

# *Teaching Case*

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### **ADULT DAY CARE, INC.**

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## **CASE SYNOPSIS**

Mark Babb and his wife, Jennifer, are considering opening an adult day care center where caregivers can drop off adults so they can take care of their own needs. Mark has a university degree in business administration and has been involved in his family's medical supply business for years. Jennifer is a registered nurse who has been working in the adult day care field for years. The Babbs feel that an excellent opportunity exists where they live to start such a business. There are, however, many marketing, management, and financial factors to consider. The Babbs will need to: (1) examine the factors that influence the adult day care market and how their potential day care center fits into that market; (2) understand consumers' needs in specific market segments; (3) analyze the current and potential competition; and (4) assess the potential opportunities for the adult day care center. They sought help from a local university's Small Business Development Center and were assigned a team of students to help complete the preliminary analysis needed before launching the business.

## **CONCEPTUAL FOUNDATIONS**

Prior to launching a new business, a market opportunity analysis should be conducted to determine the feasibility of the business generating enough revenues to cover costs for not-for-profit businesses and to generate an acceptable rate of return for a for-profit business. This case creates the opportunity for students to prepare a market opportunity analysis for a potential new business, an adult day care center. This involves an analysis of the industry/market, competition, potential sales and costs, and expected return on investment for the owners. If students conclude that the business is feasible, then decisions about location, services, promotion, and pricing can be developed as part of the marketing plan needed to launch the business. Students can also prepare a SWOT analysis of the business as well as the training/skills of the owners to successfully execute the business plan. The data provided in the case gives students the information needed to prepare pro forma income statements and use this information to assess the potential ROI for the business.

## **ADULT DAY CARE, INC.**

Mark and Jennifer Babb are a hard-working married couple with everyday financial and family concerns. Like many of their friends and other baby boomers, they have elderly parents with limited resources. Healthcare costs have increased dramatically. The average cost for a semi-private room in a nursing home is \$67,000 per year and is much higher in some parts of the country [Block, S., 2008]. A survey conducted by MetLife found that the average home healthcare cost is \$19 an hour, which can easily amount to over \$40,000 a year [MetLife, 2007]. A nursing home and home healthcare are the only two options available where the Babbs live. Either of these alternatives can be a troubling financial burden. Surely, the Babbs thought, the market is ripe for a more viable alternative: an adult day care center where caregivers can drop off adults so they can take care of their own needs. However, they were not really sure if they could make a living from this type of business and were also concerned with how much money they would need to secure to start the business.

### **Background**

The Babbs live in Monroe, Louisiana, located in Ouachita (pronounced wah-shih-TAH) Parish, which has a population of about 50,000. West Monroe, located just across the Ouachita River from Monroe, has over 13,000 residents. These two cities are often referred to as the Twin Cities. The Standard Metropolitan Area (SMA) has a population of nearly 150,000. In spite of the population size in the Monroe area, the Babbs were not aware of any viable alternatives to the nursing home and home health care options for the elderly.

Mark has a business degree and has been involved in his family's medical supply business for years. Jennifer is a registered nurse and has worked for many years in the health care field. Therefore, they both have experience in the medical field and feel qualified to start a day care center which targets the elderly. The Babbs sense the time may be right to start an adult day care center in Ouachita Parish. There are a number of companies and not-for-profit organizations offering services to the elderly, but no adult care center currently exists. Before beginning an adult day care business, however, the Babbs wisely sought to find out more about the industry. They contacted the Small Business Development Center at the local university for help with this project and were assigned a consulting team of senior business students to help with this task. Excerpts from the students' report are shown below. Their report included an analysis of the industry and market, prospective consumers, potential competition, potential opportunities as well as some financial analysis for the prospective business.

### **Industry/Market Analysis**

The adult day care center market is not as mature as the nursing home and homecare providers' markets. Due to its size and relatively recent emergence, not as much data exists for the adult day care industry. Adult day care is one of many services that falls under the category of "Elderly and Disabled Services" under the North American Industry Classification System (NAICS). Exhibit 1 below shows the projected markets in the United States for the next five years for these three industries. The Home Care Providers segment is growing at nearly twice the rate as full-time care. Services to the elderly and disabled, however, are expected to grow at even a greater pace. Adult day care service is only one of twelve services of the "Elderly and Disabled Services" classification. Other types of services in this category are disability support groups, social activities, and senior citizens centers. Therefore, it is difficult to draw a strong conclusion from the data. Nonetheless, the outlook for such an industry appears to be favorable.

