McCarthy Physical Therapy: An expansion decision

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ABSTRACT

This case study is designed to introduce upper-level undergraduate and graduate level accounting students to the complex context of a small-business expansion decision. Students are asked to compute the financial projects of multiple expansion options. They are also asked to consider risk in a formal framework in order to deliver a recommendation on which option to pursue. This case demonstrates the usefulness of professional accountants as business advisors.

Keywords: Income projection, Cash flow projection, business risk

INTRODUCTION

Kristin looked at her watch. It was already 9:00 pm. She was finishing up a physical therapy session and had lost track of time. And she still needed to get groceries if she was going to have anything to eat tomorrow. She was down to a can of green beans, an almost empty jar of peanut butter, and some ketchup.

"That's enough for this session, Mrs. Wallace", said Kristin. "You did a great job today as always!"

"Thank you, Kristin. You make it as fun as possible", smiled Mrs. Wallace. "Before you go, come and look at the latest creation from the grandkids. They custom designed a new set of tennis balls for my walker", she laughed. "I'm afraid to actually use them for fear I'll mess them up!"

Kristin looked at the tennis balls that displayed hand-painted designs of Mrs. Wallace's favorite flower – tulips. "These are beautiful! Those kids are talented and sweet", she replied. "I'd better be on my way, but I'll see you next week this same day and time."
"Be careful driving home. I'll see you next week!", said Mrs. Wallace.

BACKGROUND

Kristin McCarthy has worked as a licensed physical therapist at a hospital-owned physical therapy clinic in Orlando, Florida for the past eight years. She holds a Doctor of Physical Therapy degree and is board certified in geriatric physical therapy. Given her work with older patients, she commonly heard complaints about the difficulty of getting to and from appointments at the physical therapy clinic located near the hospital.

Kristin, sensing a market for a different model of care, approached clinic management about establishing a home-based physical therapy program. Management dismissed Kristin's proposal immediately saying that a mobile model would be too inefficient. Despite having her proposal rejected, Kristin did not abandon the idea and instead received permission from her employer to establish her own small, part-time physical therapy practice which exclusively offered home-based physical therapy service on weekends.

Kristin began with the goal of providing 17 appointments per weekend (seven 30-minute appointments, five 45-minute appointments, and five 60-minute appointments). If travel time averaged 20 minutes between each appointment, then she would work 16.25 hours each weekend. McCarthy Physical Therapy had three appointments in Kristin's first week of operations and 8 appointments in her second week. By the third week, however, she had- filled her calendar with 17 appointments. Demand for McCarthy's home-based service continued to expand rapidly. Kristen first increased her weekend hours from 16.25 to nearly 28 hours in order to meet the spiraling demand. She then added hours on select weeknights which quickly turned into additional hours every weeknight. Six months after opening McCarthy Physical Therapy, Kristen was working her regular physical therapy job Monday through Friday from 7:30AM to 4:30PM, seeing her own patients Monday through Friday from 6:00PM to 9:00PM, and seeing additional patients on Saturday and Sunday from 7:30AM to 9:00PM.

Kristen was running from one appointment to the next working nearly around the clock. While she was juggling those responsibilities successfully, there were also the mounds of paperwork involved that needed attention. Fortunately, Kristen's -mother, Janet, was a retired registered nurse with a background operating medical offices. Janet had agreed to assist Kristen with patient scheduling, billing, collections, and record-keeping. Just as Kristen was devoting significant hours to keeping the medical side of the practice running, Janet was devoting 40 hours per week to keeping the business side of the practice running.

