



How to Calculate your Break–Even Point

Before you can decide upon a fair price for your services, you need to know how much it costs to provide them. The break-even analysis worksheet can assist in setting prices for the services you provide to your patients and it is a useful tool for playing out various scenarios. For example, if you add another physiotherapist to your practice, how many extra sales dollars will be needed to recover the extra salary expense? If you borrow, how much will be needed to cover the increased principal and interest payments?

Break-even point is when income equals expenses and you neither make nor lose money in providing your physiotherapist services.

To begin the break-even analysis, you must identify the costs involved in running your practice and then categorise each costs as either fixed or variable.

Fixed costs are those that remain the same regardless of the level of services provided. That is, fixed costs will not be altered whether you see one client a week or one hundred clients a week. Rent, insurance, administrative expenses, for example, are usually fixed.

Variable costs are those which do vary with the level of services provided. Raw materials and direct production labour, for example, are usually variable costs. For a physiotherapist practice the most likely variable costs will be wages and payments to physiotherapist staff (wages and payments made to support staff, such as administration, are classified as fixed), and costs incurred on consumables used during consultation, such as gels and tape.

Calculating Break–Even Revenue

Let's start by looking at break-even dollars, that is, the amount of revenue needed to cover both your fixed and variable costs so your business neither makes nor loses money.

Refer to our break-even analysis work for the figures used in this example. We have used the worksheet to determine an appropriate rate to charge for a 30-minute consultation.

After entering the relevant information and expense amounts into the grey fields, annual break-even revenue of \$515,812 is revealed.

Therefore, the company in this example need annual revenue of \$515,812 just to cover costs. If it doesn't have enough business at these rates, it loses money by being in business. If it makes more than \$515,812 in revenue, it's making a profit.

Calculating Break–Even Units

The break-even analysis worksheet can also be used to calculate how many units must be sold to break-even. Remember that in our example; one unit represents a 30- minute consultation and averages 3,696 consultations per year (this is information that you will alter to reflect your estimation).

We can see that in this example, the number of 30-minute consultations required just to cover costs is 8,320 per year or 173 per week which translates to 29 per day (assuming a 6 day working week).

Let's assume for this example, 3 physiotherapists are employed on a full time basis. In this scenario, each physiotherapist needs to see an average of 9.6 patients a day, just to break-even. Therefore this scenario does not present a realistic pricing model.

Playing with Scenarios

Let's play around to see what option may be available to the practice in this example. If we raise the cost of a 30 minute consultation from \$62 to \$70, we find that the break-even revenue figure drops from \$515,812 to \$420,520.

In this scenario, the number of 30-minute consultations required just to cover costs is 6,007 per year or 125 per week which translates to 21 per day (assuming a 6 day working week).

With 3 full-time physiotherapists, each therapist will need to see 7 patients per day before a profit can be made.

Finding a realistic price model will involve considering factor beyond just numbers, such as how many hours a week you are willing to work and what level of profit you want to achieve.

The figures that appear in the Break-Even Analysis worksheet are fictional and are provided as an example only. When completing this worksheet you should refer to your cash flow analysis to ensure that the figures are consistent. Remember, the categories of expense shown within the worksheet are suggestions only, additional expenses may need to be considered.