Exhibit 1  
Expected Growth for Nursing Home Facilities and Home Care Providers

	Nursing Home Facilities		Home Care Providers		Elderly & Disabled Services	
	Revenue \$ Millions	Growth Rate	Revenue \$ Millions	Growth Rate	Revenue \$ Millions	Growth Rate
<b>Next year</b>	97,593.8	2.8%	60,658.2	5.2%	26,805.0	6.1%
<b>Two years from now</b>	100,424.1	2.9%	63,751.8	5.1%	28,976.3	8.1%
<b>Three years from now</b>	103,235.9	2.8%	66,875.6	4.9%	30,338.2	4.7%
<b>Four years from now</b>	106,126.5	2.8%	70,018.7	4.7%	32,734.9	7.9%
<b>Five years from now</b>	108,992.0	2.7%	73,449.7	4.9%	35,713.8	9.1%

Adapted from: IBISWorld (2008b, 2008c, and 2008d).

Looking back over the last five years, the trend is towards some type of part-time, rather than full-time, care for the elderly. Exhibit 2 below shows the growth in each of three industries for the last few years. One would expect a growth in these industries as the median age of our population continues to increase. According to census information, the median age of the population of the United States was 30.4 years in 1980, 35.4 years in 2000, and 36.4 years in 2006. By the year 2015, the expected median age is 39.1 years. As Exhibit 2 illustrates, there appears to be a trend away from full-time residential healthcare; as the growth rate for home care and other types of services to the elderly has been significantly greater than that of the nursing homes.

Exhibit 2  
Real Growth in Nursing Care Facilities and Home Care Providers

	Nursing Home Facilities		Home Care Providers		Elderly & Disabled Services	
	Industry Revenue	Number of Establishments	Industry Revenue	Number of Establishments	Industry Revenue	Number of Establishments
<b>Past year</b>	2.6%	0.1%	5.4%	4.6%	5.8%	3.1%
<b>One year ago</b>	2.5%	0.1%	5.9%	4.8%	4.8%	4.6%
<b>Two years ago</b>	-1.1%	0.1%	4.9%	5.1%	9.4%	2.5%
<b>Three years ago</b>	1.2%	3.2%	9.6%	9.9%	3.8%	4.5%
<b>Four years ago</b>	0.4%	-0.5%	9.6%	10.4%	5.9%	11.3%

Adapted from: IBISWorld (2008b, 2008c, and 2008d).

There are many types of programs in Monroe and West Monroe that provide services to the mature “graying” community. In addition, there are a variety of services to fit the various individual adult care needs. Hence, competition for adult day care in the area is high.

Nonetheless, there is no establishment in the area that provides an adult day care center structured like the one that the Babbs are considering.

The MetLife Mature Market Institute performed a nationwide survey on adult day care services and home care costs. They found that the national average hourly rate for home health aides is \$19 an hour and that the national average daily rate for adult day centers is \$61. No data was obtained for the Monroe, Louisiana, area. However, Baton Rouge showed an average hourly rate for a home health aide of \$14, and an average daily adult day care cost of \$54. Thus, it appears that the Louisiana market cost is below the national average [MetLife, 2007]. Exhibit 3 below shows the results of a recent survey conducted by MetLife of nursing home, assisted living, home care, and adult day care costs. Adult day care cost is the least expensive alternative.

**Exhibit 3**  
**Daily Average Cost for Nursing Homes, Assisted Living, Home Care, and Adult Care**  
**In Selected Areas of the Southeast**

Area/Region	Nursing Home Semi-Private	Assisted Living	Home Care (8-Hour Day)	Adult Day Care
<b>National</b>	\$189	\$100	\$152	\$61
<b>Baton Rouge, LA</b>	117	83	112	54
<b>Jackson, MS</b>	164	91	144	65*
<b>Little Rock, AR</b>	131	72	120	58
<b>New Orleans, LA</b>	NA	NA	NA	50
<b>Shreveport, LA</b>	115	71	104	NA

Adapted from: MetLife (2007a and 2007b).