EXPANSION OR CONTRACTION

Kristin knew that her current 40-hour work week at the hospital, 40+ hours seeing patients for McCarthy Physical Therapy, and the dozen or so hours per week doing administrative tasks for McCarthy Physical Therapy added up to an unsustainable life. She also knew that she couldn't depend on the unpaid generosity of her mother indefinitely to maintain the management of the business. Despite expanding her available hours at McCarthy Physical Therapy, she was still turning away more business than she was taking proving that there was still ample unmet demand for home-based physical therapy. Taking on more business at McCarthy Physical Therapy would necessitate leaving her steady job at the hospital clinic where she had worked for nearly a decade. It would also mean stepping out of her comfort zone as a medical practitioner and becoming additionally responsible for the business side of a medical practice. However, remaining in her regular, full-time job would mean that patients who wanted and needed home-based therapy would go without this care. Kristen had come to greatly value seeing patients in their own surroundings and enjoying all the independence that afforded her in her work. Despite being a highly accomplished Doctor of Physical Therapy, Kristen knew she would need some professional business advice to properly explore whether it would make financial sense to expand McCarthy Physical Therapy into her full-time job or whether to scale operations back into a more reasonable part-time job. Either way, Kristen needed to make that decision quickly as the 90-hour work weeks were becoming more and more unsustainable.

Janet had been pushing Kristen for weeks to meet with Leigh Jenkins, a CPA and partner in a regional accounting firm with numerous medical industry clients. Janet insisted that Kristen needed a professional's perspective to understand what would be required both in terms of financial capital and human capital to transition McCarthy Physical Therapy from a "side job" consisting of one practitioner and one volunteer office worker into a full-fledged medical practice. When Leigh and Kristen met, Leigh listened as Kristin explained her business model, the rapid growth in demand over the last several months, and the steps Kristen had taken to accept as many patients as possible.

Leigh explained that she evaluates five areas when considering the viability of small business venture. Those five areas are: 1) the skills and talents of the business owner, 2) the financial requirements of the business and the financial resources of the owner, 3) the size of the market and intensity of competition in the market, 4) internal and external risks, 5) support available to the business owner.

SKILLS AND TALENTS

The primary purposes of assessing the skills and talents of the potential business owner are to determine whether they possess the technical and managerial tools necessary to launch and operate a new venture. This assessment also helps to inform the potential owner about what skills and talents must be hired into the business or acquired from outside the business. Because McCarthy Physical Therapy had already been operating on a small scale for six months, Leigh could see in real terms that Kristen possessed the medical skills required for the business, that her dedication to work nearly every waking hour demonstrated her strong commitment to the business, and that she had a clear mission motivating her to serve her patients. While Kristen demonstrated a strong set of critical technical skills and a high level of commitment, it was not as readily apparent whether Kristen possessed the critical managerial skills required of a business venture. To better assess these abilities, Leigh she asked a series of very specific questions about Kristen's experience with human resources, marketing, information technology, finance, and accounting that left Kristen feeling somewhat inadequate and wishing that she had taken more business electives in her undergraduate studies.

FINANCIAL REQUIREMENTS AND RESOURCES

Leigh then turned the discussion to McCarthy Physical Therapy's current finances. Janet had given Kristen a detailed summary of McCarthy's billings and collections over the past three months along with a listing of all expenditures and recent bank statements to share with Leigh. Leigh took a few moments to look over the documents and was pleasantly surprised that McCarthy Physical Therapy was generating positive cash flows despite being a very young business. Leigh thanked Kristen for the financial information and said that she would use the information to help produce pro forma statements for Kristen. They then went through McCarthy's list of expenses item by item to understand what was being spent, why it was being spent, and anything that Kristen may have been foregoing or delaying. Leigh also led Kristen through a discussion of assets and liabilities, as well as equipment and staffing that would be needed should Kristen opt to increase her operations.

Leigh could tell that Kristen was excited by the prospect of expansion, but that she was also hesitant because of the increase in complexity that comes with larger operations. Business complexity wasn't Kristen's only concern. She was also concerned about the cost associated with expansion. McCarthy Physical Therapy had approximately $75,000 in cash that had been generated over the previous six months along with approximately $5,000 of equipment that Kristen had invested in the business. She also had another $100,000 in personal funds that she would be willing to invest in the business for any expansion costs. Leigh helped to calm Kristen's worries telling her that should McCarthy need to borrow funds for expansion that Kristen's solid financial background and willingness to invest a sizeable amount of personal funds would make borrowing much easier and less costly.

