The Forecasted Prospects of the Return of Investment in Elderly Care Service Industry Based on the Analysis of the Market and YADA

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Abstract. With the slow increase in birth rate, China has stepped into an aging society and the aging population will continue to grow, and the burden on young people to support the elderly is becoming heavier and heavier. The elderly care service has become a hot issue. Therefore, this paper is based on an in-depth study of the financial statements and market research of Beijing Yada Senior Living Group Co., Ltd., and analyzes the current market situation of the elderly care service industry in China using a combination of macro and microenvironment analysis and the internal and external competitiveness of the company and give recommendations for its development. The study shows that although people's social cognition has become part of the obstacles, the increasing demand for senior care services in the country according to the company's operating data in recent years shows that senior care currently belongs to a window period for investment and is highly likely to bring huge returns to investors in the future. As a result, it is recommended that more investors should focus on the senior care market and consider providing more capital as a solid foundation for its development.

Keywords: Elderly care service industry, strategic management, swot, ROE.

1. Introduction

As China's Aging is deepening and the birth rate is increasing slowly, the burden on young people to provide for supporting the old is becoming heavier and heavier. Therefore, government-sponsored senior care centers and family care are no longer capable to meet the huge population base of the elderly, and the social care industry thus has emerged. However, the traditional Chinese concept of "filial piety" that children should be responsible for supporting the elderly and the frugal consumption of the elderly have greatly limited the development of the industry. Therefore, some people believe that there is no market for nursing homes in China [1]. This study found that there are many types of services in the current market, not only limited to a single service model of nursing homes, but also including the sale of aging-appropriate residential products and complete facilities such as health care, cultural and sports activities, and commercial businesses. The breaking of the old way of senior care has broadened the definition of the concept of "senior care", which means that new opportunities have been created for enterprises. What is the industry's acceptance level by the Chinese domestic elderly consumer group? Is the industry likely to continue to grow and bring investment benefits in the future? What improvements are still needed in the industry in the context of the domestic situation? Is the industry still worthy of new investors? Based on the analysis of domestic economic, policy, social, and technological development, this study scientifically demonstrates the current status and future development potential of the elderly care service industry. At the same time, this paper not only analyzes the strengths and weaknesses of the company's potential competitors but also provides some strategic advice for the progress and development of the industry, hoping that Chinese companies can create unique and suitable services for the domestic aging population in the elderly care service industry.

According to the seventh National Census from the National Bureau of Statistics, the population of people over 65-year-old has accounted for 13.5% of the total population in China [2]. "United

Nations defines an ‘aging society’ as one in which more than 7% of the population is 65 years old or older” [3]. From this, we could know that China has already stepped into graying society, and the situation will intensify in the near future. China's persistently low birth rate has led to a significant impact on the traditional model of retirement in the form of new family structures, for which the government can hardly take sole responsibility. What’s more, benefiting from the growth of the economic level of the whole society, the old has become more demanding of higher quality and personalized services for senior living [4]. As a result, this greatly stimulates the need for a new type of old-age service while there are still difficulties in promoting the popularity of the industry in current society. This paper decides to infer and explore whether the elderly care service industry is worth investing in by analyzing the economic environment and the development status of Beijing Yada Senior Living Group Co., Ltd. as an example.

2. Main body

2.1 Case introduction

Beijing Yada Senior Living Group Co., Ltd. (hereinafter referred to as YADA) was established in 2011, which is a large-scale senior care service enterprise, focusing on the "complex park senior care" model, that is, around the theme of health and senior care, creating age-appropriate residential products, supporting health care, cultural and sports activities, commercial business, and other complete facilities. It aims to create a scenic environment and provide all-weather services to meet the needs of the material and spiritual life of the elderly owners with the greatest sincerity and build a high-end living park centered on the elderly [5]. In the decades since its listing on the National Third Board in 2015, with the expanding scale of the senior living market, and the wise decision of catering to the needs of the domestic senior living market and continuously provide high-quality services, it turns loss into profits and are now in the leading position in the industry. At the same time, Yada actively explores the international market and cooperates with Panasonic Corporation of Japan, and provides a more intelligent and humane life for the increasing number of elders living in the retirement property park [6].

2.2 Case Analysis

2.2.1 PEST analysis

This paragraph will use the PEST methodology to analyze the external factors that affect the survival and growth of a company.

