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# Vitalia Franchise

## Introduction

Catherine (“Cathy”) Anne Hoffmann, founder and CEO of Vitalia Franchise, sat back in her airplane seat. “What a day!” she thought, “what a month, what a year!” The sun started to shine through the Madrid clouds on this bitterly cold January morning. As the plane started to take off, Cathy thought “Up, up and away, just like my company!”

Her head was still spinning from the meeting she had just ended in which an investor had put €3,000,000 on the table to open 10 new day care centers for the elderly next year. Opening 10 centers was the main focus of her strategic plan but she had designed it through a franchising strategy. She already had 12 other centers, one of her own and 11 franchised. “I need to discuss this in Monday’s executive committee; we need to analyze all the alternatives. As soon as I land, I’ll call Cristina, my deputy director, and Jesús, my CFO.”

Cathy was 32 years old but at that moment she felt 50. She had started her own center 6 years previously and the franchise expansion just 18 months ago. She provided care to elderly people using her own “Hoffmann Method.” She could vividly remember how, two years ago, she had decided to expand. It was a high-risk strategy, but she had always been sure that she would achieve her goals. Her passion had also convinced Cristina, and they had embarked on the adventure together. Cathy smiled to herself when she remembered the tiny office where they had started. Everything had changed since then, and this last year had been a roller coaster ride; to open seven centers in a year had taken an enormous effort. Her dream was coming true and she wanted to make the right decision.

Should she change her growth strategy?

Franchising had positive and negative aspects: On the one hand, maintaining control over the proper application of the Hoffmann Method was becoming an issue, and having her own centers would solve the problem. On the other hand, the investor would insist on having a say in strategy and management, which would alter her relationship with her Board. Her present board members trusted her and allowed her complete freedom to decide what steps to follow. The fact that she personally owned 64% of the company probably helped.

How should she face growth? Should she convince the investor to give her the money for other purposes? Was the growth rate going to affect the quality of service that she provided? Her motto for Vitalia was “Providing the same affection, with more resources.” Was she now putting that core element at risk?

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Professor Regina E. Herzlinger and Professor Beatriz Muñoz-Seca of IESE Business School—University of Navarra prepared this case with the assistance of Catherine Anne Hoffmann, Cristina Gallego, and Jesús Tienda. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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### *Overview of Day Care Centers for Elderly People*

A day center for seniors is designed to provide care and preventative, social, health, and rehabilitation assistance to elderly people who, due to illness or socio-familial limitations, require help to maintain their autonomy and dependency. The staff provides assistance in the activities of daily life, thereby delaying placement in a residential home. The users of the center generally come every morning, Monday through Friday, remain at the center all day and return at night to their own homes or that of their families.

In Spain, there were three types of social services for seniors (aged 65 and over)

- Public services at home: 100% funded by the state. Currently, 753,995 people (9.5% of the population) used them.
- Public and private day services: Clubs, homes, and day centers: 3,562,576 people used them (47% of the population).
- Public and private residential care (overnight stay): Residential centers and supervised housing. There were 339,079 people (4.4% of the population) in such centers throughout Spain.

The number of day placements had been traditionally modest compared with other services (63,446 places, 0.8% of the population). However, this number tripled between 2002 and 2008. And there were currently 2,258 day centers for seniors throughout Spain.

There were three types of day care centers, depending on the method of funding the service for users:

1. 100% funded by the state: 41% of the places (this has increased in recent years). The average price is €656 per month.
2. 100% privately funded: the service user pays 100% of the cost. Currently, this represented 37% of the places (dropping from 45% in 2002).
3. Hybrid: Cost shared between the user and the state. On average, the user paid 20%–30% of the final price. This accounts for 22% of the available places.

The average price of private centers (both 100% private and hybrid)<sup>1</sup> varied considerably by Autonomous Region (**Exhibit 1**).<sup>2</sup>

The day center concept introduced in Spain had not seen extensive uptake so far, with residency much more widespread. But the dependency level of many of those choosing the latter would have allowed them to go to a day center instead, where they could receive the appropriate treatment and continue living in familiar surroundings. Further, Spain was one of the EU countries strongest hit by the global crisis, with a significant reduction in GDP (**Exhibit 3**). Similarly, projections showed a slow recovery. This has meant that families paying 1.500-2000 €/month for nursing homes turned to other less expensive solutions, such as day centers.

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<sup>1</sup> From €666 per month in Castilla la Mancha to €990 in Cantabria.

<sup>2</sup> An Autonomous Region is a territorial entity that, within the constitutional system of Spain is equipped with autonomous legislative and executive powers and the ability to be administered by their own representatives. Spain is divided into 17 Autonomous Regions.

## *Market*

The Spanish population has undergone a major ageing process, with the proportion of people over 65 years increasing from 13.95% in 1991 to 16.63% in 2007. In Spain, 16.6% of the population was older than 64; 7,633,807 people, of whom 2,122,198 (27.8%) were over 80 years old. Population studies indicated that, in the next 10 years, the over-65 age group will grow by the greatest percentage (see **Exhibit 2**), by 19.2%, adding 1.44 million people. Thus, within 10 years, there will be around 9 million Spanish people over 65 years.

## *Regulation*

Day centers were regulated both by local councils and each of Spain's Autonomous Communities, according to the Department of Social Affairs and the Dependency Act. These regulations governed the architecture of day centers and the permits required in order to open them. The "Promotion of Personal Autonomy and Care Act," covering persons in situations of dependency and their families, more commonly known as the "Dependency Act," funded the services needed by people who have suffered a disabling illness or accident, or have reached old age. The law came into effect on January 1, 2007. It is expected that more than 200,000 people (those most in need, representing 15% of the 1.3 million dependents) will benefit from this support. The Act was intended to be comprehensive and gave priority to "telecare" (remote assistance), home help, and day care centers, and "exceptionally," paying a salary to the family caregiver.

The Act established three types of dependency:

- **Grade I. Moderate dependence:** When the person needs help, at least once a day, to perform various basic activities of daily life, or needs intermittent or limited support for their personal autonomy. These people qualify for telecare.
- **Grade II. Severe dependence:** When the person needs help two or three times a day to perform several basic activities of daily living, but does not want the continued support of a care-giver, or has extensive support needs for their personal autonomy.
- **Grade III. Total dependence:** When the person needs help several times a day to perform various basic activities of daily life, due to total loss of physical, mental, intellectual, or sensory faculties; needs essential and continuous support from another person; or has widespread support needs for their personal autonomy.

The Spanish State (Central Administration) pledged more than 12,638 million Euros between 2007 and 2015; 400 million rising annually to reach 2,212 million in 2015. The Autonomous Regions matched these amounts. The users paid 35% of their pension. Families who could afford to pay 90% of the cost must do so.

## *Competition*

The supply of social services for older people has grown steadily in response to increased demand. Between January 2002 and 2008, the number of home-service users increased by more than 160,772, while telecare users multiplied more than threefold: a total of 291,604 additional users between 2002 and 2008. The number of places in day care centers has also trebled, by more than 44,627, and nearly 90,000 new places have been created in residential centers between 2002 and 2008.

The private sector handled 59% of those in day centers (37,433), either through placements financed at market price or those contracted by public administration (who receive public funding

through the contracted rate). The first group (purely private) accounted for 37% of the total places (23,475), while the second (contracted places) represented 22% of the total (13,958).

Between January 2002 and January 2008, 537 public centers and 757 private centers were established, thus maintaining the larger proportion of private centers over public ones. However, the public centers increased their share of the total, from 35.3% in January 2002 to 41% in 2008; an increase of nearly six percentage points. The growth of public day care centers at present has been slowed by recession, with a halt on opening new centers. Many centers had quickly closed their doors because the business has not been profitable, mainly because many of them were managed by medical staff with no experience or motivation for management.

## “Vitalia, your day care center” and Vitalia Franchise

“Vitalia, your day center” (hereafter referred to as “Vitalia”) [www.vitalia.com.es](http://www.vitalia.com.es), was a network of day care centers for the elderly. Its 12 centers were located throughout Spain, but most were concentrated in the Madrid area.<sup>3</sup> Its philosophy was based on making the elderly feel at home while receiving the care they needed. Vitalia thus focused not only on the infrastructure but also on adapting the services they offered to each particular case. For example, in contrast to the rigid schedule of other centers, Vitalia offered families flexible hours: the center adapted to each family’s needs, rather than the family’s having to adapt to the center.

