

# Is There an Optical Dispensary in Your Future?

*Donna Suter*

**An optical dispensary makes good economic sense for most practices. Here's a model that can help you calculate the revenue potential of your own dispensary.**

**I**n today's economic environment, it is important for ophthalmologists to be able to provide the services that make their practices attractive to payers. As managed care plans move toward "total eyecare" coverage, ophthalmology practices are being asked to deliver primary care, sell retail eyewear, and provide ophthalmological services.

In many cases, ophthalmology practices that don't now offer eyewear will have to add this service in order to remain eligible for plan participation. As this trend moves forward, it is becoming important for all practices—even those that are accustomed to "automatic" acceptance based on their location or history of excellent outcomes—to consider installing an on-site dispensary.

## Should You Dispense?

Opening a dispensary is much like setting up to do cataract surgery. There is an upfront investment, but, in the end, most of the practices that invest do very well. Indeed, with an aging population, dispensing is a growth industry. In that environment, dispensing is likely to be good for the practice, and patients will appreciate the convenience and service.

How a practice invests in a dispensary will depend on the specifics of the practice, its values, strategic plans, and practice "culture." For practices that haven't already charted

a strategic course into the next century, now is the time to do it. It's important to have a clear idea of practice goals before installing a dispensary, because the dispensary is an important vehicle for achieving those goals.

A practice can get started making basic strategic decisions in 4–6 hours. One way to do it is to gather all the principals in a room and agree to keep working until the practice has a mission statement, identified core values, and agreed upon the level of services the practice will provide during the next 24 months.

When a practice has a clear mission, its dispensary will reflect both the practice's vision and the demographic community it has determined to serve (Figures 1 and 2). In the following, we will examine two practices that installed optical dispensaries in order to participate in an attractive managed care plan. The practices had very different values and circumstances. Although dissimilar, both practices were successful.

## Practice One

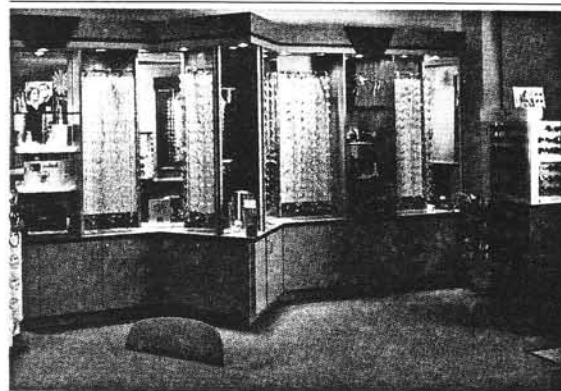
This practice sees 18,000 patients and performs 1,000 surgeries per year and is installing a minimal dispensary simply to meet an attractive managed care plan's contractual requirements. (The practice's owners see the dispensary as a "necessary evil.") Because 85% of their surgeries are performed on patients at least 65 years old, the practice decided against fitting contact lenses. The practice also determined that it would carry only value-priced frames and would encourage patients to purchase bifocal

lenses that could be fabricated (at lower cost to the practice) in an on-site optical laboratory.

Because 40% of their patients come from referrals and will go elsewhere for most of their follow-up care, the maximum number of patients who would need optical services is 10,800. Of this number, the practice anticipates "capturing" 40% in the dispensary (see Practice Profile).

## Analyzing Practice One

Except for the investment in surfacing equipment, Practice One made a minimal initial investment and is looking to make sales only within a relatively narrow niche. Focusing on price, Practice One emphasizes lower-cost frames and older-technology lenses (bifocals instead of progressives). To make money in this



**FIGURE 1** An optical dispensary both reflects and supports a practice's mission. (Photo courtesy F.C. Dadson, Inc, Appleton, WI.)

low-end environment, the practice has chosen to surface lenses in house, saving the money that would otherwise be paid to an outside laboratory. The practice anticipates having an adequate volume of work to make this viable.

Fabricating eyewear on-site also appealed to the doctors' independent spirits and love of technology. As a result, one staff person will stay in the 150-square foot lab fabricating eyewear, while another 1.5 full-time equivalents (FTEs) will handle frame selection and dispensing.

Surfacing requires a skilled technician who is attentive to detail, and

the greatest challenge of surfacing lenses is locating a good technician who can deliver a quality product consistently. In-house surfacing can substantially reduce the cost of eyewear, however, in evaluating surfacing, it is important to look at all the costs involved. These include not only machinery and labor, but also breakage,

### CALCULATE WHAT WILL WORK FOR YOUR PRACTICE

You can use the data from this article to project the results of various scenarios. The article uses standard formulas and realistic capture rates. It should be noted that the projections are reasonable, given the circumstances described for each dispensary. By using values appropriate to your practice, you can estimate your own probable gross and net.

utilities, liability, and square footage.