2.2.1.1 Political

In terms of policy development, the 12th Five-Year Plan puts forward the idea of building a social elderly service system based on home, relying on the community and supported by institutions, while the 13th Five-Year Plan further puts forward the idea of improving the elderly service system, strengthening the foundation of home and community elderly service and promoting the quality and efficiency of elderly institutions. The 13th Five-Year Plan further proposes to improve the elderly service system, strengthen the foundation of home and community elderly service, and promote the quality and efficiency of elderly institutions [1]. The State Council issued the "14th Five-Year Plan for National Aging Development and Elderly Care Service System", which emphasized the need to improve elderly care services, pay attention to their health protection, and actively integrate the concept of aging into economic and social development [7]. These changes in law greatly stimulate the rapid growth of the elderly care service industry, pushing the elderly care service industry into the window of investment. With the government’s positive attitude toward supporting the industry’s further expansion, more and more companies are beginning to pay attention and invest money into it, bringing great potential to the development of the senior living industry.

2.2.1.2 Economy

According to the data, "In 2013, the state officially determined that "senior care is both a business and an industry", and the scale of China's elderly care service industry has reached 6.57 trillion yuan in 2018 and is expected to reach 8.81 trillion yuan in 2021[4]. Thanks to the increasing per capita GDP in China, most regions have entered a well-off society and people's income meets the basic needs of life. The aspiration for a better life has prompted people to pursue higher-level senior care needs. In the current development mode, the senior care industry has been unable to meet the personalized senior care needs of most elderly people. Moreover, as there is a regional gap between the economic development in the east and the west of China, the demand for the senior care industry is also affected by this, and it is ahead in the east than in the west [8]. Companies such as BAOLIHEPIN Company (hereinafter referred to as BAOLI) and Yada Senior Living Group Company have developed numerous senior living facilities in the eastern region such as Beijing, Shanghai, and Jiangsu, catering to the needs of the local elderly population.

2.2.1.3 Social

Due to the increasing cost of raising children, fewer and fewer young people are willing to give birth to their children. This results in a continuous decrease in the size of the young population, an increase in the aging of society, and an increase in the pressure and financial burden on young people to support the elderly. Data from the National Bureau of Statistics recorded that the number of people over 65 years old in China rose from 122.88 million in 2011 to 149.33 million in 2016, the elderly dependency ratio rose from 12.3% to 15%, and the total dependency ratio in China is now 37.9%. The reality of the aging population and the huge pressure on the elderly has driven the emergence and development of institutional care. In the past, more families tended to raise their seniors at home, believing that it was an unfilial act to send them to a nursing home. This perception has not yet been completely changed, but data shows that more and more seniors do want to live in a nursing home. For example, a survey in nine districts of Chongqing’s main city found that 31.3% of the elderly are willing to stay in old-age care institutions [9]. Therefore, the development and layout of old-age care institutions have become the concern of the whole society.

2.2.1.4 Technology

First, thanks to innovations in industrial technology, more accurate data are being used in the design and development of age-friendly products, enabling the company to provide more comfortable products that improve the life quality of the elders. At the same time, with the development of “The Internet+", more online service models can be applied to the elderly service industry. Moreover, by using the Internet in conjunction with the Internet of Things and cloud computing, smart health, and elderly service system can be built to achieve dynamic health monitoring for the elderly and provide health guidance, chronic disease management, remote consultation, and health care services. chronic disease management, remote consultation, security monitoring, and other services [10].

2.3 Financial index analysis

The financial statements of Beijing Yada Senior Living Industry Co. for the first half of 2018-2022 show a rising demand trend in the senior living industry and a year-on-year increase in the company's profitability and return on equity (ROE).