Rehabilitation of the elderly took place through a multidisciplinary team (see **Exhibit 4**). Vitalia has been called “a focused factory for elderly people”—an integrated, holistic system. Through evaluations and activities adapted to every need, the staff reduced users’ deterioration and maintained their independence for as long as possible. Another Vitalia motto is “rehabilitation through activity.” Prevention and early detection was one of Vitalia’s priorities. One of the distinctive features was the widely varied program of activities (see **Exhibit 5**) such as workshops on memory and psychomotor skills, music therapy, relaxation classes, reading workshops, mental gymnastics, and classes of Yoga, Tai Chi, and play therapy.

The company’s major differentiating aspect was the implementation of the so-called “Hoffmann Method.”<sup>4</sup> The method analyzed in-depth the overall situation of each individual and their needs to provide a suitable program of intervention. It was a process meant to ensure the greatest gain in quality of life as well as physical, cognitive, and social abilities.

Vitalia centers were open from Monday to Friday, 8:30 am to 7:30 pm. Users could come on their own or be picked up from home. Each center provided a morning snack, lunch, and an afternoon snack. Clients paid €900 monthly for a five-day full treatment, but the scheduling flexibility meant that different clients may pay less. For example, a client going three days a week, mornings only, would pay €350.

Service and flexibility were key competitive advantages of the company. Service was defined by Vitalia using the following criteria:

- Delivering what they promise: The services and activities that they offer are what must be provided.
- Vitalia’s users and the users’ families must be cared for and attended to at all times.

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<sup>3</sup> The centers are located in Madrid (7), Granada, Salamanca, Oviedo and Barcelona.

<sup>4</sup> A scientific method registered in the Spanish Register of Intellectual Property, number 02/2008/4507.

- The response to users' requests must be fast and efficient.
- Vitalia must be a 5-star service, efficiently using the resources they have.
- Leading the competition by offering a wider range of services.
- Constantly seeking improvements in all areas.

The centers were 100% privately owned and privately paid for. Vitalia's management took the strategic decision of following this 100% private path without forming any contractual attachment to any Public Administration, primarily to retain freedom in deciding whether to accept each patient according to his or her specific pathology. Because the Hoffmann Method has specialized treatment for different ailments, mixing of different pathologies at different stages had to be carefully monitored. Public assistance would have required accepting any client with any pathology, and such a commitment could have disturbed the personalized care credo of the firm.

## Company Background

In the fall of 2003, Cathy Hoffmann created a company named "Innovazion Recursos Geriatricos" and started "Vitalia, tu centro de día" (Vitalia, your day care center) in January 2004. Until then she had been an occupational therapist, spending three years to studying medicine.<sup>5</sup> She began her career working in a retirement home as an occupational therapist, where she observed that the treatment the patients were getting was not adequate to their ailments, and that a radical change in treatment was needed. She started experimenting, taking into consideration a more holistic approach that saw the patient as an intricate mixture of personal, psychological, physical, physiological, and emotional components. After two years, she realized that there was a market niche for this approach. She continued working as an occupational therapist and took a specialized course for the management of retirement homes and day care centers for the elderly. There, she met three other people who were thinking of opening a privately owned day care center with their own resources. They joined forces and started the first Vitalia day center in a 2,100-square-foot facility in downtown Madrid, with Cathy as the center and company manager.

After two years of managing the Madrid center, Cathy wanted more. She took a general management course at IESE Business School—the course opened her eyes and she decided she wanted to grow the business. Her dream was to have centers throughout Spain. "One day the name Vitalia will be a neon sign in the street and people will recognize it," she said. However, her partners were concerned about the risks of growing the business and just wanted to stay with the Madrid center. Cathy decided the best way forward was to buy them out. She talked to many investors and explored multiple avenues of growth. Among family and friends, she found investors who believed in her dream and so, in May 2007, the three prior partners were substituted by three new ones. She decided to start her expansion using a franchise model. "Vitalia Franchise" was born in January 2008, 35% owned by Innovazion Recursos Geriaticos and 65% by her own company, Hofmann Consulting. The board of directors understood her dream and gave her the green light.

### *The Client*

Every Vitalia center had two clients—the user and the family. The user receives the care and needs to be satisfied with the outcome. There were two types of user: Firstly, those who can take care of themselves and were fully aware of the treatment they are receiving. These typically represented 60%

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<sup>5</sup> In Spain, medicine is a six-year degree that does not require any pre-med courses.

of the clients. The other 40% due to their ailments—mainly Alzheimer’s disease at early stages—were not fully aware of the impact of the activities they receive. Users typically come from the middle- and upper-middle social strata, who could afford payment for private care.

Cathy defined the service promise she wanted to deliver. To the users she promised personalized treatment, a caring and professional environment, and feeling “at home.” To their families she promised, firstly, care of their loved ones as if they were her own; and, secondly, quality of service that would be demonstrated by the team of professionals, the variety of activities, the treating of each user’s case as unique and requiring programs tailored to their specific needs, and the provision of a ‘family school’ to act as a support vehicle for the families and the users in their daily lives.

Families played a critical role; they were usually the care givers and sometimes the fee payers. They received monthly detailed information in monthly meetings—the “family school”—that kept them abreast of the user’s improvement or difficulties. However, the ultimate purpose of these “family school” sessions was the comfort and reassurance of the care givers. Managing an elderly person was a challenging task for which Vitalia offered personalized coaching and assessment. The monthly two-hour “family school” sessions offered a way to share experiences, comfort, and ideas on how to manage frustration, and to meet other people in the same situation.

Vitalia also provided a detailed information package produced by its medical team for any outpatient referral. This was well received by the medical sector, which viewed this valuable information as a critical aid in diagnosis.

### *Vitalia Franchise Business Strategy*

Vitalia’s strategy was built on four pillars. (See **Exhibit 6** for the headquarters organizational structure.)

The first pillar, supervised by Quality Control and Inspection, ensured the implementation of the Hoffmann Method and the same level of care quality in all centers. To achieve this, Vitalia developed therapy management software which was useful, usable, and easily learned. Its implementation was obligatory at each facility (see later section on Technology for more details). There were also performance protocols for each professional at the center and user guides. Training was seen as the greatest tool for learning the Hoffmann Method, and adherence to, and compliance with, the method was monitored through annual inspections and periodic meetings.

The second pillar, managed by Cathy Hoffmann, was innovation in treatments and operations and monitoring their results. Similarly, Vitalia was using new technologies to optimize operations: Enterprise Resource Planning (ERP) to implement the same system of costs and management in each center, and Personal Digital Assistants (PDA) to monitor the transport of the users. Suppliers were viewed as part of a long-term relationship so that they too would propose and assist in new developments: new materials, innovative medical equipment, and so on.

The third pillar, supervised by the CFO, was the central organization’s supporting the network of franchised centers to ensure their continued profitability. This was done through economies of scale gained from centralizing purchases and prior approval of vendors, products, and services to ensure uniformity of care quality and brand image in each center. Furthermore, each center received a 10-year business plan tailored to its specific characteristics.

The fourth and last pillar, managed by strategic marketing and human resources, was the creation of brand image externally and internally through initiatives from central management and its

communications to staff. Center managers were carefully evaluated for fit with the ethos of the company, and the staff of all centers was centrally trained.

### *Values and Operational Rules*

Right at the outset, with the first small center, Vitalia defined its values and operational rules. Each staff member carried a small card with Vitalia's values and operational rules, and management used these to spot any inconsistencies and as guidelines for the proper delivery of service.

Vitalia's core values were **honesty** (in Vitalia things are said clearly, while maintaining respect for people), **enthusiasm and faith in the project** (those who do not believe, do not belong), **transparency** (information is available to everyone), and **searching for the common good** (a basic premise is to always put oneself in the other person's shoes).

