Is Optical Dispensing Right for My Practice?

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Why Dispense?

- More Medicare cuts are on the way (trust me)
  - Reimbursements will decrease; utilization will increase
  - operating costs will continue to increase
    - 10 years ago = 50% profit. Today 35% profit. Tomorrow…less.
  - Do you plan to make up the difference? If so, how?

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Why Dispense?

- One answer is to open a dispensary
- Stop money from falling off the table
  - Your patients are leaving with prescriptions in their hand. Each Rx is worth ~$300.
  - Capturing just one of those prescriptions per day = $75,000 a year in additional revenue

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Why Dispense?

- Patients want this service
  - Convenience factor
  - They will purchase eyeglasses somewhere
- A dispensary is a natural extension of your medical practice
  - Not having a dispensary makes your practice uncompetitive; most patients expect to find a dispensary at your practice
- Encroachment by ODs into medical ophthalmology
  - The answer is to do the same
    - 60% of OD revenues come from eyeglass and contact lens sales
- Participate in managed vision care plans
  - MDs have traditionally relegated vision plans to ODs and chains, essentially giving away this market share

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An excerpt from a letter to Ray Dennis from Daniel Sloan of Fashion Optical Displays:

December 27, 1996

Dear Mr. Dennis;

It might be of interest to you that according to 20/20 Magazine's 1994 Dispensing Survey, a typical dispensing ophthalmologist handles 46.6 patients and writes 15.6 eyewear Rxs per day. Of those, 58.2% or 9.98 patients purchase their eyewear from the MD's dispensary at an average cost of $166.98 each. This amounts to $1,516 per day, which at a 33% profit margin means a $500 per day net profit to the dispensing ophthalmologist. Based on a five day work-week, that's an annual net profit of $130,000 on frames and lenses alone. This income is in addition to whatever the doctor makes on surgery and exams. Perhaps more telling, the survey determined that for the average dispensing ophthalmologist, eye exams and optical dispensing bring in 45.7% of their practice revenue.

Sincerely,

Daniel Sloan

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Calculate a Dispensary's Profit Potential

- Note or estimate the number of refractions performed per day in your practice that result in a written prescription.
  - **Prescriptions written per day** 10
- Calculate the number of prescriptions written per year by multiplying the prescriptions per day figure from above by 260 workdays (5 work days per week X 52 weeks = 260)
  - **Prescriptions written per year** 260 x 10 = 2,600

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Calculate a Dispensary's Profit Potential

- Calculate the number of prescriptions your dispensary would fill if it filled 6 out of 10 prescriptions written.
  - **Prescriptions filled per year** 2,600 x 0.6 = 1,560
- Calculate the annual gross sales potential of your dispensary @ $250 per frame & lens sale.
  - **Annual gross sales** 1,560 x $250 = $390,000

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Calculate a Dispensary's Profit Potential

- Calculate the annual net profit potential of your dispensary @ a 30% profit margin.
  - **Annual net profit** $390,000 x 0.3 = $117,000

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What Have You Been Waiting For?

- Fear of losing OD referrals
  - Overstated; rarely happens
- Not enough space in my practice
  - = or > 150 square ft.
- Fear that my patients will see me as trying to sell them something and not return
  - Actually, you should see increased referrals, not defections
- Not sure where to start
  - Many MDs have limited business backgrounds.

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What Will it Take to Get to the Money?

- Integrate the dispensary with the medical practice
  - Seamless processes; a visit to the dispensary is seen as part of the eye examination
  - Gather lifestyle information; how, why, when and where?
  - Direct patients to the dispensary (handoff)
- Create reports
  - Monitor progress regularly
  - Benchmark performance
  - Set goals
  - Provide training
  - Incentivize

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What Will it Take to Get to the Money?

- Someone in your practice needs to oversee the dispensary
  - Generally the practice's administrator
  - Could be a partner or managing partner
  - Invest in this person's understanding of dispensary operations and retailing
- An initial investment of $50,000 - $65,000

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4 Ways To Get Started

1. Hire an optician
2. Purchase an existing optical shop
3. Engage a consultant
4. Lease the dispensary

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Hire An Optician

- "The Black Hole"
- The dispensary will be as good or bad as the optician
  - Most opticians have never had full P&L responsibility

  Some:
    - May have been responsible for sales growth
    - May have been responsible for recruiting, training and discipline
    - May have been responsible for loss prevention and cash management

  Most have not:
    - Built and maintained a frame inventory or lens selection
    - Set retail pricing
    - Engaged in marketing activities
    - Negotiated with vendors
- Beware of the 'technocrat'

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Purchase An Existing Optical

- Most independent optical shops are not saleable
- How many patients will follow the optician?
- Were most of those patients yours to begin with?
- What will you get for what you pay?
  - Will you need the fixtures?
  - Will you need the exam equipment?
  - Will you need the inventory?
  - What is the goodwill worth?

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Lease the Dispensary

- Less than 5% of the MD dispensaries in the U.S. are leased
- Trade profits for convenience of having someone run the dispensary
- Receive a percentage of the collections as 'rent'
- Pro: hand over day-to-day dispensary operations to someone else
- Con: hand over day-to-day dispensary operations to someone else
- Choose a partner carefully
  - Conflicting goals and/or ideologies; sell glasses vs. satisfy patients
- Length of the contract
  - Can the vendor deliver value year after year or just in the first 1-2 years?

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Engage a Consultant

- Think of a consultant as a part-time CEO
  - Consultants have knowledge/experience that can be used to complete projects or can be taught to staff members
- Look for broad experience in dispensary profitability and dispensary startups
- A good consultant will ask you what you want but tell you what you need
  - You may know what you want, but not what you need
- Begin with a cost/benefit analysis and feasibility study, then decide which road to take

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Profit and Loss Statement ($250 per sale)	
Number of Pairs per Day	6
Sales	$375,000
Cost of Goods Sold @40%	$131,250
Gross Profit	$243,750
Expenses	
Labor (1 Sale every 2 hours)	$ 75,000
Rent (600 sq ft @ $20/ft)	$ 12,000
Utilities	$ 12,000
Advertising (@3%)	$ 11,250
Supplies (@ 1.5%)	$ 5,625
Administrative ($2,000/month)	$ 24,000
Insurance	$ 2,000
Net Profit Before FIT	$101,875
% of Profit	27.2%
Amortization	$ 18,465
($75k over 5 years at 8.5%)	
Net Profit After Amortization	$ 83,410

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Thank You For Your Time And Attention

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