Practice One buys frames with value and a low retail price point in mind. Practice One was lucky to find a savvy optician who can research and purchase frames that offer exceptional value at an average retail price of just \$118. (These days, when more expensive metal frames outsell plastic by 3:1, it's quite a feat to create a collection of reasonable-quality eyewear that can sell at such a low price.) Because the inventory is limited to 400 frames, frames purchased by patients to be made into eyewear are not taken from the board but ordered. The dispensary's inventory stays on the board. Delivery times can be long.

This dispensary is profitable and meeting the goals established for it. It is worth noting, however, that a more service-oriented approach and higher quality frames and lenses could increase the dispensary's capture rate. With this practice's large patient volume, even a modest increase in capture rate would give a significant boost to the bottom line. Similarly, higher-quality eyewear would raise the income produced by each sale, with higher profits going straight to the bottom line. Although its dispensary is inex-

<b>PROFILE: PRACTICE ONE</b>	
<b>START-UP COSTS</b>	
Modular frame displays and showcases	\$10,000
Frames: 400 @ \$47.20	\$18,880
General construction (electrical wiring, dry wall, etc.) 650 sq. ft. @ \$35-\$60	\$22,750-\$39,000
Carpet @ \$2.50 per sq ft	\$1,625
Chairs @ \$150 each (4)	\$600
Computer terminal	\$2,500
Optical surfacing equipment	\$85,000-\$200,000
Total start-up costs	\$141,355-\$272,605

<b>FIRST-YEAR INCOME &amp; EXPENSES</b>	
<b>ASSUMPTIONS</b>	
40% of non-referred patients purchase from dispensary = 4,320 total purchasers	
40% purchase frames and lenses: 1,728 purchases	
60% purchase lenses only: 2,592 purchases	
Average frame fee collected: \$118.75	
Average fee collected for lenses: \$85.00	
Personnel: 2.5 FTEs	

<b>FIRST-YEAR INCOME</b>	
2,592 lenses-only sales @ \$85.00	\$220,320
1,728 frame plus lenses sales @ \$203.75	\$352,080
Gross income	\$572,400
<b>FIRST-YEAR EXPENSES</b>	
Personnel	\$112,500
Lab fees @ 20%	\$152,640
Debt service	\$22,160
Direct and indirect costs	\$76,320
Gross expense	\$363,620
<b>FIRST-YEAR PRE-TAX NET REVENUE:</b>	<b>\$208,780</b>

**Explanatory notes:** Personnel expense includes opticians' salaries, commissions, benefits, and taxes. Debt service for start-up costs is spread over 5 years with interest at 10%. Direct and indirect operating costs are calculated at 10% of annual retail sales. Direct operating costs largely consist of frames, lenses and other goods to be sold. These costs should be directly proportional to sales. Indirect costs are items such as advertising, increased insurance costs, and other expenses incurred as a result of opening the optical dispensary but not related to the practice as it existed before installing the dispensary.

pensive and efficient, Practice One hasn't done all it could to maximize revenue and patient satisfaction.

#### Practice Two

This one-ophthalmologist practice sees 3,000 patients annually, 15% of whom are referred from other eyecare providers. As the practice expands, the still-young ophthalmologist

plans to hire an optometrist to serve as clinic director and expand the range of primary care services offered.

This practice has decided to embrace the comprehensive "total eyecare" concept. As a result, the optical dispensary must be designed, stocked, and operated to meet the needs of a diverse community. Through market research, the practice

## PROFILE: PRACTICE TWO

### START-UP COSTS

Customized frame displays and showcases	\$35,000
700 frames @ \$75	\$52,500
General Construction (electrical wiring, dry wall, etc.)	
650 sq. ft. @ \$35-\$60	\$22,750-\$39,000
Carpet @ \$2.50 per sq ft	\$1,625
Chairs @ \$300 each (8)	\$2,400
Computer terminals: 2 @ \$2,500	\$5,000
Market research, staff training, consulting	\$36,000
Total start-up costs	\$155,275-\$171,525

### FIRST-YEAR INCOME & EXPENSES

#### ASSUMPTIONS

70% of patients purchase from optical dispensary = 1785 total purchases  
 70% purchase frames and lenses: 1250 purchases  
 30% purchase lenses only: 536

Average frame fee: \$187.50

Average fee collected for lenses: \$138.00

Number of FTEs: 1

#### FIRST-YEAR INCOME

536 lenses-only sales @ \$138.00	\$ 73,968
1,250 frame-plus-lens sales @ \$263.00	\$328,750
Gross income	\$402,718

#### FIRST-YEAR EXPENSES

Personnel	\$45,000
Lab Fees @ 30%	\$120,815
Debt service	\$17,153
Direct and indirect costs	\$40,271
Gross expense	\$223,239

#### FIRST-YEAR PRE-TAX NET REVENUE

\$179,479

community may well grow to make more in the end. In accounting terms, Practice Two fully utilizes fixed costs and is operating much closer to capacity. The practice is working smart, an advantage that will show in subsequent years. Practice Two can be expected to narrow the net revenue gap between itself and Practice One.