MARKET AND COMPETITION

Geriatric physical therapy is a specialized field aimed at persons aged 50 and higher. McCarthy Physical Therapy has a strong geographic advantage being located in Orlando given that Florida has the highest percentage of senior citizens in the nation and the second highest total number of senior citizens according to the U.S. Census Bureau. The demographics of the region mean McCarthy Physical Therapy has a large target market for its service and likely explains the tremendous amount of demand that Kristen discovered as soon as she established McCarthy Physical Therapy. Leigh was very interested to quantify how much additional business Kristen could have taken advantage of over the past quarter and asked Kristen to make estimates of how many patients she had turned down due to lack of appointment space.

Leigh also asked numerous questions about why Kristen's hospital employer had declined to start a home-based program and whether there were other home-based physical therapy providers currently operating in the region or in other areas of Florida. Kristen explained how hospital management was insistent that a home-based program would be too inefficient and wouldn't mesh well with the hospital's existing brick-and-mortar physical therapy clinic. This made sense to Leigh given her knowledge of hospital cost structures and their need for high patient volumes to compensate for relatively high fixed and administrative costs. Kristen also explained that the nearest home-based physical therapy business was several hours away in south Florida.

INTERNAL AND EXTERNAL RISK

Leigh knew from the discussion up to this point that a large market existed for McCarthy Physical Therapy's services, that Kristen had the financial resources to significantly expand to meet that market, that Kristen had the technical skills and commitment to successfully expand, and that administrative and management resources could be hired into the business or contracted for services. What Leigh did not know is whether Kristen understood the risks involved in expanding McCarthy Physical Therapy and whether Kristen had the appetite to tolerate such risks.

Kristen and Leigh had a lengthy discussion about internal risks associated with human capital (both staffing and management), technology and education, legal risks, and physical risks associated with equipment and assets. They also discussed external risks such as potential competitors, regulatory bodies, and how economic changes could affect demand for McCarthy Physical Therapy's services. After outlining the numerous risks involved in a larger medical practice, Kristen was even more conflicted than before about which path to take with McCarthy Physical Therapy's future.

SUPPORT

Leigh could tell that Kristen was concerned following their discussion of risk, and she tried to calm Kristen's concerns by discussing how support can alleviate risks. Support, Leigh explained, can come from personal and professional sources. Leigh said that she was, in fact, a source of professional support for her clients. Her experience with clients in the medical industry from a CPA's perspective meant that she was well-versed in acquiring financing, designing efficient financial systems, and identifying and mitigating risks. She also had a network of legal and human resource professionals who could provide resources in areas where Kristen needed assistance. Although professional resources usually come with a cost attached, they are readily available once identified.

Personal support is an often overlooked, yet critical factor, in the success of young and growing businesses. According to Leigh, the long hours that Kristen had experienced over the past six months were likely to continue given the unpredictable demands of growing a business. This meant that Kristen needed to assess her personal relationships with family and friends to be sure those around her were also committed to the work ahead. Leigh also encouraged her to think about the skills, knowledge, and resources that her family and friends might be willing to offer if Kristen decided to embark on a high-growth plan for McCarthy Physical Therapy.

The Decision

Kristen was sure that she was ready to transform McCarthy Physical Therapy into her sole, full-time job so long as she could earn close to her current salary of $100,000 per year. She, however, was still unsure about whether to keep the business small where she would be the only therapy provider provider or whether to hire additional therapy staff in order to satisfy more of the demand that she had observed over the past months.

