

# TROPMAN REPORT

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## HOW DO NONPROFITS COMPARE WITH FOR-PROFIT PROVIDERS?

### *An Application of Customer Value Analysis*

The once clear boundaries between the public, nonprofit and corporate sectors have become blurred almost to the point of irrelevance as a growing number of for-profit firms enter markets long dominated by nonprofits — child care, education, substance abuse treatment, housing, and others. Pressured by competition for market share, the question is: **Can nonprofits effectively compete with for-profit firms with respect to cost and quality of services?**

The Forbes Funds commissioned Tripp, Umbach & Associates to explore this question in the arena of affordable housing where nonprofit and for-profit providers often compete head-to-head. The researchers chose to focus on the *senior* housing marketplace where product comparisons are easier to make and where data are more readily available.

The research questions addressed by this study are:

- What criteria do senior citizens use when searching for affordable housing?
- Do consumers perceive significant differences in quality and cost between for-profit and nonprofit providers?
- What are the implications for nonprofit organizations in terms of building and retaining their market share?

Tripp Umbach used a research tool called *Customer Value Analysis (CVA)* to analyze how consumers make decisions based on a number of different factors and what organizations they perceive best meet their demands. The tool is especially appropriate for assessing the overall perceived value of a good or a service when both cost and quality are simultaneously taken into consideration.

CVA is used primarily as a market research tool to help organizations of all types design products and services that align with consumer perceptions and preferences. Obviously, firms can realize financial gain when their products and services closely match consumer preferences. Also, CVA can help managers uncover internal issues that may affect overall quality and price. For nonprofits, the technique can be especially helpful in a context where consumers have a choice between competing providers.

## THE SENIOR HOUSING MARKETPLACE

The marketplace for senior housing is growing and the competition for market share is intense. Data from the 2000 census show that the number of Americans over the age of 65 is increasing, with the fastest growing segment being those over the age of 85.

Real estate developers across the county have responded to these market demands by constructing, renovating and managing a wide variety of facilities that provide "senior friendly" design layouts with supportive services. The relatively low median income of seniors 65 and older requires that senior housing be affordable as well as appealing.

### THE FORBES FUNDS

*Envisioning Pittsburgh's nonprofit sector as innovative, informed, and engaged, The Forbes Funds advance capacity-building within and among the region's nonprofit organizations.*

#### THE COPELAND FUND FOR NONPROFIT MANAGEMENT

The mission of The Copeland Fund for Nonprofit Management is to strengthen the management and policymaking capacity of nonprofit human service organizations to serve better the needs of their communities.

- Management Enhancement Grants
- Emergency Grants
- Cohort (Professional Development) Grants

#### THE TROPMAN FUND FOR NONPROFIT RESEARCH

**The mission of The Tropman Fund for Nonprofit Research is to support applied research on strategic issues that are likely to have profound effects on nonprofit management and governance, especially among human service and community development organizations.**

- Applied Research Projects
- Annual Research Conference

#### THE WISHART FUND FOR NONPROFIT LEADERSHIP

The mission of The Wishart Fund for Nonprofit Leadership is to encourage pioneering nonprofit leadership by promoting public learning and discussion about issues critical to ethical and effective management, as well as by celebrating exemplary practices.

- Leadership Roundtables
- The Frieda Shapira Medal
- Alfred W. Wishart, Jr., Award for Excellence in Nonprofit Management

Until 1990, nonprofit providers who were eligible for tax exemptions and special subsidies that allowed them to offer substantial discounts to low-income seniors dominated the market. Without the same financial incentives, for-profit firms were discouraged from entering the marketplace. That changed in the early 90's when for-profit firms became eligible for public tax credits as a means of subsidizing the cost of housing for low-income residents.

Today there is a growing demand for affordable senior housing and plenty of head-to-head competition between nonprofit and for-profit providers. This marketplace is, therefore, the perfect context in which to apply the concept of Customer Value Analysis.

## THE STUDY DESIGN

Seven housing facilities (5 nonprofit and 2 for-profit) agreed to participate in the study. The research team conducted telephone interviews with 144 residents, 63 from nonprofit facilities and 81 who lived in for-profit facilities.

The research team developed the following list of attributes and asked residents to rate them in terms of their importance in their "purchase" decision:

### EIGHT KEY ATTRIBUTES AND SUB-ATTRIBUTES

#### Application process & availability of housing

- Application process that is easy to complete
- Availability of the kind of unit desired
- Assistance with pre-entry application

#### Reputation

- Recommendation of someone not living there
- Friends or family already living there
- Church or organization affiliation

#### Location

- Close proximity to family & friends
- Easy access to business district, grocery store, pharmacy, etc.
- Close proximity to previous neighborhood, church, etc.
- Close proximity to public transportation

#### Quality of Living Environment

- Comfort with neighbors and neighborhood
- Safety & security
- Welcoming design and decorations

#### Design & Layout

- Apartment design that encourages ease of use and convenience
- Areas for getting together with friends and families
- Design which accommodates for people with disabilities

#### Management & Staffing

- General upkeep & cleanliness of housing and grounds
- Ability to respond to complaints quickly & efficiently

#### Rules & Regulations of Housing

- Services that encourage independence and convenience
- Policy regarding pets and/or visitors

#### Health Care Services

- Health care facilities on site
- Range of services (i.e., partially assisted, 24 hour care, etc)

Respondents to the telephone survey were asked to rate each of the attributes on a 100 point scale with respect to its perceived importance when they chose their housing facility. They were then asked to rate their housing facility on each attribute. Cost data are then added to the analysis in order to give an overall picture of perceived "customer value" that simultaneously considers both cost and perceived quality.

