

Crunch the Numbers Right: The Smart Way to Calculate Operating Overhead for Your Plastic Surgery Practice

By Amy Anderson, MBA

To manage a successful plastic surgery practice, you must know what it costs to run the business. These costs are known as operating overhead. Understanding your overhead percentage allows you to assess the financial health of your practice, analyze efficiency and profitability, and make informed decisions.



Accurate calculation of operating overhead is fundamental to the financial health and success of a plastic surgery practice. By distinguishing between true operating expenses and discretionary costs, surgeons can gain a clearer picture of their practice's financial performance.

Many surgeons, however, approach this calculation incorrectly, potentially leading to inaccurate financial assessments and misguided business decisions. Let's look at the proper method of calculating operating overhead.

UNDERSTANDING OPERATING OVERHEAD

Operating overhead encompasses the essential costs required to run a plastic surgery practice. These expenses typically include:

- Wages and benefits for staff
- Rent for the office
- Medical and office supplies
- Marketing expenses
- Administrative costs

DISTINGUISHING OPERATING OVERHEAD FROM DISCRETIONARY EXPENSES

To accurately calculate operating overhead, it's crucial to differentiate between the true costs of operating the business and discretionary expenses of the physician owner. Discretionary expenses for business activities, while tax-deductible, should not be included in the overhead calculation. These may include:

- Physician owner's membership dues for professional societies
- Physician owner's travel expenses for conferences and meetings
- Physician owner's cell phone bills
- Physician owner's business auto expenses

Additionally, the physician owner's salary or distributions as a business owner should not be considered part of the operating overhead.

CALCULATING OPERATING OVERHEAD PERCENTAGE

To determine the operating overhead percentage, follow these steps:

1. Segregate operating overhead expenses from discretionary physician expenses on your profit and loss (P&L) statement.
2. Sum up the total operating overhead expenses.
3. Divide the total operating overhead expenses by the practice's income.
4. Multiply the result by 100 to get the percentage.

Formula:
(Total Operating Overhead Expenses / Income) x 100 = Operating Overhead %

Take a look at this simplified example of a start-up practice P&L:

Income	**$1,100,000**
OPERATING OVERHEAD	
Salaries & Benefits	$265,000
Medical Supplies	$100,000
Office Supplies	$95,000
Administrative Expenses	$135,000
Total Operating Overhead	**$595,000**
PHYSICIAN OWNER EXPENSES	
Salary & Benefits—Physician	$120,000
Continue Education—Physician	$5,000
Travel—Physician	$8,000
Total Physician Expenses	**$133,000**
Net Income	**$372,000**

The Operating Overhead in this hypothetical practice, is:
($595,000 / $1,100,000) x 100 = 54%

OVERHEAD GOAL

The Operating Overhead goal I set for plastic surgeons is 50%. If your overhead is higher than that, critically evaluate ways to increase income or reduce expenses.

Accurate calculation of operating overhead is fundamental to the financial health and success of a plastic surgery practice. By distinguishing between true operating expenses and discretionary costs, surgeons can gain a clearer picture of their practice's financial performance. Regular monitoring and analysis of overhead percentages, coupled with strategic goal-setting, can lead to improved profitability and long-term sustainability.

Amy Anderson, co-founder of BrinsonAnderson Consulting, Inc., is a seasoned healthcare business coach. With over two decades of experience working with plastic surgeons, she has coached hundreds of surgeons, administrators, PCCs, and team members on building a strong office culture, improving revenue, and optimizing business management practices. Amy's approachable style and practical advice make her a favorite among surgeons and staff alike. Follow Amy on Instagram @amyandersonmba.

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