Profitable Growth is the Goal

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For the physician with a burning entrepreneurial spirit, there may be nothing more fun, exciting, thrilling, and satisfying than opening and running his or her own urgent care center. But with this exhilaration also comes the risk of a venture that's nerve-wracking, scary, frustrating, and even financially disastrous.

Many factors determine whether a business is a success or a failure. There are the visible—the location's traffic and signage; competition; age, income and family status of the surrounding population; and community awareness and acceptance of urgent care medicine. And there are the less apparent—contractual terms with insurance companies; availability, attitude, and cost of employees; and the evolving regulatory environment.

Ultimately, a center's longevity is dependent upon having an accurate and firm grasp of its financial health. So while "growth" may be the goal, if a center's revenues do not translate to bottom-line profit—the venture will not survive.

Profit and Loss Statement

Establishing and monitoring the center's profit and loss statement (P&L) is the easiest and most accurate way to evaluate the viability of a practice, and is a requisite to sound management decision-making.

Use of the P&L starts in the planning phases—the "pro forma"—and these original projections should be revisited at least quarterly, if not monthly, to ensure their assumptions are still accurate, and to identify reasons why the center is performing differently than anticipated.

The P&L itself is fairly straightforward, mathematically represented as **Revenue - Costs = Profit.** Net income is the amount of money left in the practice after paying taxes—*its bottom line*.

The data elements that make up the P&L include:

Component	Definition	Examples
Revenue	Money that comes into the practice through services performed or goods sold.	Fees from Physician Encounters Pre-packaged Pharmaceuticals Flu Shots and Sports Physicals
Variable Operating Costs	Money that goes out of the practice for expenses that change depending on patient volume.	Doses of Vaccine Administered Gauze Used in Procedures Printer Paper Used for Registration
Gross Margin	The amount of money left after subtracting the variable costs from the revenue.	Revenue - Variable Operating Costs = Gross Margin
Fixed Costs	Costs of operating the center that don't change with patient volume.	Rent Utilities Salaries/Benefits (Minimum Staffing)
Pre-Tax Income	The amount of money after subtracting the fixed costs from the gross margin, but before paying what's required of state and federal governments.	Gross Margin - Fixed Costs = Pre-Tax Income

Beyond the P&L: Contribution Margin

Most urgent care operators have a general working knowledge of the P&L, and they appreciate the importance of evaluating it regularly. But many fail to realize the interplay of various components within the P&L. For example, “contribution margin” is a term that’s regularly used in evaluating the financial health of a business, but because it’s not a specific line item, it might not immediately come to mind when reviewing the P&L.

Contribution margin is defined as *the fraction of revenue that’s left to pay towards a business’ fixed costs, after its variable costs are paid.* As illustrated above, variable costs go up and down based on patient volume—such as the quantity of supplies utilized in patient care—while fixed costs are those incurred regardless of whether any patients show up (rent, insurance, marketing, etc.).

What exactly is the real-world application? If a service brings in $100,000/month in revenue and the direct costs necessary to provide the services are $40,000/month, then there is $60,000 remaining to go toward the fixed costs. The contribution margin is $60,000 out of the total $100,000 revenue, or 60%. This essentially means that once the costs associated with the particular service are covered, 60% of the revenue is available to pay the costs that are constant, with the residual translating to profit. If a service incurs delivery costs that exceed the revenue it produces—then by definition it is a money-losing service and is in effect being subsidized by services with a positive contribution margin.

It goes without saying that if there is a way to provide a service that brings in the same revenue, but the variable costs are less, then the contribution margin will be greater, which almost always translates into larger profits.

Opportunity Costs of Investment

While paying attention to the contribution margin of various services is critical, “opportunity cost” is an equally important consideration. The opportunity cost is *the profit generated by an investment compared to the next best option that was not chosen*.

Consider, for example, the case of a physician-entrepreneur who could invest $200,000 to expand his urgent care center, expecting a net profit increase of $20,000 per year (a 10% return) due to the expansion. Now, what if the same $200,000 could be invested in a different project that produces $50,000 per year (a 25% return)? The entrepreneur would have “lost out” on an additional $30,000 by choosing to invest in the medical practice versus the second option.

Nobody has a crystal ball so investments are always subject to speculative risk—but experience in P&L modeling does direct capital to the most profitable ventures meaning if investment in growing an urgent care center yields a lesser return than other options (including buying stocks), it will be difficult for a marginally profitable center to attract funding in the future.

Opportunity cost, however, is not purely about financial investment and return. Freedom, happiness, time, enjoyment, and satisfaction all play a role when analyzing opportunity costs. Many entrepreneurs would far rather feel the pride of investing heart, soul, and financial resources into a practice that makes a livable financial return on investment, than to sit on the couch and passively watch an investment account grow, even if does so at a faster rate. So, while opportunity cost can be viewed from a purely financial standpoint, it’s actually a deeply personal decision—one that can only be fully analyzed by the person making the investment.

The Ultimate Analysis

Many business owners—physicians and non-physicians—focus almost exclusively on growing top-line revenue without consideration as to how that revenue "trickles down" the P&L into bottom-line profit. There are many ways for an urgent care operator to increase revenue—add another location or provider, renovate or expand the physical space in order to see more patients, extend operating hours, add a new service like drug screening or travel vaccinations, spend more money in advertising, etc. The urgent care owner may figure the more money these activities bring in, the more successful the business will be.

But such is true only if costs and margins are evaluated and kept in check. If "growth" activities end up expending more cash than they contribute, then they are *money losing* for the center because the added revenue never makes its way to the bottom-line. Thus, revenue growth by itself is not necessarily the best or only way to increase profitability.

The bottom line must be constantly evaluated. Costs must be controlled—both fixed and variable. And the interplay of the P&L components cannot be ignored. Remember the basic formula... Revenue - Costs = Profit. It's not a one-sided equation, so don't focus solely on adding revenue while ignoring the increasing costs. For a practice to be profitable (and fun, and exciting, and rewarding, and satisfying), all parts of the equation must be considered. Your mantra should be *profitable growth*, and that only occurs when revenue carries through to the bottom-line.