

# Market Estimation And Pro-Forma Income Statement

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## Market Size Calculation

Every business, no matter how niche, aims to generate sales and gain a foothold in the market by outselling the competition. Therefore, market size is the number of people who could purchase a product or service and the associated revenue. On the other hand, market sizing involves accurately assessing these numbers to evaluate business growth prospects. Given the worldwide increase in oncology illnesses, I recommend that [Chestnut Regional Health System](#) (ECRHS) begin treating cancer at its newly established oncology Center. According to the WHO (2019), cancer was considered one of the leading causes of mortality across the globe in the year 2018, with an estimated 9.6 million lives lost to the disease. For example, although women are more likely to develop lung, breast, colorectal, cervical, and thyroid cancer, men are more likely to develop lung, prostate, colorectal, stomach, and liver cancer. Because females are more likely to be diagnosed with breast cancer, ECRHS should prioritize providing care for them. In Chestnut County, which has a population of 433,689 (55% female), most of the healthcare would be provided, and ECRHS might have a 3% market share.

Hence, the market size for breast cancer treatment is:

$$\text{Total population for women} = 0.55 \times 433,689 = 238,529$$

$$\text{Market size} = 0.03 \times 238,529 = 7,155$$

## Breakeven Analysis

Break-even analysis is a tool used in small business accounting to predict the point at which a company or an innovative product or service would achieve profitability. From a financial standpoint, the minimum number of goods or services that must be sold in order to cover production costs is determined. If a business doesn't have a point where its expenses equal its revenues, it's not sustainable. The following is the ECRHS breakeven analysis.

Assume the healthcare provider is aware that a new office suite needs to be established within the oncology Centre and that the necessary equipment for the treatment of breast cancer must be installed. It would cost around \$100,000 to establish this clinical office, but this would be a one-time investment worth paying for the assurance of high-quality medical service. To conduct a break-even analysis, we will assume that the 20-minute office session with your chemo doctor will cost you \$80. A

20-minute office visit with a patient will cost your business \$40 in employee time. It's estimated that \$30 is spent on supplies for each patient visit.

Total variable cost = \$80 + \$40 + \$30 = \$150 or \$150 per 20-minute office visit

Breakeven would be determined as follows if ECRHS made \$300 per patient every 20-minute visit:

Breakeven quantity =  $\$100,000 / (\$300 - \$150) = \$100,000 / \$150 = 667$  patient visits

In order to break even over the course of a year, ECRHS would need to provide 667 visits to its breast cancer clinic, taking into account the fixed expenses, variable costs, and income gained from each patient.

## Proforma income statements

Number of visits = 667

Variable cost =  $667 \times 150 = 100,050$

Total cost of sales =  $\$100,000 + \$100,050 = \$200,050$

25% of the sales revenue would be marketing cost

To get the project, the sales = 7155

Project revenue = \$Revenue used in breakeven analysis  $\times$  market size

$7155 \times 300 = \$2,146,761$

## East Chestnut Regional Health System

### Projected Proforma Income Statement

|                                                                | Projected Year 1                             |
|----------------------------------------------------------------|----------------------------------------------|
| Projected Sales Revenue                                        | $\$7155 \times 300 = \$2,146,761$            |
| Cost of Sales (Fixed + Variable Expenses)                      | $= \$100,000 + (667 \times 150) = \$200,050$ |
| <i>Gross Profit:</i> (Projected Sales Revenue - Cost of Sales) | $= \$350,000 - \$200,050 = \$1,946,711$      |

|                                                                          | Projected Year 1                    |
|--------------------------------------------------------------------------|-------------------------------------|
| Marketing Expenses (25% of Sales Revenue)                                | $0.17 \times \$350,000 = \$486,677$ |
| Net Income (Projected Profit): (Gross Profit – Total Marketing Expenses) | \$1,460,033                         |
| <i>Net Profit Margin %</i> (Net Income/Sales Revenue)                    | = 68.01%                            |

Pre-adjusted profit projections for the product are documented in the Pro Forma income statement. It demonstrates the potential profit from the sale of the new product or service, net of all costs. To simplify matters, we will use a pro forma income statement to forecast how much money “East Chestnut Regional Health System” may make from providing breast cancer care. The preceding pro forma income statement shows that the East Chestnut Regional Health System would have a profit margin of 68.01% from the introduction of breast cancer treatment. The marketing budget may be large, but the return on investment for the business is substantial. Based on the statement above, a net profit margin of 68.01% is exceptional, suggesting that the introduction of breast cancer treatment is a viable service that healthcare may provide. (Bazzoli et al., 2018) A good net profit margin should be above 20%, as this would indicate that the project is viable.

## Marketing Plan Considerations

Based on the net profit margin obtained from the proforma income statements, the healthcare management ought to develop a marketing plan that would help them obtain a net profit margin of 68.01%. ECRHS is not immune to the myriad financial and economic concerns that have a bearing on businesses’ marketing plans and tactics in every industry. Marketing strategies exist primarily to raise the company’s demand by spreading the word about the brand. Demand growth would unquestionably lead to production expansion, resulting in higher consumer prices. However, when demand is low, businesses can only produce so much of their wares before losing money. Before developing a marketing plan for breast cancer treatment, ECRHS needs to consider its competitors. With the increase in the existence of breast cancer, the firm ought to have differentiated techniques for providing breast cancer care (Schwartz & Woloshin, 2019). For instance, ECRHS may give discounts for chemotherapies, hence attracting more customers, which would result in an increase in demand and, thus, increased turnover.

Additionally, ECRHS must consider client trust and loyalty when creating its marketing strategy. Gaining customers’ trust and loyalty is not easy, as it is like losing customers’ trust and confidence in healthcare. Without having a client base, healthcare would not be able to attain the net profit of 68.01%; hence, by finding ways to win their trust and loyalty during the marketing process,

healthcare would be able to gain more customers, thus having an increased revenue. In addition to sticking with a business, 83% of customers also stated they would suggest it to others (Schwartz & Woloshin, 2019). Therefore, gaining the trust of your customers is crucial to increasing your business's revenue and retaining your current clientele through word-of-mouth advertising.

Accomplishing one's financial objectives is another factor to think about. The administration of a company's finances cannot be done independently of the company's overall business strategies. Close-by medical centres, the doctors who sell their practices to the hospital often wind up working there, providing the institution with a steady and sizeable income stream. Therefore, it profits from various medical services, especially novel ones like oncology. Having more of a variety of businesses and services helps bring in more money, which goes toward paying off the acquisition (Berkowitz, 2021). Limiting out-of-pocket medical costs is an essential extra consideration. The cost-effectiveness of medicine is a priority for healthcare providers and their financial backers. They help generate a list of prescriptions that need to be filled so that doctors under contract can carry out their treatment programs. The software allows insurers to gather information about specific doctors and their patients.

Firms ought to consider the prevailing economic recession. Even healthcare providers are feeling the pinch of the current economic crisis. Companies can weather economic downturns by cutting costs and maintaining a steady profit. In rare cases, they may have to lay off some of their staff. If customers believe they are healthy and have less disposable income, they may also minimize the number of times they get checked.

## References

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