Staff at the central organization must also comply with, and rely on, Vitalia's philosophy as well as having specific knowledge in each area to support each franchisee and provide them with a service appropriate to their needs. Because she believes that Vitalia's essence is based upon these values, Cathy visits each center and spends time with the entire staff, sharing with them these values and rules to see they are maintained throughout the organization. When each member comes to the Madrid headquarters for his or her two days training period, Cathy spends time with them to share Vitalia's ideals and how to unleash their potential. After their first month, she spends a whole day in the new centre sharing values, beliefs, and the Hoffmann method and revisits every six months.

### *Organizational Structure*

Cathy is the CEO of Vitalia Franchising, the main body of the organization. The two other members of the executive team are the CFO and Procurement Manager, Jesús Tienda, an MBA graduate of IESE Business School, and Cristina Gallego, Cathy's deputy director and a psychologist who studied an executive management course at IESE Business School. They are both in their mid-thirties. The rest of the structure includes departments of HR, Quality and Health and Safety Training, Inspections, Management and Procurement, Marketing, Communication, Technology and Innovation.

Each Vitalia center (see **Exhibit 7**) had personnel for the following areas: management, medical and nursing services, rehabilitation services with occupational therapy and physiotherapy, psychology, clinical assistants, transportation service, podiatry, hairdressing and showers. They all made up a "small family" whose goal is the care of elderly people. To support this ethos, Vitalia provided social benefits for all its workers, starting their first day at work, including private health insurance, pension plans, dental care and disability insurance.

### *Recruitment*

The selection of personnel is a critical factor for Vitalia's competitive advantage. They evaluated the franchisee to ensure that this person (or group) shared the philosophy of Vitalia and those who made up the company, and valued who those people were and what they offered. Furthermore, the candidate also had to demonstrate awareness of what it means to be an entrepreneur, to have your own business and shoulder the duties and responsibilities that this entails. As an example, a sound investor from a specific area of Spain was rejected because he seemed much more interested in profitability than the service. "Elderly people are not important; the main thing is how much money will I get from them."

The second key role was the center director (sometimes the same person as the franchisee). This person was the image of the center, greeting clients and their relatives, and performing the tasks of management and billing. They must, therefore, have wide-ranging knowledge across several areas, but the most important were health, understanding the processes of aging and, of course, having a positive attitude toward, and empathy with, the elderly. The director received bonuses based on client satisfaction, client increase over budget, and cost efficiency. They ranged from 20% to 30% of their yearly salary. Although Vitalia did not offer any equity, some franchisees were considering this option. Vitalia recommended a range from 2% to 5% after their second year as center director.

### *Site Selection*

The location of the center and its layout were critical, since these variables had a direct effect on the profitability of the business. Vitalia's five-year strategic geographical expansion plan foresaw the presence of at least one day center in the capital city of the main Spanish provinces. The location must be in a commercial area with good visibility in the city, as well as a catchment area with the largest number of target users (i.e., over 65) possible. (This ensured that the population density within the local radius of the center -was high and optimized the franchisees' search for clients.) The plan set a schedule of targeted cities based on the population, the percentage of that population over 65 years old, and income per capita.

These criteria ensured each center's high profitability. The decision to grant extensive areas of exclusivity enabled each center to attract users more easily and the enables the franchisor-franchisee relationship to be more fruitful and last longer and enabled the same franchisee to open a second or third center (multi-franchise) in the same area.

Finally, the characteristics of the actual premises were based on the following criteria:

- Total surface area, which determines the maximum number of users according to the legislation of each region.
- Internal distribution to optimize the application of the Hoffmann Method.
- Layout and characteristics at street level to ensure accessibility.
- Glassed frontage, to give visibility in the catchment area and also permit the entry of natural light for the well-being of the clients.

### *Marketing and Communication Strategy*

Vitalia tried, through marketing and advertising, to build brand image, employing a budget of more than 15% of sales from franchise headquarters and 6% from centers (see **Exhibit 8**). In conjunction with RMG ([www.rmg.es](http://www.rmg.es)), Vitalia's marketing strategy focused on operating under the Hoffmann Method. Vitalia's targets were:

- Strategic corporate communication with strong corporate branding.
- Strategic commercial communication, either addressed to the general market to capture clients or intended to attract potential franchisees.
- Communication through timely and specific campaigns by franchisees to facilitate the opening and maintenance of Vitalia day centers.

At the corporate level, Vitalia produced newsworthy stories and information of interest to the media, resulting in press hits and TV coverage. The number of media appearances has doubled since 2008. Cathy Hoffmann had an active and ongoing role in a health program, two days a week at Intereconomía TV, as a columnist in one of the sector's most important publications, and as a speaker at health forums and conferences focusing on the elderly.

Business communication acted as an umbrella, helping to plan, develop and complement all advertising campaigns. Vitalia offered each franchisee a comprehensive service that meets their specific needs, drawing on Vitalia's own expertise in managing communication at both national and local levels, such as in small cities or specific areas. This was accomplished by planning, together with the franchisee, the necessary objectives to meet, and developing a media plan that includes and works towards the agreed targets.

Given the great importance of the Internet as a marketing and communication medium, Vitalia increasingly invested in this area in various ways to provide high visibility for the company and the centers, as well as optimize brand positioning.

### *Financing of a Center*

Initial investment in a center was €300,000 (see **Exhibit 9**). This small investment was not sufficiently attractive for Private Equity or Venture Capital companies, so the franchisees sought funds from banks, family, or friends. Vitalia's management set up a business plan based on their experience and adapted it to each individual franchisee's particular case, thereby ensuring profitability. They also conducted a study of costs and profitability of each new service before adding it to the portfolio of the centers. The business plan established the following parameters:

- The average capacity was 65 users (capacity being the maximum concurrent occupancy, in accordance with local regulations). The centers opened with an average of 10 users (requiring Hsignificant prior marketing) and their typical rate of expansion was 2 additional users per month.
- The average starting price per user was €900 monthly, but this rose in subsequent months due to the addition of new services as the user adapts to the center.
- The progressive nature of user acquisition and the high fixed costs mean that the break-even point, occurring at around 35 clients, was not reached until early in the second year.

From that point until reaching the center's capacity, profitability increased to 39% of EBITDA over sales (see **Exhibit 10** for projection of center results over 10 years). The result was a payback on investment in less than three years, and a NPV of €2.6M (see **Exhibit 11**). To facilitate bank financing, Vitalia established partnership agreements for all its franchisees with Spanish financial institutions.

The central franchisor earns revenue in several ways:

- Operational royalty: 5% of the franchises' sales
- Advertising royalty: 1% of franchises' sales, for investments in nationwide brand advertising.
- Franchise entry fee: €28,000
- Provision of services to franchises, such as recruitment, training and consulting

- External consultancy: providing consultancy in the care of the elderly to entities outside the franchise network

Currently, its main income was from entry fees, as Vitalia was in the initial stage of franchise activity. However, this will change as a greater number of centers open, making royalties a larger and more stable source of income (see **Exhibit 12**).

### *Technology*

Vitalia, in conjunction with “Direction” an interactive design consultancy (<http://www.direction.es/>), designed and developed a web-enabled digital health care system, based on the Hoffmann Method. This system allowed Vitalia’s multidisciplinary teams to sift, sort, and analyze the data from electronic patient records; for example, to better manage blood glucose and blood pressure levels for diabetic patients. Vitalia believed that these electronic patient records could reduce costs and improve the level of care provided.

The system’s featured a friendly and un-daunting interface and clear structure which helped the user to navigate. The interface was adaptable to the different user needs; for example, those in a hurry could use only the top-level interaction options, while others can engage more deeply through personal settings and customization. The interface was further enhanced with details that gave the system a “human touch”: for example, the system recognizes each user by name and based on their profile offers them only the relevant information of each patient.

The interface also allowed for nonlinear navigation, offering shortcuts and useful glimpses of information. Large buttons and icons supported the decoding of information on-screen. Giving the user a clear sense of control alleviated reservations about using the technology; options to double-check and correct mistakes assisted in this. The implementation of the “two-thirds rule” (which says that the larger part of the system should be dedicated to and optimized for what most people want to do most of the time) guided prioritization and decision making. Thus, more screen real estate and visual emphasis was given to those elements that most people will be seeking at any given point.