Leigh agreed to produce a set of financial projections under a few different scenarios. The scenarios would include: (1) Kristin remaining employed at the hospital clinic and operating McCarthy Physical Therapy under the current business model; (2) Kristin leaving the hospital clinic and undertaking a small expansion of McCarthy Physical Therapy increasing patient visits by 20 percent; and (3) Kristin leaving the hospital clinic and undertaking a large expansion of McCarthy Physical Therapy adding another physical therapist and increasing patient visits by 120 percent over the current model. The information Leigh gathered to produce these projections are displayed in the exhibits below. These different scenarios would give Kristen a clearer understanding of the potential financial rewards to compare to the risks which they had discussed and assist her in making a decision as to the trajectory of McCarthy Physical Therapy's future.

EXHIBITS

Exhibit 1 – Quarter 1 Billings								
	# 30-Min Appt	$ 30-Min Billed	# 45-Min Appt	$ 45-Min Billed	#60-Min Appt	$ 60-Min Billed	Total # Appt	Total $ Billed
January	54	$4,320	36	$4,320	36	$5760	126	$14,400
February	40	$3,200	36	$4,320	36	$5,760	112	$13,280
March	45	$3,600	40	$4,800	45	$7,200	130	$15,600

Exhibit 2 – Quarter 1 Collections				
	From 2 Months Prior (Approx. 10% of Total Billing)	From 1 Month Prior (Approx. 20% of Total Billing)	From Current Month (Approx. 70% of Total Billing)	Total Cash Collections
January	$1,298	$2,925	$10,110	$14,333
February	$1,307	$2,901	$9,284	$13,492
March	$1,344	$2,626	$10,889	$14,859

Exhibit 3A – Quarter 1 Expenditures			
	January	February	March
Medical Equipment Purchases	$2,447	$901	$1,422
Advertising	1,000	1,000	1,000
Malpractice Insurance	925	925	925
Mileage (@ .56 per mile)	663	622	708
Telecommunication (Phone, Internet)	328	328	328
Payment Processing Fees	341	311	349
IT Subscriptions	228	228	228
Misc. Supplies	205	223	214
Website Fee	190	190	190
General Business Insurance	144	144	144
Office Supplies	126	117	156
Answering Service	90	90	90
Postage	64	71	77
Bank Fees	35	35	35
Technology Purchases	0	2565	0
Total Cash Expenditures	6,406	5,481	5,676

Exhibit 3B – Expenditure Descriptions	
Medical Equipment Purchases	Irregular cash expenditure, depreciated straight-line for 4 years with zero residual value
Existing Medical Equipment	Kristen contributed medical equipment with a $5,000 value to McCarthy PT. The equipment had 3 years of useful life remaining with zero residual value.
Advertising	12-month contract @ $1,000 per month
Malpractice Insurance	12-month premium @ $925 per month
Mileage (@ .56 per mile)	Varies with number of miles driven
Telecommunication	24-month contract @ $328 per month
Payment Processing Fees	Based on credit/debit transactions, averages 2.3% of collections
IT Subscriptions	12-month subscription @ $228 per month
Misc. Supplies	Varies based on number of patient visits
Website Fee	12-month contract @ $190 per month
General Business Insurance	12-month premium @ $144 per month
Office Supplies	Varies based on number of patient visits
Answering Service	Month-to-month contract @ $90 per month
Postage	Varies based on number of patient visits
Bank Fees	Fixed @ $35 per month
Technology Purchases	Irregular cash expenditure, depreciated straight-line for 4 years with zero residual value

Exhibit 4 – New Requirements for Small Expansion			
	Cost	Time Period	Depreciable
Office Staff (including payroll and benefit expenses)	$4,054	Monthly	No
Vehicle Purchase (1 company vehicle)*	$31,000	One-Time	Yes
Vehicle Operating Costs	$600	Monthly	No
Medical Equipment	$5,000	One-Time	Yes
Accounting/Consulting	$300	Monthly	No
*estimated 200,000 mile useful life, $6,000 residual value			