\*Figure is for the Central Mississippi area.

The main target group for the adult day care center that the Babbs envision is the elderly. Utilizing information from the most recent census, Ouachita Parish has more than 18,000 individuals age 65 and over. The data also shows more than 28,000 residents, who are five years or older, have some type of disability. The information did not delineate how many of these disabled individuals are also 65 or older.

Nationally, the elderly population continues to grow rapidly. When all of the baby boomers (everyone born from 1948-1964) reach 65, one in five Americans will be 65 or older. According to U.S. Census Bureau, this age group will more than double by 2050, when there will be 88.5 million Americans who will be 65 or older. Accordingly, the increasing age of the population leads to an increase in demand for direct care and medical supervision of the elderly. As the population grows older, there may also be more who face chronic, limiting illnesses or conditions, such as arthritis, diabetes, osteoporosis, and senile dementia. These conditions result in people becoming dependent on others for help in daily living activities. In view of this state of affairs, an adult day care can be a major benefit to the community. Exhibit 4 below gives some sense of the aging U.S. population base over the next 20 years. The growth is noteworthy, particularly in the Southeast where Monroe is located.

Exhibit 4  
Share of Persons Aged 65+ from Total Population: 2000 – 2030

Region	Percentage 2000	Percentage 2005	Percentage 2010	Percentage 2020	Percentage 2030
<b>Far West</b>	10.9	11.0	11.8	15.1	18.0
<b>Great Lakes</b>	12.6	12.5	13.0	16.0	19.3
<b>Mid East</b>	13.5	13.4	13.9	16.9	20.4
<b>New England</b>	13.6	13.4	14.0	17.6	21.8
<b>Plains</b>	13.4	13.2	13.6	16.8	20.4
<b>Rocky Mountains</b>	10.1	10.3	11.0	14.6	17.1
<b>South East</b>	12.5	12.5	13.1	16.5	20.1
<b>South West</b>	12.6	12.7	13.4	17.0	20.4
<b>TOTAL</b>	12.4	12.4	13.0	16.3	19.7

Source: United States Census Bureau. (2008). *The 2008 Statistical Abstract*.

The ability of family members to provide long-term care services informally to their parents or other adult loved ones has declined with the increasing rate of women entering the workforce. Working parents cannot provide hands-on care for their elders during the hours when they are at work, but the income they receive from working may increase their ability to finance paid care. Many working caregivers experience conflict between the demands of employment, care for their children, and responsibilities for their elders. The parent-support ratio gives an idea of things to come. This ratio equals the number of persons aged 85 and over per 100 persons aged 50 to 64. Between 1950 and 1980, this ratio nearly tripled from 2.7 to 6.7. Based on the latest census, this ratio is now 10.2 and could again triple over the next six decades.

### Consumer Analysis

The prospective clients for the adult day care center in the Monroe/West Monroe market are adults, and perhaps even older teens, who should not be left alone, including those who are physically or mentally disabled. These segments, however, contain great variance, if not in need, in ages. Many may think of an adult day care center to be used only by the elderly, but the largest segment of those with disabilities is not the 65 and older group. Exhibit 5 shows the demographic of those with disabilities. The 16 to 64 group accounts for 57.8 percent of those with disabilities. The exhibit does not indicate the severity of the disabilities. One would expect a greater limitation for those who are older. As expected, a much greater percentage of those 65 and older have disabilities. While a large potential target market exists in the younger age group (i.e., those under 65), the Babbs wanted to focus on the elderly as the primary client of the proposed day care center. They also felt it would be very difficult to mix all the different age groups in one facility.

Exhibit 5  
Disability Status

Age Group	Estimated Number with Disabilities	Percentage of Persons with Disabilities
<b>Population 5 to 15 years</b>	2,816,000	6.8%
<b>Population 16 to 64 years</b>	23,809,000	57.8%
<b>Population 65 years and over</b>	14,584,000	35.4%
<b>Total population 5 years and over</b>	41,209,000	100.0%

Adapted from: U.S. Census Bureau.