Technological development also incorporated R&D of new therapies, including new materials and new equipment that differentiated the network centers and the implementation of automated diagnostic methods, in such a way as to streamline the medical professionals’ tasks. Vitalia was also working on a common ERP implementation across all centers to ensure that the network’s economies of scale can best be exploited, that best practices can be disseminated, and that the processes followed are the most efficient.

### **The Future**

Vitalia’s main offices were bright and cheerful, with pictures of happy, smiling elderly people punctuating Vitalia’s décor of green logo and green chairs. The 10 people who worked there were young and full of energy, and the Monday morning executive meeting was underway.

“Well it really would be nice to have an investor put in all that money,” said Jesús, “It would help me sleep better. We’re in the middle of a very aggressive recruitment plan at the moment but you never know what’s going to happen—we might get 10 new franchisees or we might not.”

“I don’t think that’s the issue,” said Cristina, “Right now we have six prospective candidates that look really promising, and the last time I counted we had 35 information requests. We hit our goal last year, so I wouldn’t worry about getting ten.”

“Sure,” answered Jesus, “but we might have some cash flow problems along the way.”

“Let’s look at our strategy,” said Cathy, “We did say that we would wait until next year to face master franchising, but maybe we should speed up that process. We have prospective clients for both Portugal and Catalonia, so maybe we should push that up.”

“But what about the three million? Are we going to drop that?” asked Jesus.

“It really is an opportunity, isn’t it?” reflected Cathy. “Although I am concerned about management issues: on the one hand, we could lose our freedom. On the other hand, having your own centers means having control over service quality. And I am really concerned about that. We need to develop an operational strategy to maintain our service quality and the implementation of our Method. They are both differentiating factors and we need make sure that we don’t lose them. I know this investor and I think he could be great. Let’s look at the issues we all share (see **Exhibit 13**). However, if you invested that money you would want to control, wouldn’t you?!”

“But we have to grow with or without the three million!” said Cristina, “Elena has already started coaching our franchisees and Teresa is about to start her inspection visits. I agree it would be easier if we owned the centers, but our strategy of constantly introducing treatment and services innovation is a winner.”

“I agree,” said Jesus, “The franchisees are meeting their economic targets. Our differentiating factor lies in constantly providing new services.”

They both looked at Cathy. She was Vitalia’s R&D department but also personally involved in the process of franchisee selling. To free her from that would mean more time to innovate. They had frequently discussed whether to stop growing and consolidate what they already had, and this new investor could be a way to achieve growth and consolidate.

“Well,” Cathy said, “I think we need to explore other avenues with the investor. What could we offer him? How much power are we willing to give him? Should we forget about him and speed up the master franchise? Let’s all think about it for a couple of days.”

Cathy walked towards her own Madrid center, just a block away from headquarters. The original center with 2,100 square feet was now an impressive 7,500 square feet with spectacular windows overlooking two of Madrid’s principle roads. She could see Vitalia’s neon sign with the green clover logo flashing in the night.

“I’ve fulfilled part of my dream,” she thought, “Now I need to keep on growing. I have requests from Latin America and from other countries throughout Europe. Should I convince the investor to create a new company to attack these markets or should I concentrate on Spain first? Am I willing to lose my freedom? Am I trying to grow too quickly and are we handicapping our future?”

## Assignment

1. Analyze Vitalia’s alignment with the Six Forces<sup>6</sup> and its business model
2. What advice do you have for Cathy Hoffman regarding her growth strategy on the basis of this analysis?

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<sup>6</sup> For more information, see Regina E. Herzlinger, “Innovating in Health Care—Framework,” HBS No. 306-042 (Boston: Harvard Business School Publishing, 2005), revised August 31, 2006.

**Exhibit 1** Map of Spain Showing Autonomous Communities

Source: Instituto Geográfico Nacional-Ministerio de Fomento.

**Exhibit 2** Elderly People by Autonomous Region, as % of Population; Average Income

Region	People	> 65 Years	As % of Population	Per Capita Income (€/year)
Castilla y León	2,528,417	569,338	22.5	23,183
Asturias (Principado de)	1,074,862	235,518	21.9	22,443
Galicia	2,772,533	598,283	21.6	20,572
Aragón	1,296,655	261,415	20.2	26,107
Extremadura	1,089,990	207,018	19.0	16,714
Cantabria	572,824	106,383	18.6	24,466
País Vasco	2,141,860	397,132	18.5	31,952
Rioja (La)	308,968	56,713	18.4	25,621
Castilla-La Mancha	1,977,304	361,501	18.3	18,222
Navarra (Comunidad Foral de)	605,876	105,720	17.4	30,402
SPAIN	45,200,737	7,531,826	16.7	23,874
Cataluña	7,210,508	1,183,628	16.4	27,914
Comunidad Valenciana	4,885,029	793,917	16.3	21,366
Andalucía	8,059,461	1,179,308	14.6	18,359
Madrid (Comunidad de)	6,081,689	875,550	14.4	30,998
Murcia (Región de)	1,392,117	191,432	13.8	19,541
Balears (Illes)	1,030,650	141,054	13.7	25,838
Canarias	2,025,951	251,953	12.4	20,994
Ceuta	76,603	8,572	11.2	22,293
Melilla	69,440	7,391	10.6	21,570

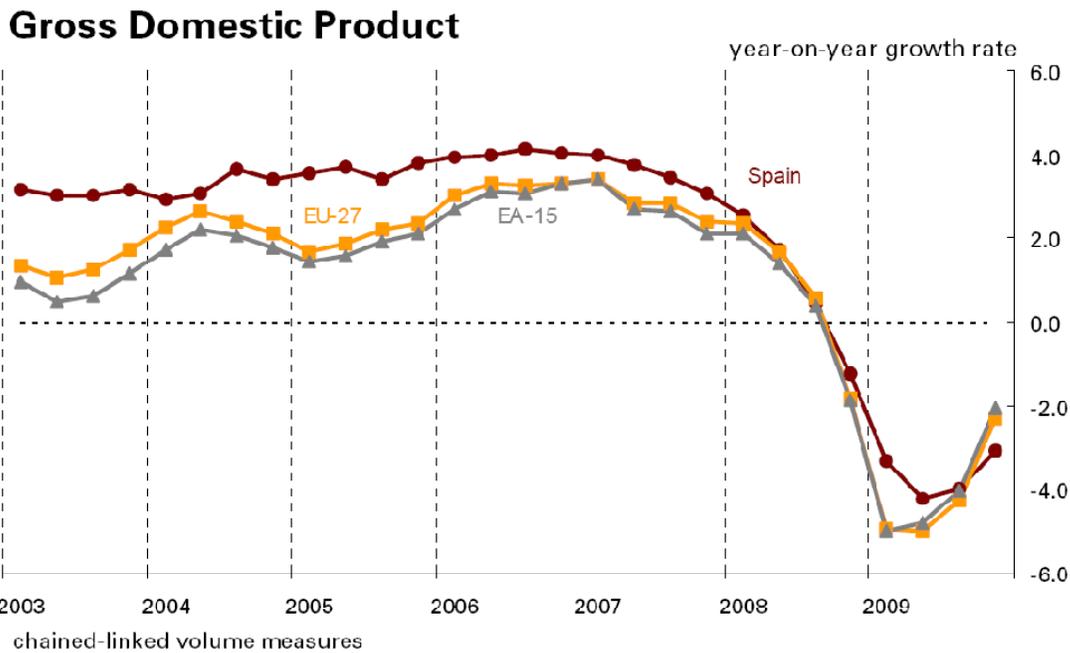
Source: INEBASE: Census 2007. Data at national, autonomous region and provincial levels. INE (National Statistics Institute, May 2008.