Exhibit 5 – New Requirements for Larger Expansion			
	Cost	Time Period	Depreciable
Office Staff (including payroll and benefit expenses)	$4,054	Monthly	No
Medical Staff (including payroll and benefit expenses)	8,812	Monthly	No
Vehicle Fleet (2 company vehicles)*	62,000	One-Time	Yes
Vehicle Operating Costs	1,200	Monthly	No
Medical Equipment	15,000	One-Time	Yes
Technology	7,500	One-Time	Yes
Additional Advertising	250	Monthly	No
Accounting/Consulting	350	Monthly	No
*each is estimated to have a 200,000 mile useful life with $6,000 residual value			

TEACHING NOTE

McCarthy Physical Therapy: An Expansion Decision

McCarthy Physical Therapy is designed to introduce undergraduate, Master of Accounting (MAcc), or Master of Business Administration (MBA) students to the use of income and cash flow projections in a business expansion decision. Students are also exposed to non-financial considerations such as skills and talents of the business owner, competition, risk aversion, and business resources when choosing among expansion alternatives. This case demonstrates a common real-world scenario of a small business owner with considerable technical talent, but limited business acumen, seeking expert guidance. Students are able to practice the role of financial expert and business advisor. The expansion decision contained in this case can be made from a purely financial point-of-view with a definitive solution, or the non-financial factors can be added into the decision allowing students to choose either alternative based on a blend of financial and non-financial factors.

Introduction
Kristin McCarthy, a licensed physical therapist, has worked for a hospital-owned physical therapy clinic for the past eight years. This year, she began an in-home physical therapy business, McCarthy Physical Therapy, in addition to her day job at the hospital clinic. McCarthy Physical Therapy provides therapy services after hours and on weekends. Her part-time job has quickly turned into a potential full-time job. Kristin needs help deciding if she should continue with her current full-time position and scale back the part-time job to be more manageable and sustainable or if she should quit her current full-time position and expand McCarthy Physical Therapy into a new full-time job.

Learning Objectives

This case has the following five learning objectives:

1. To calculate and present a simple income statement under multiple alternatives
2. To calculate and present cash flows from operations under multiple alternatives
3. To draw conclusions about the financial benefits and risks of multiple alternatives
4. To identify and consider key non-financial factors and interpret how those factors affect business risk
5. To communicate relevant information, analysis, and recommendations in a professional manner

Suggested Teaching Approach & Solutions

Suggested student questions are split into those dealing with the financial analysis of the expansion decision and those dealing with the non-financial factors. Questions are meant to build one upon another to guide students through the process of analysis. Once analysis is complete, students are asked to write a 1-2 page executive summary where they clearly define the issue, make specific recommendations, provide analysis supporting their recommendation, and comment on alternatives. Questions are included in the teaching note, but not in the case, giving instructors the opportunity to create their own questions and assignments.

1. Discussion Question: *When considering Q1 Billings (Exhibit 1), are revenues shrinking, stable, or growing?*

   Many students may reflexively respond that revenues are uneven looking at the decrease in February and increase in March. This gives the instructor the opportunity to point out that February has fewer days than January and March and that a better metric than total monthly billings would be billing per day. When that metric is applied, a steady increase in billings per day is apparent. This is a useful first question because students are exposed to the necessity of considering underlying factors that influence reported numbers.

2. Discussion Question: *When considering Q1 Cash Collections (Exhibit 2), what do these collections suggest about McCarthy's clientele and what do these collections suggest about high, low, or moderate risk for McCarthy Physcial Therapy in terms of collections?*

   McCarthy Physical Therapy collects a very healthy 70% of billings in the current month, an additional 20% in the month following billing, and the remaining 10% within two months following billing. Uncollectable accounts appear to be negligible. This suggests that McCarthy's clientele is financially stable. The collection pattern and lack of uncollectable accounts demonstrates low risk in terms of cash collections.