Of course, net revenue isn't the whole story. Patient satisfaction is vital to practice growth. Practice Two's philosophy, which emphasizes quality eyewear and quality service, will, in the long run, do more to build the practice. Practice One can probably maintain its niche, but the dis-

pensary won't likely contribute much to practice growth.

#### Making the Most of a Dispensary

Many patients look to their ophthalmologist for complete eyecare. Premium optical products—in particular, premium spectacle lenses—will play a growing role in the future success of practice-based optical dispensaries. Spectacle lenses and lens treatments generated retail sales of \$7.6 billion in 1997, or nearly half of the \$15.4 billion that was spent on all optical goods, according to the Jobson Optical Group Data Base.

To take advantage of this huge

market opportunity, full-service practices should take time to educate patients about all their vision options: refractive surgery, premium lenses, and contact lenses. Give patients the option to choose any vision correction mode that is medically sound, with the decision as to whether or not an alternative is affordable left up to the patient.

Patients who have gotten excellent service and had a chance to purchase a premium product are often unfazed by the price. (Patients tend to be much less price sensitive than their doctors believe.) Those patients know they have the latest technology and will be proud of that technology. They are likely to share their new-found knowledge with friends and family.

What's in it for the practice? High-end products, including high-performance spectacle lenses with value-added aspects, yield greater profitability, happier patients, and the satisfaction of knowing that your patients are getting what they came to you for in the first place: top-quality eyecare.

#### THE BOTTOM LINE

Optical dispensaries are as diverse as the practices that create them. We compared a dispensary that emphasizes high volume and low cost to a dispensary that emphasizes service and quality. The dispensary that emphasized service was less profitable initially, but its prospects for the future are excellent. A few modifications in the low-price, high-volume dispensary could dramatically improve its bottom line. By plugging in values from one's own practice, the model developed to compare these two hypothetical dispensaries can be used to project gross and net revenues from one's own dispensary.

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identified saving time as the patients' highest priority and arranged with a wholesale lab for 2-day turnaround of eyewear. With optical laboratory operations outsourced, all but 75 square feet of the dispensary can be devoted to displaying optical products.

Market research also determined that quality was the patients' number two concern in the buying process. To meet patients' demands for quality eyewear, the practice elected to position the optical dispensary toward the high end of the market.

Because the practice invested in market research and staff training before opening a dispensary, they are confident that they will achieve a capture rate of 70% in the first year. As staff gains experience, their capture rate is expected to climb above 90%.

#### Analyzing Practice Two

Unlike Practice One, which is ori-

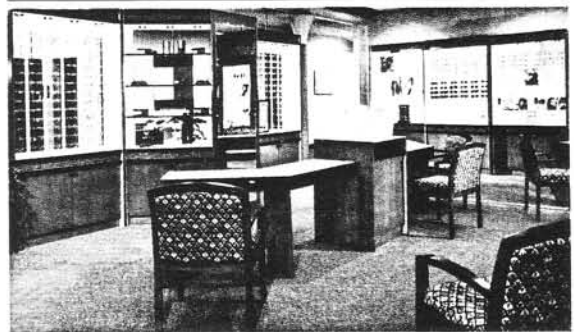
ented toward volume and efficiency, Practice Two emphasizes service and quality. Hence Practice Two has sunk more money into furnishing and fixtures for the dispensary, despite a much lower projected volume. Similarly, Practice Two has invested heavily in market research, consulting, and staff training.

Higher prices—justified by better service and higher-quality merchandise—allow Practice Two to earn substantially more per sale. (For example, Practice Two charges an average of \$263 for a complete pair of glasses compared to the \$204 charged by Practice One. In addition, a much higher proportion of Practice One's sales are "lenses only.") Thus, even though volume is higher in Practice

One's dispensary, Practice Two is not far behind in revenue.

#### Long-term Success

The numbers tell the story. Practice One, with its proportionately



**FIGURE 2** An attractive, well-stocked optical dispensary gives patients added incentive to return to your practice. (Photo courtesy Eye Designs, LLC, Collegeville, PA.)

smaller initial investment and higher volume will gross more initially and will reach break-even first. But, the practice that commits to serving the

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