] The structure of the action plan's phases is maintained across each phase, i.e. the activities of phase 2 to 4 are also split into sub-activities with remarks on execution and relevance.
[30] A recommendation for the high-season months was specified as out of scope for the final report by MC.
[31] The herein mentioned percentages represent the conservative (baseline) estimate scenario. For the sensitivity analysis, additional optimistic and pessimistic scenarios have been developed which influence the optimal maximum capacity. Since it is assumed that full capacity is reached at the end of year three across all scenarios due to a constant growth rate, the scenario influences the number of occupied beds in the starting month *and* the optimal maximum capacity. In addition, since only 17% of German tourists visiting Portugal come to Lisbon, the previously calculated demand intervals have to be adjusted for it is assumed that CL opens it first German business unit in the Estoril / Cascais are which are close to Lisbon (e.g. (2 950 + 3 965)/2 * 0.17 * 0.1 = 58.8 which is the basis for the optimal maximum capacity (50) for the care tourism segment (adjusted downward)).
[32] Revenues and costs are forecast for both segments separately, therefore incurred costs that are shared among both segments have to be allocated proportionally to the respective segment.
[33] Given the segments' price points and costs, a gross margin of 24.1% for the care tourism segment and 33.6% for the rehabilitation segment is calculated.
[34] Conservative (baseline) scenario: CL captures 10% of the market size regarding care tourism and 40% regarding rehabilitation. Pessimistic scenario: 5% / 25%. Optimistic scenario: 15% / 55%.
[35] This chapter is a reflection of learnings which includes theoretical knowledge as well as applicable skills.
[36] Here, a business plan refers to a business plan typically utilized by early ventures. The early venture business plan structure of Sequoia Capital (Sequoia 2013) is used as reference.
[37] E.g. subscription revenue models in the e-commerce sector.
[38] E.g. delivery drones of Amazon and Deutsche Post.

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