Exhibit 3 GDP in Spain

**Demand. Chained-linked volume measures. Year-on-year growth rates**

	2008				2009			
	Q. I	Q. II	Q. III	Q. IV	Q. I	Q. II	Q. III	Q. IV
<b>GROSS DOMESTIC PRODUCT at market prices</b>	<b>2.5</b>	<b>1.7</b>	<b>0.5</b>	<b>-1.2</b>	<b>-3.3</b>	<b>-4.2</b>	<b>-4.0</b>	<b>-3.1</b>
Household final consumption expenditure	2.1	0.2	-1.3	-3.3	-5.5	-6.0	-5.0	-3.5
Final consumption expenditure of NPISHs	1.6	0.6	-0.3	1.1	1.8	3.5	4.0	3.1
Final consumption expenditure by government	4.6	5.1	5.8	6.3	6.0	4.7	4.1	0.8
Gross fixed capital formation	1.4	-1.9	-6.0	-10.9	-14.9	-17.0	-16.0	-12.9
- Equipment	5.0	2.9	-3.0	-11.6	-24.0	-28.3	-23.8	-15.3
- Construction	-0.5	-4.1	-7.2	-10.2	-11.3	-11.6	-11.4	-10.2
- Other products	2.4	-1.2	-6.1	-11.8	-13.2	-17.6	-19.9	-18.5
Changes in inventories and acquisitions less disposals of valuables (*)	0.1	0.2	0.2	0.1	0.1	0.0	0.0	0.1
NATIONAL DEMAND (*)	2.5	0.6	-1.4	-3.9	-6.3	-7.4	-6.6	-5.3
Exports of goods and services	3.9	2.4	-2.9	-7.1	-16.6	-14.7	-10.8	-2.9
Imports of goods and services	3.1	-1.3	-7.6	-13.5	-22.3	-21.7	-17.0	-9.6

(\*) Contribution to GDP growth



Source: INE (Instituto Nacional de Estadística) February 17, 2010.

**Exhibit 4** Profiles for Recruitment of Key Roles in the Multidisciplinary Team

**Director of the Center:** Professional with training in health care or care of the elderly, and with experience of the industry as well as management and team leadership, responsible for establishing and the maintaining the quality policy of the company. One of the key areas of work is maintaining the quality of care of both users and their families, needing to know in detail the needs, tastes and preferences of each user. Similarly, the director coordinates all the professionals in the performance of their duties, is responsible for the economic management of the center as well as Human Resources, monitors the day to day business and services provided, has the ability to innovate and the freedom to create new activities, provided they maintain the company's style and have been previously approved by Vitalia.

**Deputy Director:** Professional who has, in addition to relevant health education, industry experience of care of the elderly and knowledge of technology, accounting, quality control, health and safety, and project coordination. He or she supports the director as necessary, being trained in all the necessary areas, and is also responsible for the coordination and control of service quality, management of employees, suppliers and other internal personnel, financial management, management of quality control and management of health and safety issues.

**MD:** Has a professional qualification in medicine (a specialty in family medicine or geriatrics being preferred), with at least six months' experience in the care and treatment of the elderly, and is responsible for the proper management of the department, using the Hoffmann Method to that end. The doctor's functions include user evaluation, production of reports and personalized treatments, coordination with the multidisciplinary team to monitor the users, and provision of support and information to family members.

**Nurse:** Has a professional qualification in nursing with specialized training in the care and treatment of the elderly, and at least six months' experience in the sector. The nurse is responsible, while reporting to the doctor, for the monitoring and care of the elderly, management of medical records, assisting with the care-giving needs of center staff, collaborating with and supporting the multidisciplinary team, controlling departmental supplies and placing orders for drugs and material, and providing guidance and information to relatives.

**Physiotherapist:** Has a professional qualification in physiotherapy with expertise in geriatrics and neurology. Their objective is the maintenance of users' physical condition, prevention and treatment of diseases in old age, and also specific programming for pathologies that require more specialized care. He or she is also responsible for the assessment of each patient, prescribing necessary activities according to the results of that assessment, the management, coordination and supervision of all activities (individual and group) undertaken within the department, delivery of personalized treatments under medical supervision, and regular monitoring of the center users.

**Occupational Therapist:** Has a professional qualification in occupational therapy, with additional training in the sector and at least six months' professional experience in the care and treatment of the elderly. The occupational therapist works within the multidisciplinary team of the center, enabling and/or rehabilitating the user to integrate/reintegrate into their daily lives, by providing them with all the necessary resources to regain or enhance their abilities. He or she is also responsible for conducting the initial assessment of new users, ongoing user evaluation, and prescription of activities according to the individual user assessment.

**Psychologist:** Has a professional qualification in psychology, and ideally also has training in neuropsychology, with a minimum of six months' experience in the care and treatment of the elderly. He or she is responsible for psycho-geriatric assessment, neuropsychological assessment and reporting, neuropsychological rehabilitation (if possible), runs workshops on memory and cognitive stimulation, and provides individual psychological support and treatment and care for relatives.

**Nursing Assistant:** Has professional nursing qualification "FP II Auxiliar de Enfermería" (or similar, provided it is one of the qualifications approved by the Spanish "Law of Dependency") and with a minimum of six months' experience in a similar position. The Nursing Assistant is one of the key roles within Vitalia centers and is responsible for supporting the center users in carrying out those daily activities that they cannot perform alone due to disability or impairment, as well as other tasks of personal attention, in accordance with the relevant performance protocol. Nursing Assistants are the support figures and liaisons between the center professionals and their families.

**Transport (drivers):** Has a professional driver's license suitable for the particular vehicle operated by the center, as well as additional training in the care of the elderly and at least three months' experience in a similar position. Reporting to the director of the center, the drivers are responsible for user transport between homes and the center, assisting with boarding and disembarking where necessary, as well as accompanying users into their homes. In short, a driver's role is the proper care of the elderly during whatever journeys may be necessary.

Source: Company records.

**Exhibit 5** List of Services

**Social and cultural activities:** Events, trips out and other activities to provide users with fun, culture and social interaction, while keeping them integrated into their local socio-cultural environment.

**Classes in Tai Chi and animal therapy:** Chi Kung and Taoism and breath-training with slow and flexible movements leading to a state of harmony and serenity, in addition to stimulation through contact with domestic animals.

**“Family School”:** Monthly focus meetings between a user’s family and the entire center’s multidisciplinary team. These close with a discussion, open questions, troubleshooting and everything that families need to give adequate care to their elderly relatives.

**Training for families and care-givers:** Vitalia’s work philosophy is based not only on improving the quality of life for the user but also that of the family, by providing them with the knowledge and support needed to care for their relative. This is achieved through monthly training on topics such as hydration, mobilization, feeding, and so on, as well as specialized and individual therapies for the families and care-givers, such as coping with “care-giver overload,” moods, family mediation, and so on.

**Family mediation and arbitration:** Conflict counseling within the family of the user.

**Neuropsychology:** Further, in-depth assessment and intervention by our neuropsychologist, providing in-depth evaluation of the affected areas for planning and implementation of treatment for specific disorders. This complements the rehabilitation work of other professionals in cases such as strokes, Parkinson’s, aphasias and other neurological disorders.

**Podiatry and hairdressing:** Extra services to care for the image and the health of the users, adapted to their specific needs and schedules, without having to travel outside the center.

**Debilitation-prevention program for able-bodied people:** It is imperative for older, able-bodied people to maintain controlled functionality and independence in all areas, and preserve the skills necessary for the basic activities of daily life (toilet, dressing, getting around) as well as other, more complex activities (orientation, planning, money management, etc.). This is achieved through both physical and mental exercise.

**Rehabilitation for people with conditions such as Parkinson’s, hemiplegia, and dementia:** Vitalia has facilities (such as gym and therapy room), with the material and professionals (physiotherapists and occupational therapists) necessary to recover motion, speech, accuracy and strength of movement, perception, and all other necessary areas; as well as auxiliary support for recovery and maintaining basic skills of daily life and psychological support for different stages of behavioral disorders.

**Neuropsychological rehabilitation:** Comprehensive neuropsychological evaluation after treatment for recovery or maintenance of the various affected areas or skills (language, memory, attention span, etc.).

**Nursing assistance:** Professionals trained in the direct care of elderly people are responsible for supporting and assisting each user according to needs and task-dependence in areas such as showering, toilet use, mobility, oral hygiene, feeding, and so on; as well as working closely with the rest of the team in tasks of socio-cultural stimulation and occupational therapy.