Based on the most recent census of Monroe (population of over 53,000) and the data presented from the two previous tables, there should be more than 2,500 individuals in Monroe who are 65 and older who have some significant limitation in their daily lives. Not all of these will be current potential customers because the data does not indicate the severity of these disabilities. Exhibit 6 below shows the types of disabilities of this elderly group. Census data indicates that about 41 percent of the 65 and older group has a disability. The percentages in the exhibit total more than 41 percent due to the fact that many have more than one disability. The adult center could possibly attract some who are capable of being by themselves, but who would rather be with others. An adult day care facility might give the caregiver (e.g., the adult children) a greater peace of mind assuring them that their loved one is being aided. Therefore, it appears that there is a need for this kind of care center for the elderly in this market.

Exhibit 6  
Persons 65 Years Old and Over – Disability Status

Type of Disability	Percentage of 65 Years Old and Over
With a sensory disability	16.4%
With a physical disability	30.8%
With a mental disability	11.5%
With a self-care disability	9.7%
With a go-outside home disability	16.6%

Adapted from: U.S. Census Bureau.

The "graying of America" is evident. As the population ages, the need for adult care will continue to increase. Exhibit 7 below shows the aging of the U. S. population. The fastest growing age group is 65 to 69. Perhaps surprisingly, the 80-and-over group not only exhibits the second highest growth rate, but is also the largest group, which is more likely to require the greatest amount of care and supervision.

Exhibit 7  
Growth in 65 and Over Population by Subgroup

Age	Persons 2007	Persons 2008	Growth	Proportion of Total 65+ Group (2008)
<b>65-69</b>	10,784,352	11,321,863	5.0%	29.3%
<b>70-74</b>	8,584,066	8,732,349	1.7%	22.6%
<b>75-79</b>	7,292,194	7,226,693	-0.9%	18.7%
<b>80+</b>	11,189,060	11,409,264	2.0%	29.5%

Source: IBISWorld (2008a).

The clients and their caregivers would benefit from the services rendered by the adult day care center because they could have an alternative to 24-hour nursing home care. The clients would benefit from the socialization, rehabilitation, nursing care, and supervision. The caregivers would benefit from peace of mind and the freedom to work and run errands, knowing that their loved ones are being taken care of by health care professionals. Importantly, the cost of adult day care is significantly less expensive than nursing homes and home care.

### Competitive Analysis

There are currently no adult day care centers serving the Monroe area market. In this sense, there is no direct competition. Competition, however, is present in other forms. Home health care, nursing homes, and community service activities are all potential competitors. It appears unlikely, however, that someone outside the community might establish a day care center in Monroe for there are no major players in the industry. In addition, the lack of an adult day care facility in the local market bodes favorably for possible governmental funding or grants.

The Bell South Yellow Pages for the Monroe area lists 26 nursing home facilities. These establishments offer full-time care for elderly patients with a wide range of health care needs. Some of these patients are potential clients for an adult day care center because they are not completely debilitated. These people are simply in need of someone to cook, clean, and oversee their daily activities.

There are 27 home health care and nursing agencies in the area that offer medical attention to patients with more serious conditions. These organizations would also be potential competition because families may hire them to stay with the patients during the day. Nevertheless, with a nurse on staff, an adult day care center may offer a similar service for a fraction of the cost.

Although indirect, the Ouachita Council on Aging would be another significant competitor in care for the elderly. This institution offers transportation, dance classes, art lessons, and numerous other social activities. The Council's focus, however, is more on entertainment than on health care.

Area churches are also indirect competitors. Many larger churches offer afternoon programs and activities for the elderly, such as "Thursdays Together" at McClendon Baptist. Here, the 65 and older age group meets for lunch, choir rehearsal, and fellowship with transportation provided. These nonprofit organizations may prove to be an alternative to day care for some potential clients, but their availability is limited and their focus is on entertainment



and fellowship, and they do not have qualified staff members to provide care but depend upon volunteers.