## THE FINDINGS

Not surprisingly, the respondents to this survey say price is the dominant consideration in their choice of housing facilities. It is significant, however, that perceived quality of the housing facility also is quite important to consumers, thereby providing an excellent opportunity to compare for-profit and nonprofit facilities on both price and quality.

The three quality attributes that most influence seniors' housing decisions are: 1) the ease of the application process and immediate availability of housing, 2) the location of the facility and 3) the reputation of the facility. More specifically, seniors seem to look for an application process that is easy to complete and housing that is readily available in close proximity to family and friends. The least important considerations seem to be the "house rules" and, somewhat surprisingly, the health care services offered by the facility. It should be noted, however, that the survey was not conducted in assisted living facilities or professional care facilities. Therefore, these respondents are relatively healthy and apparently not concerned with healthcare support services.

A second important finding is that in head-to-head comparisons, for-profit facilities are perceived as providing better overall customer value (price and quality) in seven of the eight factors measured. Only in healthcare services are nonprofits perceived as delivering better quality. The differences are too small to be statistically significant, but the undeniable fact is that for-profits are quite competitive on the quality to cost ratio and are perceived as the quality leader in the delivery of affordable senior housing.

## WHO MAKES THE CHOICE?

This survey shows that a large share (60%) of seniors made their housing decision without consulting either family or friends. This finding challenges the widely held belief that family and friends can be highly influential if not solely responsible for the senior housing purchase.

## IMPLICATIONS FOR NONPROFIT PROVIDERS

Two lessons emerge from this study for nonprofits that want to remain competitive in an increasingly volatile marketplace. First, it is clear that for-profit providers of senior affordable housing are quite formidable competitors. The perceived differences in overall customer value between for-profit and nonprofit providers is not large enough to be statistically significant. Therefore, we cannot say with confidence that nonprofits are failing to keep pace in the competitive arena, but it is abundantly clear that for-profit providers are at least comparable (and perhaps superior) providers of affordable senior housing.

Second, nonprofits need to understand and use sophisticated market research techniques, like CVA, in the same way for-profit

firms do. The information provided by these techniques can help nonprofits make service delivery improvements based on consumer perceptions and priorities.

Using this study as a baseline, Tripp Umbach & Associates make the following suggestions:

- Periodically repeating this research, using the same CVA methodology, will help nonprofits measure improvements in overall customer value relative to for-profit competitors.
- Affordable senior housing providers, both nonprofit and for-profit, can benchmark their organization against the aggregate results reported here by repeating the CVA in their own organization.
- Using the results of the customer value analysis as a basis for improving the quality of their service delivery, nonprofit firms can increase their market share.