**Meal service:** Breakfast, lunch and afternoon snack are provided in the center. Personalized diets and different menus are supervised by the doctor and nutritionist (baseline, hypoglycemic, liquid form, low salt, hyper-caloric, gluten-free, etc.). Assistance is also provided with ingestion, ranging from support in the handling of food to rehabilitation.

**Shower service:** Showers are fully adapted for people with mobility problems, to allow users to maintain their personal hygiene safely and comfortably, and are fitted with grab bars and nonslip, single-level floors. Assistance can be provided if a user needs help in any aspect of personal hygiene.

**Rehabilitation:** This service is coordinated by physiotherapy and occupational therapy departments, tailoring treatment to each case, with rehabilitations of various pathologies. Through treatments of kinesiotherapy, thermotherapy, pulley therapy, cryotherapy, electrotherapy, massage therapy, orthopedic physiotherapy, perceptual and sensory stimulation, and functional therapy.

**Transportation service:** Home service at any time of day, using vehicles fitted with integral access systems for wheelchair users, and with routes organized such that each person is collected at the time that is necessary or most useful to the family environment. Includes telephone advisory service to prevent or advise of unavoidable delays.

**Medical attention:** Vitalia's professionals (doctors and nurses) oversee users' health. Their goal is to improve their quality of lives through the use of tracking and prevention programs, enabling them to react to any changes registered in the users' blood, blood glucose, weight, hydration, etc. All this is collated in monthly reports given to families.

**Memory workshops:** Exercises to maintain and even improve the memory and recall faculties of our users, adapted to various levels to suit all users. Cognitive stimulation is given in all areas involved in the processes of retaining, storing and retrieving information.

**Additional workshops:** Sessions for psycho-motor activity (stimulation through movement), or music therapy (stimulation through music, sounds, instruments) or social interaction (panel discussion, group activities) or completion of pictures with different painting techniques, etc.

**Home service:** Physiotherapy, occupational therapy, psychological monitoring and nursing care can be provided at home for those unable to get to the center.

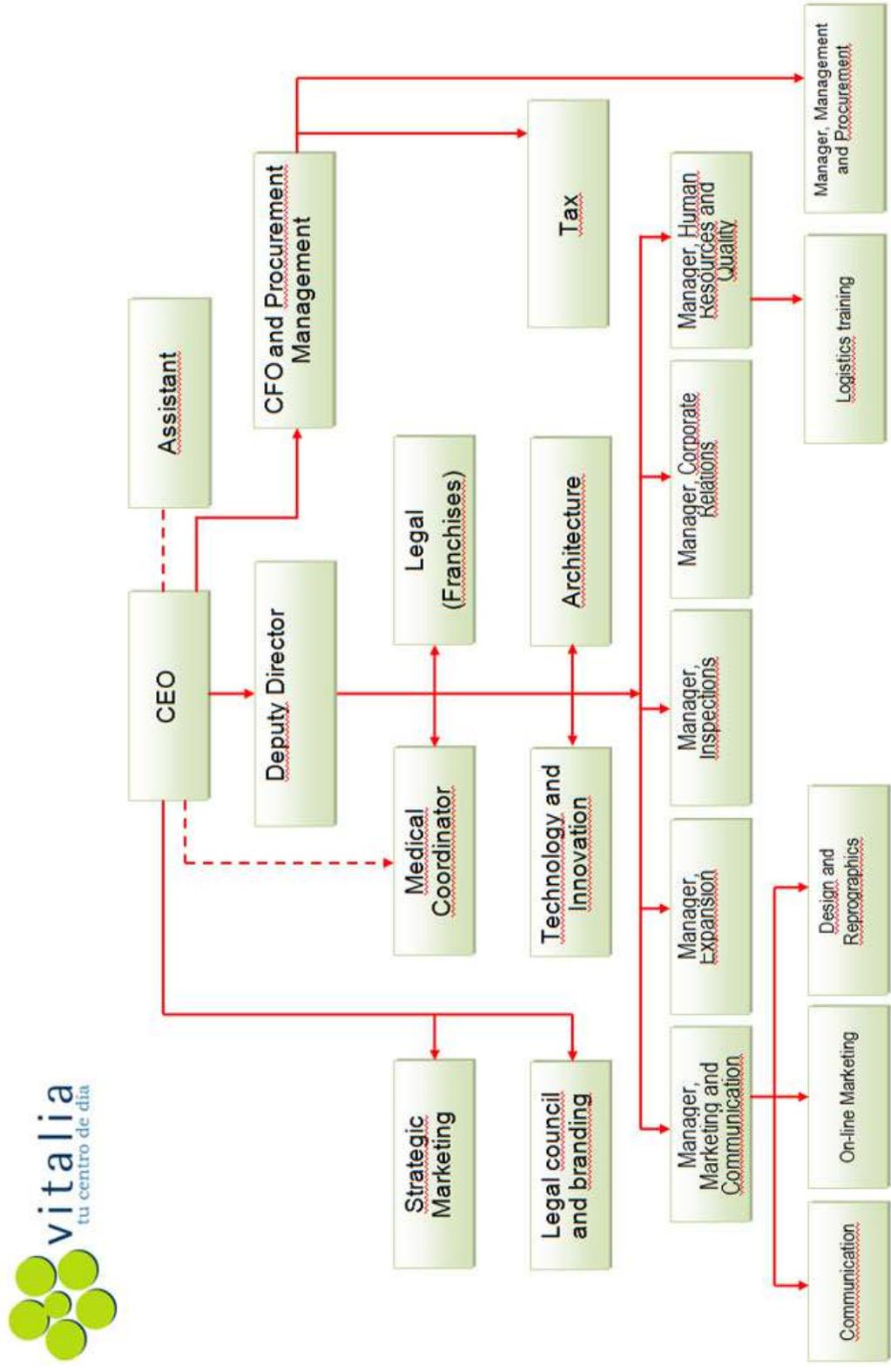
**Fixed and mobile telecare:** This easy-to-use system complements users' attendance at the centers by providing emergency assistance both at home and when out, through the use of both fixed and mobile phones.

**Complete and specialized evaluation** of the elderly in all areas (cognitive, emotional, social).

**Delivery service:** Vitalia is in partnership with specialist companies to provide various services and treatments at home.

