Business Bootcamp: Surviving and Thriving in the New ERA of Medicine
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Glossary
• Revenue: income, money coming in
• Expenses: costs, money going out
• Collections: amount of cash generated from service
• Allowances: the limit set within an agreement for the maximum allowed of any given item covered under contract
• Cost of Goods Sold (COGS): variable costs
• Gross Margin (GM): Gross revenue less gross expenses (COGS)
• “NET”/net profit margin: GM less allowances and concessions
• Earnings: profit, money left over
• Overhead: the fixed, variable, or semi-variable costs that are not directly involved with the product or service
• Fixed cost: costs that stay the same with increased volume (INDEPENDENT of volume)
• Variable cost: costs that change with changing volume (DEPENDENT of volume)
• EBIT: Earnings before interest and taxes
• EBITDA: Earnings before interest, taxes, depreciation and amortization; used as an indicator of the overall profitability of a business
• Pro forma: income statement, usually for an added product/service
• Break-even point (BEP): Amount of income where you are neither making OR losing money (revenue=expenses), BEP = FC/GM%
• Direct labor cost: Hourly rate x Time required to see 1 patient
• ROI (Return on investment): total profit/total investment costs, often expressed as a percentage (x100%)

Extra Resources
1. SCORE.org. "Break-Even Analysis Template."
Example

**Acme Dermatology Clinic - Income Statement (1 MD), year ending December 31**

<table>
<thead>
<tr>
<th>Operating Revenue</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross patient service revenue</td>
<td>$ 2,500,000</td>
<td>$ 2,875,000</td>
</tr>
<tr>
<td>Less: Contractual allowances</td>
<td>$ 1,500,000</td>
<td>$ 1,725,000</td>
</tr>
<tr>
<td>Net patient service revenue</td>
<td>$ 1,000,000</td>
<td>$ 1,150,000</td>
</tr>
<tr>
<td>Other operating revenue</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Total operating revenue</td>
<td>$ 1,000,000</td>
<td>$ 1,150,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Expenses</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>$ 300,000</td>
<td>$ 345,000</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>$ 30,000</td>
<td>$ 34,500</td>
</tr>
<tr>
<td>Supplies expense</td>
<td>$ 65,000</td>
<td>$ 86,250</td>
</tr>
<tr>
<td>Purchased services</td>
<td>$ 85,000</td>
<td>$ 76,500</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>$ 335,000</td>
<td>$ 370,875</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$ 45,000</td>
<td>$ 28,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$ 8,500</td>
<td>$ 5,500</td>
</tr>
<tr>
<td>Provision for bad debt, “Rainy day fund”</td>
<td>$ 58,000</td>
<td>$ 46,400</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$ 868,500</td>
<td>$ 946,625</td>
</tr>
</tbody>
</table>

| Revenue over expenses from operations          | $ 131,500  | $ 203,375  |
| Nonoperating gains: Investment income          | $ 25,000   | $ (3,500)  |
| Net income (loss)                              | $ 156,500  | $ 199,875  |

Calculations
Gross Income

\[ \text{Gross Income} = \text{Revenue} - \text{COGS} \]
\[ = 2,500,000 - 1,500,000 \]
\[ = 1,000,000 \]

Gross Profit Margin

\[ \frac{\text{Revenue} - \text{COGS}}{\text{Revenue}} \times 100\% \]
\[ \frac{1,000,000}{2,500,000} \times 100\% = 40\% \]

Break-even point (BEP)

\[ \frac{\text{Fixed Cost}}{\text{GM\%}} = \frac{\text{Fixed Cost}}{\text{Gross Income} \times 100\%} \]
\[ = \frac{114,900}{226,524} \times 100\% = \frac{114,900}{119,687.50} = 96\% \]

Return on Investment (ROI)

\[ \frac{\text{Profit (Earnings)}}{\text{Investment}} \times 100\% \]