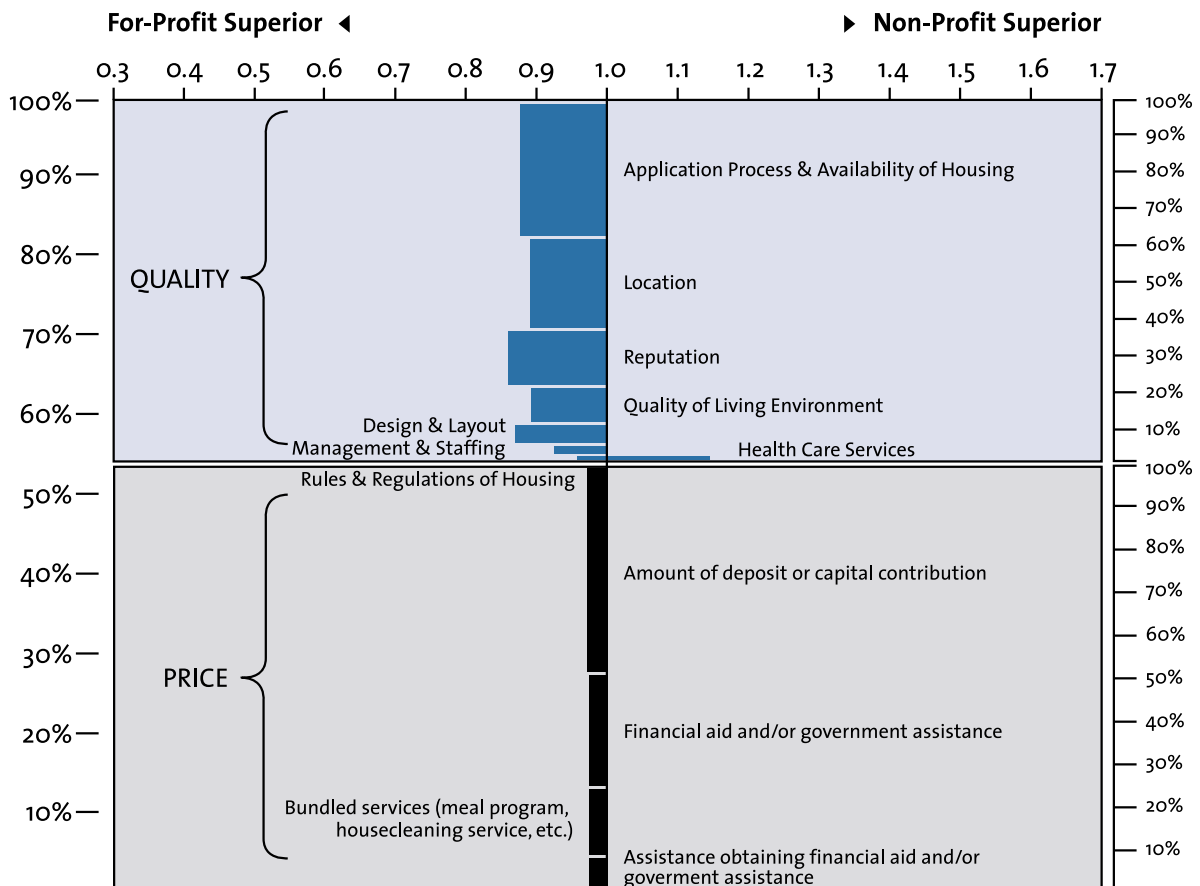
While there were few delivery models that seem to offer it all, here are some examples of "best case practices."

- Programs that promote aging in place, socialization and resident retention. These facilities usually offer some type of continuum of care services that address physical, emotional and mental needs on a proactive basis.
- Facilities that create a homelike environment. This requires more personal practices and a management structure that balances privacy with choice.

- Integration into the surrounding community. Sites located near existing service providers offer a low cost way of accessing amenities without incurring additional overhead cost to residents. (e.g. location near a college campus where residents can use athletic facilities, the library etc.)
- Programs that encourage resident interaction in the on-going success of the facility such as a resident's committee or a resident run convenience store.
- Better site design that takes into account the specific needs of seniors (e.g., enhanced lighting, shorter corridors, full accessibility).
- Facilities in which the site manager and builder are closely allied. Construction/management experience and knowledge of a full range of senior housing issues contribute positively to successful practices. Flexibility in design and management should be encouraged. Facilities appear to benefit exponentially from management that views itself as an industry leader who "pushes the envelope."

There are no simple recipes for success, and the competitive marketplace is constantly in flux. Thus, to remain competitive, nonprofits must be consistently proficient at hitting a moving target where consumer preferences and needs are changing and where for-profit competitors are continuously improving.

### Affordable Senior Housing



## THE FUTURE

Over the past several years, The Forbes Funds has hosted community forums emphasizing the so-called seamless economy in which nonprofit and for-profit organizations often compete and sometimes collaborate. Our web site ([www.forbesfunds.org](http://www.forbesfunds.org)) contains links and tools for nonprofits that want to remain on the cutting edge in the new economy. Our grantmaking and technical assistance programs have emphasized strategies for success in this competitive environment.

As we look to the future, The Forbes Funds will continue to provide assistance to nonprofit organizations in their efforts to build their management and operational capacity. But we will also continue to urge nonprofit to focus on services in which they have unique competencies and comparative advantages – where they add value to the community. The study reported here and others we will conduct in the future provide a barometer of the sector's overall health.

**This TROPMAN REPORT is one of a series of briefing papers generated by The Tropman Fund for Nonprofit Research. TROPMAN REPORTS in this 2002 series are:**

1. Capacity-building in the Nonprofit Sector: *A Comparison of Resources and Practices in Pittsburgh and Denver*
2. **How Do Nonprofits Compare with For-profit Providers? An Application of Customer Value Analysis**
3. Leveraging Human Capital: *How Nonprofits in Pittsburgh Recruit and Manage Volunteers*
4. New Economy Entrepreneurs: *Their Attitudes on Philanthropy*
5. Profit Making in Nonprofits: *An Assessment of Entrepreneurial Ventures in Nonprofit Organizations*
6. Recruitment and Retention of Managerial Talent: *Current Practices and Prospects for Nonprofits in Pittsburgh*
7. Social Services in Faith-Based Organizations: *Pittsburgh Congregations and the Services They Provide*
8. Staying Ahead of the Curve: *An Assessment of Executive Training Needs and Resources in Pittsburgh*
9. Strategic Planning: *Positioning Identity, Values and Aspirations*

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To read the full text of this study, log onto The Forbes Funds' web site at [www.forbesfunds.org](http://www.forbesfunds.org).