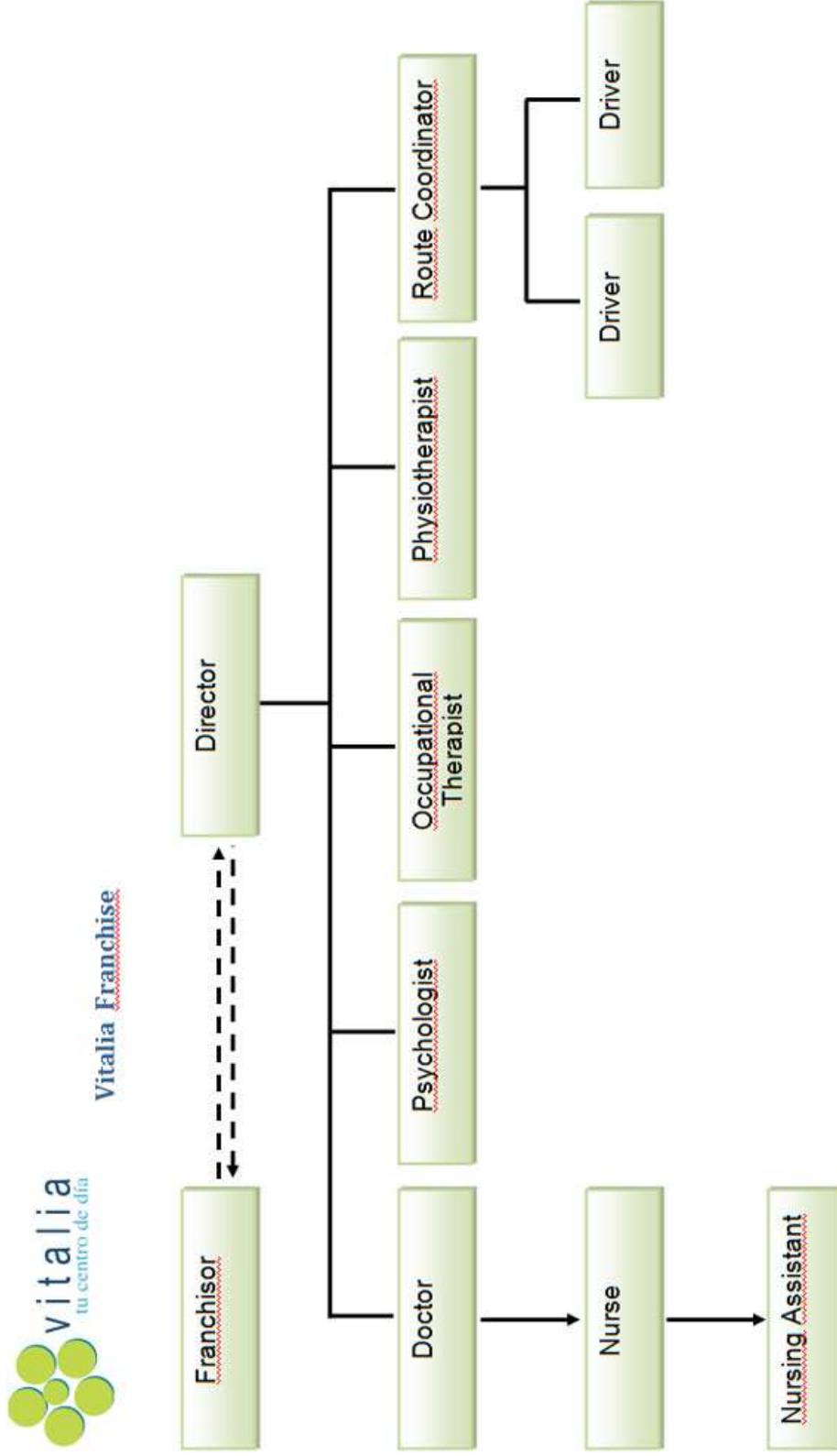
Source: Company records.

**Exhibit 6** Organizational Structure of Vitalia Franchise



Source: Company records.

Exhibit 7 Organizational Structure of a Vitalia Center



Source: Company records.

**Exhibit 8** Strategic Communication Investment<sup>a</sup>

<b>STRATEGIC COMMUNICATION VITALIA</b>		
<b>Key: Cor = Corporate Communication; Bus = Business Communication; Fra = Franchisee Communication</b>		
<b>Media</b>	<b>Targets</b>	<b>% Investment</b>
<b>Corporate Communication</b>		<b>18.</b>
National	Cor—Fra	
Local	Fra	
<b>Newspapers</b>		<b>14.</b>
Journals	Bus—Fra	
Press franchising sector	Bus—Fra	
Specialized magazines	Bus—Cor	
Residences Guide	Cor—Bus—Fra	
<b>Direct Marketing</b>		<b>10.</b>
Mailing	Bus—Fra	
E-mailing	Fra	
Direct mail advertising	Fra	
<b>Internet</b>		<b>20</b>
SEO Strategies – SEM	Cor—Bus—Fra	
Portals	Cor—Bus—Fra	
Social Networks	Cor—Bus—Fra	
<b>Outdoor Advertising</b>		<b>4.</b>
Fences	Fra	
Visors	Fra	
Mobile media	Fra	
<b>Radio</b>		<b>11.</b>
National	Bus	
Local	Fra	
<b>TV</b>		<b>6.</b>
National	Cor	
Local	Fra	
<b>Events &amp; PR</b>	<b>Cor—Fra</b>	<b>8.</b>
<b>Graphic Arts</b>		<b>9.</b>
Dossiers	Cor	
Catalogs	Cor—Fra	
Diptych	Fra	
<b>TOTAL</b>		<b>100%</b>

Source: Company records.

<sup>a</sup>SEO: Search Engine Optimization SEM: Search Engine Marketing.

**Exhibit 9** Day Center Initial Investment

<b>Day Center Initial Investment</b>	<b>Value</b>	<b>%</b>
Incorporation costs	1,350	0.45%
Data Protection + Health & Safety studies	1,600	0.53%
Advertising Royalty	2,400	0.80%
<b>Set-up costs</b>	<b>5,350</b>	<b>1.78%</b>
Fitting-out of premises	180,000	60.03%
Furniture	30,000	10.01%
Brand image	10,000	3.34%
I.T. equipment	3,400	1.13%
Office equipment	400	0.13%
<b>Tangible assets</b>	<b>223,800</b>	<b>74.64%</b>
Franchise entry fee	28,000	9.34%
Technical setup + licenses	17,500	5.84%
Computer applications	10,000	3.34%
<b>Intangible assets</b>	<b>55,500</b>	<b>18.51%</b>
Deposit (rental)	12,000	4.00%
<b>Financial assets</b>	<b>12,000</b>	<b>4.00%</b>
<b>FIXED ASSETS</b>	<b>296,650</b>	<b>98.93%</b>
Other supplies	1,600	0.53%
Stocks	1,600	0.53%
<b>Opening Stocks</b>	<b>3,200</b>	<b>1.07%</b>
<b>ASSETS</b>	<b>3,200</b>	<b>1.07%</b>
<b>Total opening costs</b>	<b>299,850</b>	<b>100.00%</b>
<b>VAT</b>	<b>46,056</b>	<b>15.36%</b>
<b>Total funds required</b>	<b>345,906</b>	<b>115.36%</b>

Source: Company records.

