Breakeven analysis in a Capitated Revenue Environment

To understand breakeven analysis in a capitated revenue environment a more detailed profit equation is needed. 

\[
\text{Profit} = \text{Revenues} - \text{Expenses} \\
\text{Where Revenues} = (\text{Charge} \times \text{Volume}), \text{ and} \\
\text{Where Expenses} = (\text{Fixed Costs}) + (\text{Variable Cost Per Unit} \times \text{Volume})
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In a capitated revenue environment, revenue is fixed; the importance is control of volume and variable costs.

**PROBLEM 6.5**  
The Financial Management of Healthcare Organizations  
Breakeven Analysis for Capitated Revenue

ABC Outpatient Clinic is considering a capitated agreement with an insurance company where the clinic would provide outpatient coverage to a 1,000-member plan at $100 per member per month. Variable costs are projected at $150 per clinic visit, and fixed costs allocated to the agreement are $600,000. What is the break-even point in volume of clinic visits?

**SOLUTION**  
Profit = Revenue – [fixed costs + (Variable cost per unit x Volume)]  
$0 = $1,200,000 - $600,000 + $150x  
X = 4,000 clinic visits,