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Real-life cases of optometrists' practice dilemmas and how these seasoned consultants resolved them.

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Overworked and Underpaid

Solving one doctor's problems: Part one of a two-part series

This article is about an optometrist who had a good practice with two common problems: A heavy workload and tight cash flow. Her solutions might help you solve similar problems.

Trouble in River City

Dr. Beverly Arnette (not her real name) told us that she was an overachiever who wasn't afraid of hard work and didn't mind making personal sacrifices.

She married her college sweetheart and when she graduated in 1988, opened her own practice in his hometown, River City. Dr. Arnette worked there 1 and one-half days each week because she felt that she wasn't busy enough to justify working more hours.

Because she needed more income to pay off student loans, she worked at a commercial optical on weekends and filled in for Dr. Togtema (not his real name), owner of the Cordora Eye Clinic, 1 day a week on "nursing home day." When he suddenly died in 1996, she purchased the Cordora Eye Clinic from the estate.

Counting her drive time between the two locations and her home, Dr. Arnette worked 60- to 80-hour weeks between the two practices for 2 years and no longer enjoyed work because she felt stressed. She contacted us because she didn't want to work herself into an early grave as Dr. Togtema had. She also had cash flow problems.

Cash flow woes

River City Eye Clinic is located 20 miles from Cordora Eye Clinic. Cordora Eye Clinic is in an affluent area, and the River City Eye Clinic is in a middle-income community. Dr. Arnette lived 5 miles from the Cordora location — a more convenient commute than to River City.

The Cordora location was open 3 days each week and the River City location was open 2 days each week.

Dr. Arnette grossed $500,000 in total for both locations, and netted around 20%. "How can I make all this money and still have trouble paying bills?" she asked us.

Part of the answer was poor cash flow. Cash flow is the differ-

Recommended Ranges

Cost of Goods Sold	27% to 33%
Staff Salaries & Benefits	15% to 20%
Occupancy Costs	4% to 8%
Patient Care Costs & Equipment	3% to 5%
Marketing & Promotion	2% to 4%
General Office Overhead	6% to 9%
Practice Net	30% to 40%

ence between collected gross income and all checks written. Cash flow becomes tight when total checks written are more than collected gross income.

When we discussed how and when she paid bills, it appeared that Dr. Arnette regularly wrote checks for more money than she was taking in. Sometimes she couldn't pay her lab bill until it was 6 or 7 weeks past due.

All but one of her frame vendors had put her on C.O.D. because they'd been receiving late payments. She regularly transferred business expenses to credit cards that offered a lower interest rate and "switched" these balances from card to card. She also owed a large amount on a small business loan/equity account through her bank.

Perpetuating a vicious circle

Dr. Arnette also had "negative equity." Her balance sheet (a financial picture of assets, liabilities and equity — what remains after bills and notes are paid) confirmed that she had $15,000 more liabilities than assets.

Dr. Arnette's position was precarious. The combination of a low net and negative equity had put her in a vicious circle. The low net caused cash flow problems. Each time Dr. Arnette had cash flow problems, she would delay bill payment, use a credit card or get a cash flow loan from her credit line. Without an increase in the net, her cash flow continued to get tighter. In her current situation, her bank could call in the notes if her finances didn't improve.

Breaking the cycle

Our first step was to figure out why her net percentage was so low. This was difficult because Dr. Arnette didn't have her profit and loss figures broken out by location. When it comes to a low net and cash flow problems, you can't assume that the lowest-grossing practice is the one that's in trouble. Although collected gross income certainly affects the net, how you manage the overhead is what really creates positive cash flow and profits.

We worked with Dr. Arnette to separate her profit and loss accounts by location. We reformatted her chart of accounts and began entering data the first of 1999. However, some expenses weren't that easy to allocate. For example, how should Dr. Arnette allocate shared expenses such as legal and accounting fees? We suggested that she allocate shared expenses based on each location's pro rata share of total collected gross revenue.

Using Dr. Arnette's reformatted profit and loss figures by location for the first 6 months of the year, we were able to prepare a pro forma profit and loss statement for the entire year. A pro forma income statement is a "best estimate" of income and expenses for the entire year. The chart below shows how we broke her numbers out.

On a combined basis, the projected gross was $550,000. The projected net was $131,000 or 24%. The chart above shows our recommended ranges for each of the expense categories.

Breaking down the numbers

Here's a breakdown of Dr. Arnette's expenses by location.

■ *Cordora overhead.* Overall, the numbers indicated that Dr. Arnette was doing a good job managing her practice. The expense that was most out of line was staff salaries and benefits. She employed 4.5 full-time equivalent staff. Our analysis in-

Pro Forma Profit and Loss Statement for the Calendar Year End December 31, 1999

	Cordora Location	*	River City Location	*
Collected Gross	$400,000	*	$150,000	*
Cost of Goods Sold	$112,000	28%	$46,500	31%
Staff Salaries & Benefits	$84,000	21%	$37,500	25%
Occupancy Costs	$28,000	7%	$22,500	15%
Patient Care Costs & Equipment	$16,000	4%	$4,500	3%
Marketing & Promotion	$8,000	2%	$9,000	6%
General Office Overhead	$36,000	9%	$15,000	10%
Practice Net	$116,000	29%	$15,000	10%

*Percentages represent the dollar amount divided by collected gross income.

dicated that a practice grossing $400,000 only needed 3 to 3.5 staff, meaning that she was probably overspending by $15,000 to $20,000 per year in this area.