**Exhibit 10** Projected Results of a Typical Day Center

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10												
<b>Sales</b>	<b>245,567</b>	<b>100.0%</b>	<b>546,696</b>	<b>100.0%</b>	<b>795,721</b>	<b>100.0%</b>	<b>836,008</b>	<b>100.0%</b>	<b>860,575</b>	<b>100.0%</b>	<b>886,124</b>	<b>100.0%</b>	<b>912,696</b>	<b>100.0%</b>	<b>914,999</b>	<b>100.0%</b>	<b>917,302</b>	<b>100.0%</b>	<b>919,605</b>	<b>100.0%</b>		
Staff costs	91,362	37.2%	150,510	27.5%	191,613	24.1%	194,042	23.2%	194,042	22.5%	194,042	21.9%	194,042	21.3%	194,042	21.3%	194,042	21.2%	194,042	21.2%	194,042	21.1%
Maintenance	22,176	9.0%	47,520	8.7%	67,232	8.4%	68,640	8.2%	68,640	8.0%	68,640	7.7%	68,640	7.7%	68,640	7.5%	68,640	7.5%	68,640	7.5%	68,640	7.5%
Transportation	12,000	4.9%	31,200	5.7%	43,200	5.4%	43,200	5.2%	43,200	5.0%	43,200	4.9%	43,200	4.9%	43,200	4.7%	43,200	4.7%	43,200	4.7%	43,200	4.7%
<b>Cost of sales</b>	<b>125,538</b>	<b>51.1%</b>	<b>229,230</b>	<b>41.9%</b>	<b>302,045</b>	<b>38.0%</b>	<b>305,882</b>	<b>36.6%</b>	<b>305,882</b>	<b>35.5%</b>	<b>305,882</b>	<b>34.5%</b>	<b>305,882</b>	<b>33.5%</b>	<b>305,882</b>	<b>33.4%</b>	<b>305,882</b>	<b>33.3%</b>	<b>305,882</b>	<b>33.3%</b>	<b>305,882</b>	<b>33.3%</b>
<b>Gross Profit</b>	<b>120,029</b>	<b>48.9%</b>	<b>317,466</b>	<b>58.1%</b>	<b>493,676</b>	<b>62.0%</b>	<b>530,126</b>	<b>63.4%</b>	<b>554,693</b>	<b>64.5%</b>	<b>580,242</b>	<b>65.5%</b>	<b>606,814</b>	<b>66.5%</b>	<b>609,117</b>	<b>66.6%</b>	<b>611,420</b>	<b>66.7%</b>	<b>613,723</b>	<b>66.7%</b>	<b>613,723</b>	<b>66.7%</b>
Leases	90,000	36.6%	74,880	13.7%	77,875	9.8%	80,990	9.7%	84,230	9.8%	87,599	9.9%	91,103	10.0%	91,407	10.0%	91,710	10.0%	92,014	10.0%	92,014	10.0%
Supplies	13,000	5.3%	12,480	2.3%	12,979	1.6%	13,498	1.6%	14,038	1.6%	14,600	1.6%	15,184	1.7%	15,234	1.7%	15,285	1.7%	15,336	1.7%	15,336	1.7%
Communications	4,500	1.8%	3,744	0.7%	3,894	0.5%	4,050	0.5%	4,211	0.5%	4,380	0.5%	4,555	0.5%	4,570	0.5%	4,586	0.5%	4,601	0.5%	4,601	0.5%
Insurance	3,000	1.2%	3,120	0.6%	3,245	0.4%	3,375	0.4%	3,510	0.4%	3,650	0.4%	3,796	0.4%	3,948	0.4%	3,948	0.4%	3,948	0.4%	3,948	0.4%
Advertisement	12,278	5.0%	21,868	4.0%	23,872	3.0%	25,080	3.0%	25,817	3.0%	26,584	3.0%	27,381	3.0%	27,450	3.0%	27,519	3.0%	27,588	3.0%	27,588	3.0%
Taxes	375	0.2%	312	0.1%	324	0.0%	337	0.0%	351	0.0%	365	0.0%	380	0.0%	381	0.0%	382	0.0%	383	0.0%	383	0.0%
Operating royalty	10,305	4.2%	27,335	5.0%	39,786	5.0%	41,800	5.0%	43,029	5.0%	44,306	5.0%	45,635	5.0%	45,750	5.0%	45,865	5.0%	45,980	5.0%	45,980	5.0%
Advertising Royalty	4,800	2.0%	5,574	1.0%	7,957	1.0%	8,360	1.0%	8,606	1.0%	8,861	1.0%	9,127	1.0%	9,150	1.0%	9,173	1.0%	9,196	1.0%	9,196	1.0%
Other fixed costs	14,020	5.7%	13,354	2.4%	13,888	1.7%	14,443	1.7%	15,021	1.7%	15,622	1.8%	16,247	1.8%	16,301	1.8%	16,355	1.8%	16,409	1.8%	16,409	1.8%
Other variable costs	22,268	9.1%	30,991	5.7%	36,430	4.6%	36,906	4.4%	37,003	4.3%	37,104	4.2%	37,209	4.1%	37,218	4.1%	37,227	4.1%	37,236	4.1%	37,236	4.0%
Overheads	174,546	71.1%	193,657	35.4%	220,250	27.7%	228,840	27.4%	235,816	27.4%	243,071	27.4%	250,616	27.5%	251,409	27.5%	252,050	27.5%	252,692	27.5%	252,692	27.5%
<b>EBDIT</b>	<b>-54,517</b>	<b>-22.2%</b>	<b>123,809</b>	<b>22.6%</b>	<b>273,426</b>	<b>34.4%</b>	<b>301,286</b>	<b>36.0%</b>	<b>318,877</b>	<b>37.1%</b>	<b>337,172</b>	<b>38.1%</b>	<b>356,198</b>	<b>39.0%</b>	<b>357,708</b>	<b>39.1%</b>	<b>359,370</b>	<b>39.2%</b>	<b>361,031</b>	<b>39.3%</b>	<b>361,031</b>	<b>39.3%</b>

Source: Company records.

## Exhibit 11 Investment Amortization

## Amortization of Day Center Investment

Year	Free Cash Flow	Investment	Cumulative FCFs	Balance	Period	Pay Back
0	--	299,850	0	299,850		
1	-15,153		-15,153	315,003	1.0	1.0
2	123,638		108,486	191,364	1.0	1.0
3	225,697		334,183	-34,333	0.8	0.8
4	240,634		574,817	-274,967	-0.1	0.0
5	252,533		827,349	-527,499	-1.1	0.0
6	264,282		1,091,631	-791,781	-2.0	0.0
7	277,600		1,369,231	-1,069,381	-2.9	0.0
8	278,355		1,647,586	-1,347,736	-3.8	0.0
9	279,519		1,927,105	-1,627,255	-4.8	0.0
10	280,682		2,207,787	-1,907,937	-5.8	0.0
<b>0</b>	<b>-299,850</b>	<b>123,638</b>	<b>225,697</b>	<b>240,634</b>	<b>252,533</b>	<b>277,600</b>
				<b>240,634</b>	<b>252,533</b>	<b>277,600</b>
					<b>278,355</b>	<b>278,355</b>
						<b>279,519</b>
						<b>280,682</b>
						<b>280,682</b>
<b>NPV</b>	2,614,729					
<b>IRR</b>	45%					
<b>Residual value</b>	1,625,124					
<b>Payback</b>	2.8 years					

Source: Company records.

Note: Free Cash Flow = EBIT x (1-t) + Amortization - Increase Working Capital - Increase Net Assets

**Exhibit 12** Vitalia Franchise Budget, Current Year

	<b>Current Year</b>
Operational Royalty	103,459
Advertising Royalty	68,428
Franchise Entry Fee	322,000
Services to franchises	145,300
External Advisory	95,800
<b>Total Revenue</b>	<b>734,986</b>
PERSONNEL	407,441
EXTERNAL PROFESSIONALS	40,030
LEASES	31,368
INSURANCE	1,368
SUPPLIES	18,135
OFFICE EQUIPMENT	47,322
FOOD	3,400
FUEL TAXIS TRAVEL	11,500
OFFICE EQUIPMENT	2,300
EXTERNAL ADVICE	3,745
LEGAL	14,400
MARKETING AND COMMUNICATION	100,000
DATA PROTECTION	800
MISCELLANEOUS	12,000
<b>Total Expenses</b>	<b>693,810</b>
<b>Total Depreciation</b>	<b>17,063</b>
<b>Net Income</b>	<b>24,114</b>

Source: Company records.

**Exhibit 13** 10 Owned Centers versus 10 Franchises**The investor met three key requirements:**

- Contribution of capital
- A good personal relationship with Cathy Hoffmann. The investor was able to offer excellent contacts with the Public Administration.

**The covenants Cathy was thinking on proposing to the investor were:**

- Freedom for the Management Committee in terms of strategy and management of the company.
- The investor would not be able to limit future increases in the share capital of VITALIA
- The investor would have no say in the choice of future investors.
- The amount that the investor may reinvest in future share capital increases would be limited.

Other questions that should be discussed were: Would there be a way for the investor to be less permanent? And if this can be done, how would the investor's exit be organized?

Would the investor establish any *tag along* or *drag along* conditions? How would the board be structured? How would they avoid the share capital increase affecting the managers? What information would be passed on to the investor and how frequently?

Source: Casewriters.

**Exhibit 14** The Spanish Health Care System

The Spanish Health care system is based on universal healthcare, non-residents and tourists (and even people living in the country illegally) are never denied treatment. Non-resident patients are charged (either directly or via their national social security system) for treatment, although this is often not the case with basic services. The national healthcare system is decentralized in order to provide greater and equal access to the population, thus avoiding the concentration of health services in urban areas.

The system consists of three levels:

1. **Central.** The state's central administration is in charge of issuing health proposals, planning and carrying out the execution of the government's health guidelines, and coordinating the activities aimed at reducing the consumption of illegal drugs.
2. **Autonomous Community.** The territorial administration of health services is the responsibility of each of Spain's Autonomous Communities. Each Autonomous Community must offer integrated health services to the population through the centres, services and establishments of that community.
3. **Local.** The "areas de salud" are the fundamental structures of the national healthcare system and are responsible for the unitary management of the health services offered at the level of the Autonomous Community.

Most people in Spain who can afford to purchase private healthcare choose this option. Care at private hospitals and clinics in Spain is either paid directly or, most often, through a private insurance carrier. The preference for paid, private healthcare is not caused by a lack in quality of the public system but mainly due to the long waiting periods patients are often faced with.

Source: Casewriters.