3. Quantitative Question: *When considering Q1 Expenses (Exhibits 3A and 3B), which of these are operating expenses and which are capital expenditures? How do the capital expenditures get reflected in an income statement and statement of cash flows? Calculate the depreciation expense for the medical equipment (existing and Q1 purchases) and the technology equipment. Then, using Exhibits 4 and 5, calculate depreciation expense for any new medical equipment purchases and vehicle purchases under the small expansion and larger expansion alternatives.*

   Medical Equipment Purchases and Technology Purchases are capital expenditures. All others listed are operating expenditures. These capital expenditures will be capitalized as long-term assets on the balance sheet. These expenditures will be reflected on the income statement over time as an expense as they are depreciated. These expenditures will be reflected on the statement of cash flows in two areas: investing and operating. The investing section will include a cash outflow for the initial purchases. The operating section will include an adjustment to net income adding back the non-cash depreciation expense each year.

   The possibility could also be discussed that, if Kristin borrows money for capital expenditures, the financing section would also be impacted both for the inflow of cash of loan proceeds as well as the outflow of cash to repay the principal of the loan and interest.

4. Quantitative Question: *Identify each expense as fixed or variable. Then, calculate projections of operating income under McCarthy's current model, the small expansion alternative, and the large expansion alternative.*

Suggested Answer:

Table TN1

Projected Operating Income

	Current Model	Small Expansion	Large Expansion
Revenues	$14,228	$17,074	$31,302
Expenses			
Advertising	1,000	1,000	1,250
Malpractice Ins.	925	925	925
Mileage	664	0	0
Telecommunications	328	328	328
Payment Processing	327	393	720
IT Subscriptions	228	228	228
Misc. Supplies	214	257	471
Website Fee	190	190	190
Gen. Business Ins.	144	144	144
Office Supplies	133	160	293
Answering Service	90	90	90
Postage	71	85	156
Bank Fees	35	35	35
Medical Equipment Depreciation	238	342	551
Technology Depreciation	53	53	209
Vehicle Depreciation	0	148	247
Office Staff Salary	0	4054	4054
Medical Staff Salary	0	0	8812
Vehicle Operating Exp.	0	600	1200
Accounting Fees	0	300	300
Total Expenses	4,640	9,332	20,203
Operating Income	9,588	7,742	11,099

5. Quantitative Question: *Calculate projections of cash flows from operations under McCarthy's current model, the small expansion alternative, and the large expansion alternative. Also, identify which cash expenditures are not reflected in McCarthy's cash flows from operations and describe where those items would be found in a full statement of cash flows.*

Suggested Answer:

Table TN2				
Projected Cash Flows from Operations				
		Current Model	Small Expansion	Large Expansion
Cash Collections		$14,228	$17,074	$31,302
Cash Expenditures				
	Advertising	1,000	1,000	1,250
	Malpractice Ins.	925	925	925
	Mileage	664	0	0
	Telecommunications	328	328	328
	Payment Processing	327	393	720
	IT Subscriptions	228	228	228
	Misc. Supplies	214	257	471
	Website Fee	190	190	190
	Gen. Business Ins.	144	144	144
	Office Supplies	133	160	293
	Answering Service	90	90	90
	Postage	71	85	156
	Bank Fees	35	35	35
	Office Staff Salary	0	4,054	4,054
	Medical Staff Salary	0	0	8,812
	Vehicle Operations	0	600	1,200
	Accounting Fees	0	300	300
Total Operating Cash Expenditures		4,349	8,789	19,196
Cash Flows from Operations		9,879	8,285	12,106

Cash expenditures that are not reflected in McCarthy's cash flows from operations Medical Equipment Purchases, Technology Purchases, and Vehicle Purchase. The cash paid to purchase these items would appear as a cash outflow in the investing section of a full statement of cash flows. The statement of cash flows presented above uses the direct method. If the indirect method was used, you would see the related depreciation accounts for each of these purchases appear as adjustments to net income adding back the amount of deprecation for each period.