2.3.1 Comparison of total sales and growth margin for the first half of 2018 to 2022

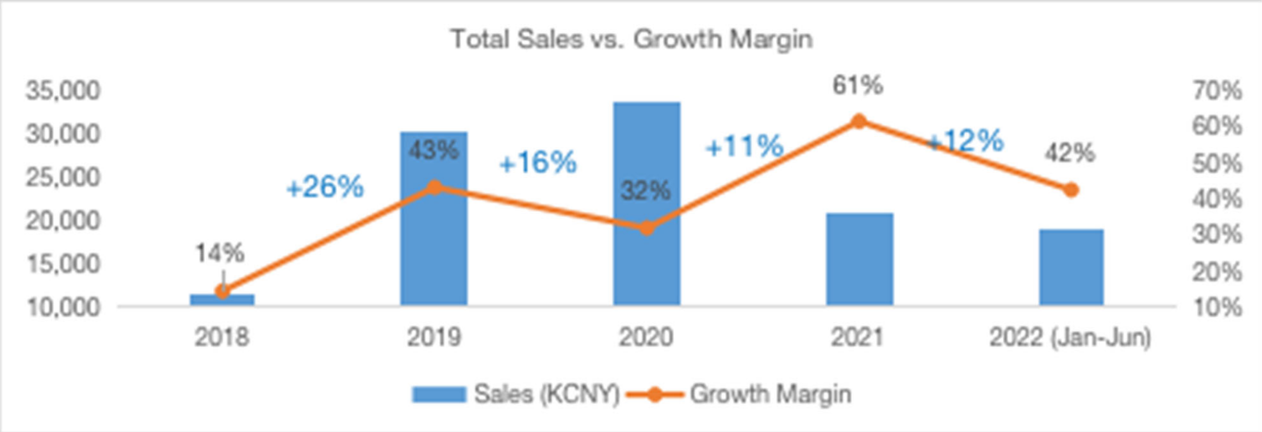

Figure 1. total sales

By analyzing Figure 1, the Total Sales constantly increases since 2018, except in 2021 the Total Sales decreased*. The slope of the Growth Margin indicates that the company is in the growth period although in 2020 it increased at a lower rate of 32%*. This reflects that the product is competitive and the market is short of supply, so it leads to an increase in price elasticity and the company gains additional revenue.

*Reasons for the decrease in 2020 gross margin

The impact of the epidemic has led to a delay in the completion and settlement of part of the company's consulting business, but part of the company's senior living supplies business has signed a contract

* 2021 Reasons for the decrease in operating income

The completion and settlement of the company's elderly care products sales and allocation business were delayed due to the epidemic, and the revenue carryover was delayed accordingly. However, the order volume of the company's senior care products sales and configuration business grew at a high rate, demonstrating the increasing demand of the senior care market. As the epidemic eases, the company's revenue is expected to grow further in the future.

*The graph shows an increase of 218.79% in operating income for the first half of 2022 compared to the same period in 2021.

2.3.2 Comparison of net profit margin for the first half of 2018-2022

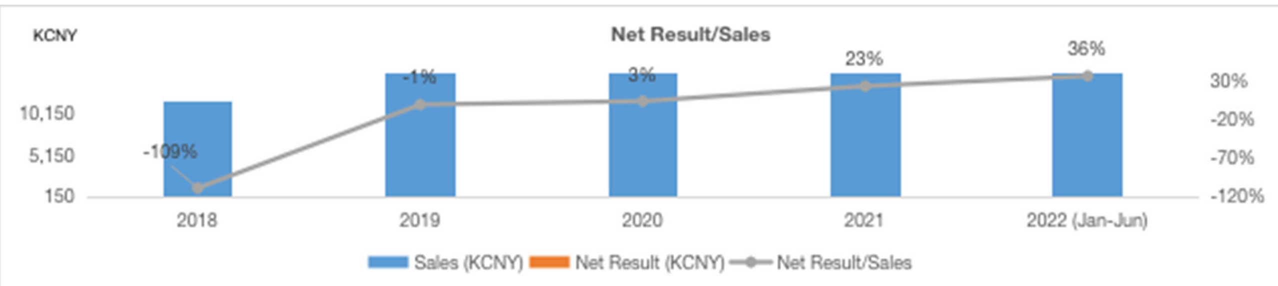

Figure 2. Net results/Sales

As can be seen in Figure 2, Yada's net result divided by Sales (i.e. net margin) has increased year-on-year from -109% in 2018 to 36% in the first half of 2022. According to the analysis of the company's annual reports from 2018 to 2022, it is due to the continued growth of the company's senior care products sales and allocation business and the increasing size of orders on hand, making it the number one source of revenue for the company. From the growth rate of the chart, it can be argued that the scale of the Chinese senior care market is expanding and it can be inferred that the demand for senior care products has a rising trend in the future.