### **Opportunity Analysis**

The Babbs appear to possess good managerial strengths. Jennifer is a registered nurse and has had extensive experience in the adult day care field. Mark has a bachelor's degree in business administration and is a seasoned veteran in the medical supply business. Through their many years of work with the medical community, they have established many contacts which should prove to be beneficial.

A variety of funding sources are available for an adult day care center for the Monroe area. In addition to participant fees, Medicare, Medicaid, private insurance, and federal and state grants may be available. There is also the possibility of acquiring financing from individual investors.

### **Marketing Strategy Development**

Based on the current potential within the adult day care industry, the Babbs developed the following strategic objectives as reasonable:

- (1) To achieve at least \$100,000 in revenues by the end of the first fiscal year of operation;
- (2) To achieve at least \$400,000 in revenues by the end of the third fiscal year;
- (3) To break even by the end of the third fiscal year; and
- (4) To achieve at least 80 percent awareness of the existence and nature of the center by potential clients within the first year of operation.

In view of the forgoing situation analysis and the above objectives, a marketing strategy should be developed that will help build a successful adult day care business. Overall, the basic strategy of the adult day care center is to offer direct care for a portion of the 24-hour weekday to individuals who are physically or functionally impaired. The center should offer a variety of services to maintain its clients' state of emotional, physical, and social health so that they do not deteriorate to a point where admission to an institution is necessary. Additionally, in order to accomplish the above objectives, the following product, place, price, and promotional strategies will be used.

### **Products/Services**

In order for the adult day care center to be successful, essential services need to be offered to distinguish the center from all other types of adult day care programs in Monroe. The services should give people a good reason for choosing the center over competitors. When determining the services which the center should offer, several successful out-of-state adult day care centers were analyzed. Based upon these other centers' success, the following services are highly recommended for the potential adult day care center. These services are discussed below.

*Hours of operation* should be Monday through Friday, 7:00 a.m. to 6:00 p.m. Attendance may range from two to five days a week. Extended hours should be available from 6:00 p.m. to

8:00 p.m., Monday through Friday, if requested with reasonable notice and if the center is able to comply with the request. An additional fee should be charged for extended care.

*Transportation* is a high-cost expense relative to the benefits received and is replete with liability issues. Therefore, transportation for offsite trips should be contracted out with commercial companies. Clients should arrange for their own transportation to and from the center.

*Staffing* should eventually consist of a director, a full-time registered nurse, a certified nursing assistant, a program director, a social worker, a dietician, and someone to handle all the paperwork and any insurance claims that might be filed. At the start of Adult Day Care, Inc., however, an individual might handle more than one role. Based on the owners' professional experience, each of them will be able to fulfill multiple functions. Volunteers should be welcomed. The maximum client-to-staff ratio should equal 6 to 1, to insure individual attention. All staff members should be certified by the American Red Cross in First Aid and cardiopulmonary resuscitation (CPR) annually.

*Health care services* should include the monitoring of blood pressure and medications, blood sugar testing, health screenings, medical follow-ups, and wound care. Rehabilitative care should also be performed, which includes daily exercise groups, walking, mobility training, and physical and range of motion therapy. A nutritional breakfast and lunch should be served daily, in addition to an afternoon snack. Activities of daily living should be performed, such as hair care, personal hygiene and grooming, oral care, feeding, and bathroom assistance.

*Group activities* at the center should include dancing, sing-a-longs, discussion groups (e.g., current events), cooking, sewing, arts and crafts, gardening, music, TV, Bingo, card and board games, and sports activities. Community and recreational activities should include frequent outings to places like restaurants/places for lunch, plays, children's day care centers, museums, parks, swimming pools, bowling centers, libraries, book stores, and shopping centers. Additionally, it can also be arranged for community groups to visit the center, such as children's day care groups, and members of the Fire Department, Police Department, and Department of Social Services, among others.

*Educational programs* should be provided for family members and the community. Potential topics could include "Alzheimer's Disease: How to Handle Difficult Situations," "Advance Directives," and "How to Choose the Right Type of Adult Day Care," among others. Educational programs should be provided to the clients with topics such as, "How to Stop Smoking," "Crime Safety," "Medicaid and Medicare," "Home Fire Prevention," and "Current Events." These educational programs may also result in being an important promotional tool for the center.

