Practice Management 101

Program Agenda
• Market Trends in Eye Care
  – Demographic trends
  – Increased eye care services
  – Medicare challenges
• Financial Benchmarking
  – Clinic
  – Optical
• Opportunities for a Successful Future

Demographic Trends
• Impact of “baby booming seniors.”
• Demographic trends will influence growth in eye disease.
• The fastest growing segments of the population have more money to spend on elective health care services.

Aging of the U.S. Population
45 Years of Age and Over
Impact of Aging Population
By 2030, about 20% of Americans will be 65 or over (compared to 13% today).

The most rapidly growing demographic group is the “oldest elderly.” By 2020 population over age 75 will increase to over 40 million.

Opportunity for the Optometric Practice?
Once patients hit 65+ the need for eye care services increases 8.5 times.
Expand your ability to evaluate & treat the diseases of the aging population.
Adjust your optical to reflect demographic shift.
Keep up with technology advancements that will benefit the older population.

Shortage of Eye Care Providers
• The Bureau of Labor Statistics reported 33,000 optometrists as of the end of 2006.
  – Estimate 36,000 by 2016 – 11% increase.
  – Bureau predicts increase in need due to growing population; increase coverage for vision care, and expanding OD services.
• Decrease in ophthalmologists.
  – 600 retiring MDs per year.
  – 450 entering market after residency.

Historic Trends in Cataract Surgery
P-IOL Market Trends
• Adoption rate slower than expected.
• Demand for P-IOLs increased 24.1% in Q-3 ’07 compared to Q-3 ’06 and 7.5% as compared to Q-2 ’07.
• Cataract-only surgeons slow to adopt P-IOL due to additional time required with patients.
• Refractive/cataract surgeons most successful with P-IOL technology
What's New in the LASIK Market

• Procedure volume flat to down; laser center/surgeon volume declining due to economic concerns and increase in the number of centers.
  – Q-4 ’07 procedures per center down 3% compared to Q-4 ’06; full year ’07 volume up 1.1%.
  – Q-1 ’08 forecast down 8.9% compared to Q-1 ’07.
• LASIK prices fluctuating in recent quarters. Average price for LASIK in Q-4 ’07 increased 3.4% over Q-4 ’06 ($2,061 vs. $1,994).
• Demand for refractive surgery expected to decline due to weak consumer confidence and economic uncertainty.

Quarterly Trend of U.S. Refractive Procedures
LASIK Volume – U.S. & International

Changes in Professional Reimbursement
Trends in Conversion Factors
What is a Conversion Factor?
Calculation Examples:
Domino Effect
Other plans will follow Medicare’s lead.
VSP and EyeMed may reduce reimbursement for eye exams by as much as 10% over the next 2 years.
Challenge for optometrists to get on provider panels keeps patients from seeking their services.
A practice that plans properly will be able to take full advantage of emerging market trends.

Financial Benchmarking for the Optometric Practice

Key Session Objectives
Provide practical information to assist you in better managing an optometric practice.
Review key categories within the benchmarking process for the clinic and optical shop.
What is YOUR strategy?
Questions Optometrists Commonly Ask
• Am I making as much as most optometrists?
• Is my overhead too high?
• Are collections efforts appropriate and effective?
• Is my dispensary as profitable as it should be?
• Do I have too much or too little staff?
• Should I hire a new associate?
• Does it make sense to open another office?
• Am I as efficient as I should be?

Sound business decisions cannot be made without “good” information.
What is Benchmarking?
The process of measuring and comparing one’s practice with historical results or other “like kind” and/or better performing practices.

Why Should I Benchmark My Results?
- Focuses you on key operating metrics that impact practice performance.
- Keeps track of the “health” of the practice.
- Helps identify areas for potential performance improvement….opportunities!

What Should I Measure?
- Profitability and overhead management.
- Productivity, capacity utilization, and staffing measures.
- Cash flow management efficiencies.
- Patient and employee satisfaction.

Essential Elements of Financial Reports
Statements and management ratios should be completed and received within 20 working days of the end of each month.

Single page – less is more!