2.3.3 Change in return on equity from 2018 to the first half of 2022

The study used DuPont Analysis and calculated Return on Equity (ROE), which reflects the level of return on shareholders' equity and is used to measure the efficiency of the company's use of its own capital. The higher the value of the indicator, the higher the return on investment. This indicator reflects the ability to earn net income from own capital and is a classic method of evaluating corporate performance from a financial perspective.

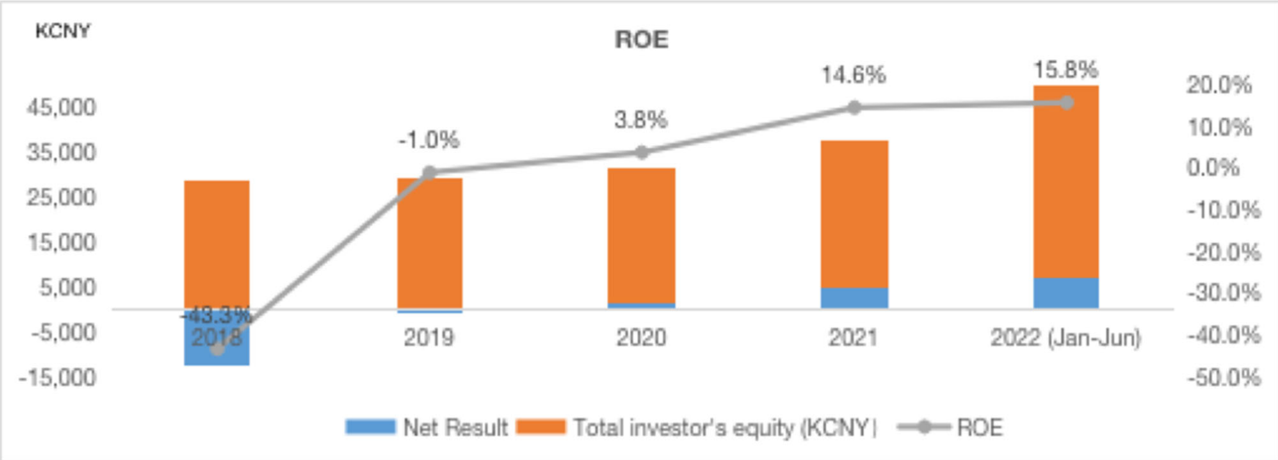

Figure 3. ROE

According to Figure 3, the company's ROE has grown rapidly over the four years, increasing by 59.1% compared to 2018. This fully reflects that the company's profitability is increasing with the rapid expansion of social demand for retirement and also reflects the supply shortage in the market

Based on the three charts, we can conclude that the elderly care service industry is worth investing in because of its current high-demand and low-supply situation.

3. SWOT analysis

After analyzing the macro environment and micro environment separately, the following is a comprehensive analysis of the internal and external environment of Yada using the SWOT analysis tool.

3.1.1 Strengths

YADA is a public limited company; therefore, it could raise funds by selling its shares to the general public. Moreover, YADA has operated a new kind of service called compound park elderly care service, which is a new type of elderly care service industry that sells real estate while building hospitals, recreational and sports activities centers, and complete facilities such as commercial format around the area. It operates aging people tourism; these connections could combine and form an industrial chain. This could be seen as a unique selling point and attract more customers. YADA also has expert teams in different segments, i.e., the tourism destination construction management team, asset management, commercial operations team and medical and elderly care service team. Those professional teams could provide specialized suggestions and recommendations to customers, which could bring them an excellent service experience.

3.1.2 Weaknesses

During the reporting period, the proportion of income from the top 5 majority customers accounted for 92.5%, slightly down from the previous year. However, the biggest customer accounted for 39.77% of the revenue, which existed the dependency of one single customer. If the customer wants to change its business in the future, such as transfer to a business that produces other types of goods and services, the customer no longer needs YADA, or YADA couldn't develop new customers on time, the business will experience the risk of sales performance declines continuously. Moreover, during the reporting period, the percentage of the purchase amount of the top first 5 suppliers accounted for 84.76% of the total purchases during the same period. Among them, the purchase amount of the company's largest supplier accounted for 61.35%, the concentration level is relatively high and the purchase amount is large. If the mentioned suppliers couldn't satisfy the business requirements in products or services on time, it may influence and cause negative effects on business service quality and profitability.