*Patients with Alzheimer's and other related disorders* should be accepted as clients. Accordingly, the center should provide a structured environment and caring atmosphere that keeps these patients socially active, alert, and mobile. Activities should be similar to those of the regular clients, but modified to meet their special needs.

*Optional services* offered may include occasional visits from speech therapists, manicurists, massage therapists, and a podiatrist. These services may be billed directly to the clients' insurance carrier or to the clients' families.

### **Place Decision**

The adult day care center may not require a location with prime exposure. A centralized area, however, would be especially beneficial. A location near family members' places of work

would add to the convenience of adult day care. The “Garden District” of North Monroe has been suggested as good localized areas. The Garden District is centrally located in an historic area of Monroe. The neighboring areas are well maintained.

An examination of local real estate listings in the Garden District and in North Monroe indicates that the least expensive house is about \$80,000. This price does not include such required renovations as handicapped accessible bathrooms, non-slip flooring, and handicap entrance ramps. Although varied, the median cost appears to be about \$70 per square foot.

Adult day care centers are also required to have separate bathrooms for males and females. There must not be less than one toilet and hand washing facility for each twelve clients. The facility must provide at least 40 square feet of indoor space for each day care client. There also must be sufficient parking area available for the safe daily delivery and pickup of clients.

Considering the difficulty of attaining a pre-built structure that would lend itself to affordable renovation, building an adult day care center may be the best option. Finding an affordable lot in North Monroe is slightly more difficult than in other areas. The average lot price in local listings is around \$30,000. According to ARCO Builders, a local architectural firm specializing in the construction of nursing homes, building a new structure would cost \$65-75 per square foot. To build a structure to house 20 people would cost a minimum of \$52,000 not counting the cost of the lot, furnishings, kitchen and office space. This size would allow some growing room.

### **Promotional Decisions**

The promotional strategy should consist of the following elements:

- A message of a fun, safe place for caretakers to leave their loved ones for the day will be the main theme of the advertising campaign.
- A pull strategy based on an intensive advertising campaign will be used in the first year of operations.
- A mix of television, print, and radio advertising will be used: 40% of the advertising budget will be allocated to print (newspapers, billboard, and Yellow Pages), 20% of funds will be dedicated to radio, and the remaining 40% will be allocated toward television ads.
- During the first year of operations, advertising effectiveness will be evaluated biweekly and will be recorded promptly for feedback.
- The advertising blitz will have a budget of \$25,000 for the first year of operations. Subsequent yearly advertising budgets will be determined at the beginning of each year. The advertising budget will be allocated as follows:
  - The radio budget of \$5,000 will include 30 second spots on local AM and FM stations. Two different radio ads will run in the 3-7 p.m. timeslots Monday-Friday, and the ads will be renewed every 3 weeks by advertising executives.

- The television budget of \$10,000 will include 30 second spots on local stations; one ad to be run every month; and ads will be during prime time, 7- 10 p.m.
- The print budget of \$10,000 will include billboards. The message should change each month. It is desirable to have two billboards, located on different ends of Monroe/West Monroe. The remainder of the funds will be spent on newspaper with the News-Star and, possibly Yellow Page, advertisements.

### **Financial Analysis**

The center should charge approximately \$50.00 a day per client for services rendered, which is approximately \$6.00 an hour. This price includes lunch. As shown in Exhibit 3, the national average price for all adult day care centers within the United States is \$61 a day. Additionally, this price is considerably less than home health care, which charges about \$19 an hour, and nursing facility care, which charges about \$189 per day for a semi-private room.

### **Pro Forma Analysis**

Since the Babbs may have to consider building, an analysis of the construction costs is necessary. Exhibit 8 below shows start up cost estimates for Monroe. The Babbs are hopeful that their business will grow rapidly so they plan to build or lease a larger facility than will be needed during the first few years.