6. Quantitative Question: *Would McCarthy have to seek outside funding (e.g., bank loans) to fund either expansion option? How does this affect business risk?*

McCarthy Physical Therapy has current cash holdings of $75,000. Kristen has stated she has available and would be willing to invest up to $100,000 in personal funds for expansion costs. Additional capital expenditures for the small expansion option includes the purchase of additional medical equipment and one vehicle totaling $36,000. Additional capital expenditures for the large expansion option includes the purchase of additional medical and technology equipment as well as two vehicles totaling $84,500. With either expansion option, Kristin has the funds needed without seeking outside funding. The availability of this inside funding decreases business risk. The business will not have additional debt and will not have the burden of the cost of financing (interest).

7. Discussion Question: *From a purely financial perspective, which alternative would you recommend to Kristen? Give supporting rationale for you answer.*

   From a purely financial perspective, the large expansion would be recommended. This alternative produces the highest projected operating income as well as the highest projected cash flows from operations. The least favorable alternative comparing these measures is the small expansion.

8. Discussion Question: *Consider the five areas that Leigh considers when evaluating business opportunities (skills and talents of the business owner, financial requirements of the business and financial resources of the owner, size of market and intensity of competition, internal and external risks, and support available to the business owner). Leigh assessed these areas for McCarthy Physical Therapy's current business model. Now, perform a similar analysis considering each expansion option. For each area, list positive and negative factors for McCarthy Physical Therapy and conclude whether each area increases overall business risk or mitigates business risk for McCarthy Physical Therapy under each expansion option.*

   Student may have additional insights to add to those items listed below. The following is a suggested answer:

Small Expansion Option

Area	Positive Factors	Negative Factors	Business Risk
Skills and Talents	Kristin's medical expertise, drive, passion, and commitment. This option would also address the issues concerning the lack of managerial skills such as HR, marketing, accounting, IT.	Kristin is still the only medical provider and this option will not address her time issue of being spread too thin.	Mitigates overall business risk
Financial Requirements and Resources	Kristin and the business have ample funds to support this expansion without needing outside funding.	This option results in the least profitable operating income and lowest operating cash flow projections (although they are still positive).	Mitigates overall business risk
Market and Competition	Little to no current competition in the local market	Small expansion could leave room for competitors to quickly enter the market.	Small expansion increases overall risk from this perspective.
Internal and External Risks	Kristen maintains tight control of all operations in a small expansion.	Kristen is the only expert and only perspective available to handle issues that arise.	Mitigates overall business risk.
Support	Kristen would need little outside support in a small expansion.	Fewer funds will be available if Kristen needs to seek outside support.	Mixed impacts on overall business risk.

Large Expansion Option

Area	Positive Factors	Negative Factors	Business Risk
Skills and Talents	Kristin's medical expertise, drive, passion, and commitment. This option would also address the issues concerning the lack of managerial skills such as HR, marketing, accounting, IT. This option also adds additional medical professionals enabling a better work/life balance for Kristin.	There could be additional administrative/managerial responsibilities for Kristin with having employees even with an office manager. In addition, she will now have a greater customer service aspect as she will need to ensure the standard of service that those employees are providing is continually up to her expected standard.	Mitigates business risk
Financial Requirements and Resources	This expansion can be fully funded internally. This option results in the highest projected operating cash flow and operating income.	This would create the most complex business operation of the options available. This option is also the most expensive expansion option.	Mitigates business risk
Market and Competition	Little to no current competition in the local market	Larger expansion leaves less room for competitors to enter the market.	Mitigates overall business risk.
Internal and External Risks	Multiple employees means more operational risk and more opportunities for error.	Kristen will have a team of employees to monitor potential issues and give advice.	Mixed impacts on overall business risk.
Support	Larger expansion produces more funds to hire support staff and outside consultants.	Larger expansion exacerbates the need for supports staff and outside consultants.	Mixed impacts on overall business risk.

9. Discussion Question: *Given your analysis in questions 7 and 8, which alternative would you recommend to Kristen? Give supporting rationale for your answer.*
   Students could give a variety of answers to this question – small expansion, larger expansion, or even close McCarthy Physical Therapy and continue working for the hospital clinic. It will be up to the instructor to evaluate students' recommendations and analysis. Personal risk aversion may play a significant role in student responses.