3.1.3 Opportunities

As China has already stepped into an aging society, there are many aged people in China. Hence, the demand for elderly care services is increasing, the elderly care service industry is developing. IDG Capital, an investment corporation, kept investing in YADA. In this sense, YADA has adequate finance to reinvest in operation, innovation, or other more important tasks and is afraid of no risks. People nowadays have more disposable income, they might send their parents to YADA's park to let them enjoy the excellent service.

3.1.4 Threats

This industry is highly demanded, besides YADA and BAOLI, there are also other competitors. If there's any damage to the reputation or service quality of YADA. The location of most residential areas is located in southern China, for those aged people who live in the north but want to purchase real estate in YADA will be a problem as the distance is too far. Accordingly, they may lose the northern market. BAOLI, a strong competitor of YADA, provides mostly the same services compare to YADA. It is owned by central enterprises; hence, the background of the business is quite strong. Compare to BAOLI, YADA produces very limited products or types of furniture that are appropriate for aged people. Therefore, YADA might have to purchase these products from BAOLI, and can't make profits from this industry.

Some families prefer to raise the old in the house instead of sending them to Nursing Homes, this is because, in China, some people might think it is unfilial to let somebody else raise their parents rather than themselves. If this concept still maintains or not be explained, it will affect the elderly care service in the future, and it is a big threat to the industry. [12] Due to the environment of COVID-19, it is costly to check their customers' covid positive or not, it is risky letting workers check the covid test as they may have the chance to be infected. It is dangerous if the aged customers are infected as they are old and their somatic function is weak. Easy to get infected but hard to recover. YADA may have to pay a lot of compensation if accidents happen.

4. Suggestion

For the weaknesses of YADA, the business should expand its construction of the residential areas and improve the infrastructures in order to attract new customers to alleviate the dependency of the majority of customers, effectively diversifying the risk of major customer concentration. Furthermore, the business should improve the management restrictions of suppliers, corporate with different suppliers through different regions of services, in the meantime, purchase the raw materials dispersedly to reduce the reliance on some suppliers, and ensure that the business could obtain high-quality products and services sustainably from suppliers.

For the threats of YADA, YADA should keep improving itself and pay attention to the reputation of the company, otherwise, if the reputation is damaged, customers may tend to purchase the goods and services from its competitors. As for the concept of being unfilial, we think that it requires the government and modern media's assistance to promote the necessity of raising aged people in the social care service industry and help to weaken the obstinate concept of being unfilial when sending parents to the institution. Moreover, several suggestions exist because the compensation cost may be too high when accidents appear. Firstly, YADA could cooperate with some insurance companies. In this case, if some accidents happen, the compensation fees will be paid by an insurance company, this could minimize the cost for YADA. Secondly, YADA could hire the most authoritative medical and health team to ensure that no accidents will happen. However, there will always be black swans, and the best thing to do is to forecast and think out of the tunnel. Thus, hiring a professional risk analysis team is also beneficial.

5. Conclusion

The present study found that current the acceptance of large all-age senior communities with complete facilities is rising year by year, and the demand for comfortable senior-friendly furniture is also increasing. This phenomenon is more evident in the more economically developed regions, therefore, investors may consider investing in the eastern region first and then steadily advancing to the western market. From a comprehensive point of view, it is imperative to invest in the elderly industry, which not only brings revenue to the company but more importantly, relieves the current pressure of social retirement. The suggestion for future development is that the senior care industry should pay attention to promoting its services and collaborate with the media to create the concept of comfortable elderly care service. At the same time, it should actively explore new markets and ensure a wide range of customer groups to reduce the dependence on the sales of a specific product.

The main contribution of this paper is to introduce the various service model of senior care services and to analyze the senior care industry in combination with the national situation, which is suitable for development and worthy of investment in China. The paper filled the gap in the analysis of the feasibility of the successfulness of the senior care industry, which provides a choice for investors who have no idea what to invest in nowadays and in the near future.

The current research mainly focuses on the experience of senior living, without special emphasis on the industries related to it. Future research should explore the appropriate recreational and living facilities for the elderly in China, to improve the senior living experience.

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