Exhibit 8  
Estimated Start-Up Costs  
Capacity per Square Foot

<b>Number of Clients</b>	<b>10</b>	<b>20</b>	<b>40</b>	<b>50</b>
<b>Required Square Footage per Client</b>	40	40	40	40
<b>Capacity Requirements</b>	400	800	1,600	2,000
<b>Additional Space</b>	500	500	500	500
<b>Sick Room</b>	50	50	50	50
<b>Additional Bedrooms</b>	250	250	500	500
<b>Total Square Footage</b>	1,200	1,600	2,650	3,050
<b>Price Per Square Foot</b>	\$70	\$70	\$70	\$70
<b>Total Cost</b>	\$84,000	\$112,000	\$185,500	\$213,500
<b>Land</b>	50,000	75,000	100,000	110,000
<b>Furniture</b>	15,000	20,000	30,000	40,000
<b>Appliances</b>	6,000	6,000	6,000	6,000
<b>Supplies</b>	5,000	7,000	11,000	13,000
<b>Total Start Up Costs</b>	\$160,000	\$220,000	\$332,500	\$382,500

Note: Additional Space would include kitchen, hallways, storage space, and offices.

A pro forma income statement prepared on the cash basis is given in Exhibit 9. The number of clients shown in the table is the expected full-time equivalent clients. The figures for the number of clients are believed to be conservative. Enrollment for the first year is expected to be between 10 and 20 clients, and enrollment in the second year is expected to increase to between 20 and 40. Sales are expected to increase rapidly during the first three years, and then level off to about a 10 percent rate of growth. The sales figures in the pro forma income statement are based upon clients spending an average of 40 hours a week at the center, at \$6.00 per hour. Wages make up the largest expense category. Adult Day Care will try to provide the best service for its client. Typically, payments to individuals, such as rehabilitation and counseling, and wages account for about 90 percent of the operating costs for an organization providing services for the elderly and disabled [IBISWorld, *Elderly & Disabled Services*]. Operating expenses include utilities, supplies, and food. The debt service cost for interest and principal is based on a \$400,000, 10-year, and a 7 percent loan. The Babbs believe that they will also need to invest at least \$100,000 of their personal savings in Adult Day Care, Inc.

Exhibit 9  
Adult Day Care, Inc.  
Pro Forma Income Statement (Cash Basis)  
For Years Ended

	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>
<b>Number of Clients:</b>	12	24	36	40	44
<b>Sales</b>	\$144,000	\$288,000	\$432,000	\$480,000	\$528,000
<b>Expenses:</b>					
<b>Salaries &amp; Wages</b>	171,600	193,200	214,800	222,000	229,200
<b>Operating Expenses</b>	31,600	53,200	74,800	82,000	89,200
<b>Advertising Expense</b>	25,000	25,000	25,000	25,000	25,000
<b>Debt Service Cost</b>	55,000	55,000	55,000	55,000	55,000
<b>Income (Loss) before Taxes</b>	<b>(\$139,200)</b>	<b>(\$38,400)</b>	\$62,400	\$96,000	\$129,600

### **Other Financial Considerations**

Much of the competition to Adult Day Care, Inc., will be from not-for-profit organizations. Eighty-six percent of companies offering elderly and disability services are not-for-profit organizations, which gives these organizations a significant advantage over for-profit organizations. Government grants may be available to aid in starting up the center. It must be shown, however, that there is a need for the service in their area, and that service is not currently being offered by other organizations [IBISWorld, 2008, *Elderly*].

### **Conclusion**

The consulting team of senior business students from the university summarized their report by noting that services to the elderly and disabled are currently in a growth cycle, which is

expected to continue into the foreseeable future. As the median age increases, demand will increase for some type of assistance with daily living activities. In addition, the barriers to the industry are low and there are no major players in the adult day care industry. Health care costs continue to rise, which has caused many to look to alternative, less expensive means of caring for their loved ones who need help. Although an adult day care center may not be profitable the first two or three years of operation, if it follows a sound strategic marketing plan, it can become the new trend in adult day care in Ouachita Parish, and soon generate a profit.

The Babbs thoroughly reviewed the consultants' assessments and recommendations and became optimistic about the prospects. Considering that there is no existing adult day care center within the Monroe/West Monroe area, the Babbs are wondering whether this is an opportune time to launch Adult Day Care, Inc.

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