Regardless of size of practice or number of locations.

Previous operating results or anticipated budgets.

Efficiency Benchmarks
- Operating Expense Ratio: 60% - 80%
- Net Income Ratio: 20% - 40%
- Staff Payroll Ratio: 17% - 23%
- Marketing Expense Ratio: 3% - 5%
- Occupancy Ratio: 6% - 8%

Productivity Benchmarks
- Net Collections/FTE OD: $600,000 - $1,000,000
- Net Collections/FTE Staff: $115,000 - $150,000
- Annual Visits per FTE OD: 2,500 - 3,500
- New Patient Ratio: 20% - 40%
- Revenue Rate/Patient: $250 - $350 w/optical

Optical Shop Benchmarking
Dispensary Benchmarks
- Avg. Sales Price/Completed Product: $175 - $250
- Net Profit: 20% - 35%
- Prescription Capture Rate: 80 - 90%
- Annual Inventory Turnover Rate: 3x - 4x
- Remakes as % of Filled Prescriptions: 3% - 5%
- Number of Active Vendors: 5 - 12
- Frames in Inventory: Rx volume dependent
- Managing Optician Salary: $35,000 - $55,000
• Complete jobs (frame & lens) 75%

Refining these areas of opportunity will improve productivity and enable you to enhance overall results.

**External Market Overview:**

**Optometric Practice Assessment**

- ODs provide 80% of the primary eye care in the US.
- Average number of complete exams per OD per year is 2,200.
- According to AOA survey of optometrists, ODs make an initial glaucoma diagnosis about 20 times per year.

What is your best opportunity for a successful future?

**External Market Overview:**

**Practice Models**

- **Private practice (60%) - popularity is declining**
  - Solo or Group
  - High risk/reward (highest and lowest salaries are found in this category)
  - Greatest independence
  - Need for management tools and support
  - Though greatest number of practitioners, private practice only represents about 40% of retail optical sales (frames, lenses and contacts)

- **Retail Chains (25%) – popularity is increasing**
  - Independent contractor or employee
  - Low risk compared to private practice
  - Most graduating ODs are looking to this option to get out of education debt
  - More emphasis on glasses/contact sales rather than general eye care

- **Ophthalmology Practice**
  - Usually sees patients in front of ophthalmologist or provides post op care within practice
  - Specialty clinics included such as LASIK centers

Deciding on a Future Practice

Some major aspects to be considered in the location process include:

- Professional: Determine the potential for growth of patient base.
- Education: Quality of schools for children, as well as proximity for the doctor's continuing education.
- Economic: Age, income, education, and health care awareness of prospective patients.
- Personal: Civic, social, cultural opportunities, the advantages / disadvantages of living there.
- Local Government: Zoning and building restrictions; present and future tax burdens.
- Spousal: The input and acceptance by spouse is extremely important.

**Area of Opportunity**

• Supply/demand issue for Ophthalmologists
Salary range for OD in MD practice
-$85,000 to $120,000

Incentive Bonus
-20%-30% of net collections, exceeding 2-3x salary
-Benefits similar to employed MD

Expectations when Joining a New Practice
Net collections
Patient encounters
-Per year, month, day
Revenue per patient encounter
Capture rate

How do I Exceed Expectations?
Increase Productivity: See More Patients
-Add one more patient per clinic session.
-Increase efficiency with technicians working up patients.
-Consider adding evenings and Saturday hours.
-Develop ongoing relationship with your referral base.
-Adjust your scheduling template.

What is the Value of a Patient?
Revenue Rate/Patient Encounter = $250 - $350
(Collections/Patient Encounter)

**Example:**

40 work weeks = 160 days
1 more patient per day = 160 more patients/year
Net gain = $40,000 - $56,000 per year

Summary
Opportunity with “Baby Booming Seniors.”
Ophthalmologist supply/demand issue.
Medicare challenges, which will spur on decreases from other health and vision plans.
Create a strategy.
Technology enhancing scope of practice and efficiency.
Maximize opportunity with every patient and educate on ALL services: medical, vision, & optical.
Opportunities are great for Optometrists!