

Optometry Coding & Billing Alert

Revenue Boost: Is Your Practice's Optical Shop As Profitable As It Can Be?

This 6-question test says for sure.

If you're like most optometry practices, you rely heavily on retail optical to boost your bottom line. This revenue stream becomes all the more important as Medicare and other payers shift from fee-for-service to value-based reimbursement. You'll feel less pressure from these changes if you're doing all you can in your optical shop to bring in vision plan and out-of-pocket revenue.

But how profitable and efficient is your optical really? Ask yourself these six questions:

1. What is our capture rate?

Your capture rate is the percentage of patients who receive prescriptions at your practice and subsequently fill those prescriptions at your optical. Among eye care practices with private retail opticals, the capture rate is about 65 percent, according to Vision Watch.

Even if your capture rate is about average, you still have opportunities to boost your revenue, stresses **Cheryl Welch**, a practice management consultant at Eye Care Leaders. If your practice grosses \$750,000 annually and you have an average capture rate, for example, you "lose" \$160,000 annually to other retail opticals, Welch explains.

Ways to improve your optical's capture include: provider and staff training, a systemized "hand off" between provider and optical staff, appealing optical displays that patients see from the waiting area, a frame inventory that attracts your patient population, strategic pricing, savvy promotions, and excellent customer service.

2. What is your optical's gross profit margin for eyewear?

To calculate, subtract the annual cost-of-goods for your eyewear from your gross revenue for eyewear. Divide this number by eyewear gross revenue.

Independent optical shops managed by optometry practices average a 61 percent gross profit margin, according to Essilor MBA data (http://ecpu.com/media/wysiwyg/docs/paa_bestprac_spectacle_0415.pdf). You're doing really well if your gross profit margin is between 66 and 75 percent.

If your gross profit margin is on the low side, consider tracking the data more closely, adjusting retail prices to accommodate increases in wholesale frame pricing and lab prices, tracking optical chain pricing to make sure your pricing isn't more competitive than it needs to be, and conducting pricing tests to learn what your market can bear, Welch suggests.

3. How many frame vendors do you have?

If your optical manager lacks knowledge, experience or discipline or if there has been high turnover in your optical shop you may have more frame vendors than you need, experts warn. Too many vendors can decrease your profit because you aren't buying high enough volume from any one vendor to get discounts or negotiate favorable contract terms. You end up paying more for your inventory than you would if you bought from fewer vendors.

When practice manager **Mark Johnson** first began overseeing optical shops at **Virginia Eye Institute's** seven locations, they had 45 vendors total. Now they have 12, and do much better financially, he told an audience of optical managers at Vision Expo West.

A single location needs about eight vendors, Johnson estimates. Some experts recommend as few as three to five if you serve a market with lots of seniors who are likely to choose similar, conservative styles, says **Robert Swanland**, a POS software expert.

4. How many frames do you carry and why?

Frames typically make up 43 percent of overall expenses and only 30 percent of revenue, Johnson notes, citing Vision Monday stats. With that kind of cash outlay, you must make disciplined decisions.

Not all opticals make their frame inventory decisions carefully. Staff may fall prey to that charming frame rep who comes dropping by, or they may be so overwhelmed by an exhibit hall that they buy too much. Good optical managers know how to limit the number of frames they carry.

You should have a frame selection sufficient to move inventory at your location, but not so many that you're tying up revenue unnecessarily. Larger locations can handle 1000 frames, experts say. Small locations should carry around 750. Some opticals in particular markets with lots of seniors can profit very well with as few as 600, says Swanland.

5. What do your turn ratios look like?

To calculate your overall turn ratio, divide your annual cost of frame goods sold by your average monthly inventory to get the number of inventory turns. Most opticals have an average turn ratio of 2, according to **Sherrie Rogerson**, a former optical manager who now works with **REM Eyewear**.

"If your turn ratio is low, your inventory may be too low," Rogerson cautioned a class at Vision Expo West. Customers may perceive you don't have anything for them and they may move on to other shops, which drives down your capture rate and your profits.

You also want to look at how individual frames are turning so that you can make better inventory decisions for your market.

Frames that don't have an inventory turnover ratio of three or four are costing you money and you need to swap them out for frames with potentially higher turns, says Mark Johnson. The exception is high-end, luxury frames, which will have lower turns in most places. It's strategic for your optical shop to carry a few lower-turn frames if they move in your market and make you money. You should love frames with turn ratios of six, says Rogerson.

6. What are your annual contact lens sales per contact lens eye exam?

To calculate, divide total collected revenue from contact lens sales by the number of contact lens exams performed for a 12-month period.

The median is \$152. High performers are in the \$199-\$299 range.

This number you get for your practice and your optical can tell you a lot about your contact lens capture rate, how much higher quality lenses factor into your sales mix, and most importantly, whether your practice and retail optical sell annual supplies effectively, says Welch.