Understanding and Analyzing Return On Investment

The Power of Small Numbers Multiplied Over Time

by Joseph Kenrick

"What is the Price?"

While this is the first question everyone asks, surprisingly, it is the least important number to consider.

Whatever the answer is to that question, most people will equate the price with something else that they consider expensive.

"That's the price of a luxury European sedan."

"That's the price of my starter home."

These statements just create fear and, for many doctors, that is the end of their foray into cash services. Yet, again, the price is the least important number as it doesn't allow you to understand Return on Investment (ROI).

The 3 Numbers

The three numbers you do need to understand your potential ROI are:

1. Monthly lease payment (investment).
2. Cost of treatment protocol to the patients.
3. Your breakeven, or how many patients need to be treated so that the monthly investment is covered, and the technology doesn't cost you anything out of pocket.

Let's run an example:

A $70,000 piece of equipment will have a monthly lease payment of approximately $1398. And the patient protocol may be $70 a treatment with the average number of treatments in the protocol is 10 treatments or $700 total.

Let's do the math.

$1,398 *(lease payment)* ÷ $700 *(protocol cost)* = 2 patients

In this example, just two patients are needed to cover the monthly investment. Two patients is your breakeven point. So, if you have only two patients over the course of the month who say "yes" to the new technology, it is paid for, and you have no cost out of pocket.

The 2 Patients and 2% Rule

We've now learned that that just two patients have covered the entire monthly investment of the new technology.

So, let's project profit based on a very conservative 2% acceptance rate.

We'll use a practice that sees 100 patients a week and another that sees 150 patients a week.

Just apply the number of patients to the formulas below.

100 PATIENTS × 2% = 2 PATIENTS A WEEK

Week 1: 2 patients × $700 = $1,400 a week

Week 2: 2 patients × $700 = $1,400 a week

Week 3: 2 patients × $700 = $1,400 a week

Week 4: 2 patients × $700 = $1,400 a week

Monthly Revenue	$5,600
Minus Lease	- $1,398
Monthly Profit	$4,202
Yearly Profit	$50,424
5-Year Profit	**$252,120**

150 PATIENTS × 2% = 3 PATIENTS A WEEK

Week 1: 2 patients × $700 = $2,100 a week

Week 2: 2 patients × $700 = $2,100 a week

Week 3: 2 patients × $700 = $2,100 a week

Week 4: 2 patients × $700 = $2,100 a week

Monthly Revenue	$8,400
Minus Lease	- $1,398
Monthly Profit	$7,002
Yearly Profit	$84,024
5-Year Profit	**$420,120**

The 3 Number Formula

So, you can see that an initially intimidating price can be broken down into the three most important numbers: lease price, protocol price, and breakeven number.

You can use this formula on any technology to identify the breakeven point and to eliminate the perceived risk of investing in new technology.

________	÷	________	=	________
LEASE		**PROTOCOL**		**BREAKEVEN**

The 2 Patients and 2% Rule

The Three Numbers Formula showed that for almost any technology, you need 2 patients to breakeven.

Now, we will explore the 2% Rule. Input the number of patients you see at your practice per week below, and multiply by 2% for a very conservative analysis of ROI.

__________ patients a week × 2% = ________ patients a week using the technology.

Take the number of patients a week and use it in the formula below to project a conservative ROI on any technology you may be considering for your practice. Multiply by the cost associated with the treatment to create your weekly revenue.

Then, add the weeks to find the monthly revenue. Subtract the monthly investment to find your monthly profit and extrapolate your annual and 5-year profits.

Week 1: __________ patients × $__________ = $____________ a week

Week 2: __________ patients × $__________ = $____________ a week

Week 3: __________ patients × $__________ = $____________ a week

Week 4: __________ patients × $__________ = $____________ a week

Monthly Revenue $____________

Minus Lease - $____________

Monthly Profit $____________

Yearly Profit *(Monthly profit x 12)* $____________

5-Year Profit *(Yearly profit x 5)* **$**____________

This number likely surprises you, but this is the power of small numbers multiplied over time.

Next Steps

You should now be comfortable taking any technology and analyzing both the breakeven and a very conservative ROI.

This information should give you the confidence to explore offering cash-based services and becoming a Hybrid Practice offering both insurance and cash-based services.

For many practices, once they become a Hybrid Practice, they start to eliminate the more problematic insurance companies and stop offering those services that are time intensive but pay little and instead fill their schedule with more cash services that attract appreciative patients while generating more revenue for the practice.

I look forward to connecting with you!

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The Hybrid Practice™

IMPROVING PATIENT OUTCOMES IMPROVES PRACTICE INCOMES.