■ *River City overhead.* This location was netting only 10%. With the exceptions of cost of goods sold and patient care costs and equipment, expenses were more than the recommended ranges. Fixed expenses (staff costs and occupancy costs) were significantly more than the recommended.

Fixed costs are expenses that don't change with the number of patient visits, while variable expenses are those that do change. For example, rent is a fixed expense because it will stay the same whether Dr. Arnette sees 10 patients or 100. Cost of goods is a variable expense because it changes with the number of frames, spectacle lenses and contact lenses she sells. The dollar amount of cost of goods increases as the number of glasses and contact lenses sold increases. It decreases as the number of glasses and contact lenses sold decreases. Which of the two practices was in trouble?

The reformatted profit and loss figures by location showed us that Cordora Eye Clinic, which Dr. Arnette had purchased, was in good shape. She could improve the net if she made a few changes. It also showed us that the River City practice — the one Dr. Arnette had started cold — was in serious trouble and was dragging down the overall net of the combined practices.

A primary reason why the River City location had such high staff salaries and benefits and occupancy costs was that the revenue at this location wasn't high enough to offset the fixed costs associated with operating the practice. We now knew what was draining her net. The next step was to work through several scenarios that would fit with Dr. Arnette's personal goals.

Cordora Location Only; Close River City

	Year 1		Year 2		Year 3	
Revenue	$480,000		$600,000		$690,000	
Cost of Goods Sold	$134,400	28%	$168,000	28%	$193,200	28%
Staff Salaries and Benefits	$86,520	18%	$108,000	18%	$124,200	18%
Occupancy Costs	$28,840	6%	$29,706	5%	$30,596	4%
Patient Care Costs and Equipment	$16,480	3%	$16,974	3%	$17,484	3%
Marketing and Promotion	$19,200	4%	$24,000	4%	$20,700	3%
General Office Overhead	$38,400	8%	$48,000	8%	$55,200	8%
Practice Net	$156,160	33%	$205,320	34%	$248,620	36%

Future scenarios

In the end, we decided that Dr. Arnette had two good options:

1. Sell one location and continue to operate as a solo practitioner. Because the Cordora location was closest to Dr. Arnette's home and the more established location, closing the River City location made the most sense. Dr. Arnette would be able to focus 100% of her effort on the Cordora location if she sold the River City location. She could use the proceeds to pay off the River City debt.

2. Hire an associate O.D. so that both locations would have full-time O.D. coverage. This op-

Combined Pro Forma Income Statement Operate Both Locations Full-Time

	Year 1		Year 2		Year 3	
Revenue	$660,000		$825,000		$948,750	
Cost of Goods Sold	$186,600	28%	$233,250	28%	$268,238	28%
Staff Salaries and Benefits	$125,145	19%	$153,000	19%	$173,361	18%
Occupancy Costs	$52,015	8%	$53,575	6%	$55,183	6%
Patient Care Costs & Equipment	$21,115	3%	$21,749	3%	$22,401	2%
Marketing and Promotion	$26,400	4%	$33,000	4%	$28,463	3%
General Office Overhead	$52,800	8%	$66,000	8%	$75,900	8%
Practice Net	$195,925	30%	$264,426	32%	$325,204	34%

tion made sense because both locations were in communities that had great opportunities for growth.

The table at the top of page 76 shows that we projected Dr. Arnette's net income to increase from $131,000 in 1999 to $156,160 by closing the River City location and focusing on the Cordora practice. In addition, she'd eliminate the stress of traveling between the two locations and managing them both.

Dr. Arnette had the final say. As always, our job as consultants is to objectively assess the situation and offer solutions that work with the facts and support the client's goals. The scenario we endorsed was to hire another O.D. and operate both locations on a full-time basis. The table at the bottom of page 76 shows our projections for gross and net income over a 3-year period. This way, Dr. Arnette could reach her goal of a million-dollar practice within 4 to 5 years. Not bad, considering the slow growth she could expect with two part-time locations.

Headhunting

But as Dr. Arnette soon discovered, owning two locations more than doubles the stress of managing just one. Increasing employee productivity without being on site can be a challenge. Then there's the matter of finding an associate. Dr. Arnette was involved in her local association and knew the employed O.D.s. She didn't want to hire any of them.

She wanted to conduct a candidate search for someone who shared her passion for quality care but didn't want to own his own practice — she wasn't looking for a partner. Searching for an associate can be difficult and time consuming. It was now August and the superstore where Dr. Arnette worked earlier in her career was looking for someone to fill her vacant position and offering $500 a day — a figure that Dr. Arnette couldn't match.

With our help, Dr. Arnette resolved these and other efficiency and productivity issues during the on-site portion of our consultation and in the ensuing 12 months of support. In part two, we'll tell you how she proceeded. **OM**

Marilee Blackwell, M.B.A., C.P.A., A.I.B.A., senior consultant for Hayes Consulting (904-273-1115), and Donna Suter, president, Suter Consulting Group (423-236-5465), team up to offer financial guidance and on-site consulting services designed to increase your gross revenue while significantly improving your net income percentage.