


5 Strategies For Improving Your Bottom Line

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1

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3

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Impact Leadership
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4



MLOAATBATAP: Money Left Over After All The Bills And Taxes Are Paid

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5

Simplified Profit and Loss Statement

Income	\$1,000,000	% of Revenue
COGS	-\$280,000	28%
People	-\$250,000	25%
Place	-\$80,000	8%
Things	-\$120,000	12%
Net Operating Income	\$270,000	27%
Doctor's Compensation (W-2)	\$170,000	17%
Practice Net Profit	\$100,000	10%

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6

Results: Practice Recast Analysis

	Under \$500K	\$500-\$1M	Over \$1M	All Practices
Ave. Revenue	\$423,919	\$763,791	\$1,569,101	\$924,890
COGS	30.6%	28.4%	28.7%	29.0%
Gen. Overhead	9.3%	6.7%	5.9%	7.1%
Occupancy	7.9%	7.5%	6.1%	7.2%
Staff	23.6%	25.2%	23.0%	24.1%
Marketing	1.2%	0.5%	0.6%	0.7%
Equipment	2.5%	1.9%	1.1%	1.8%
Practice Net	22.6%	29.9%	32.8%	28.9%

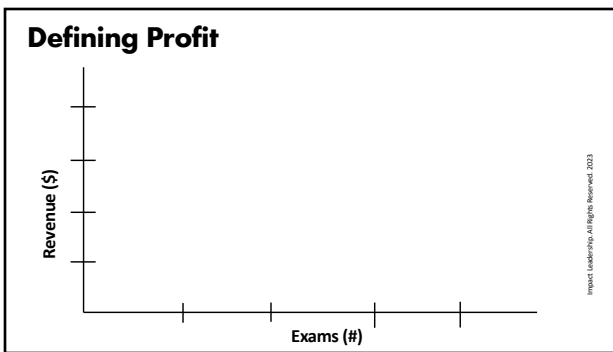
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7

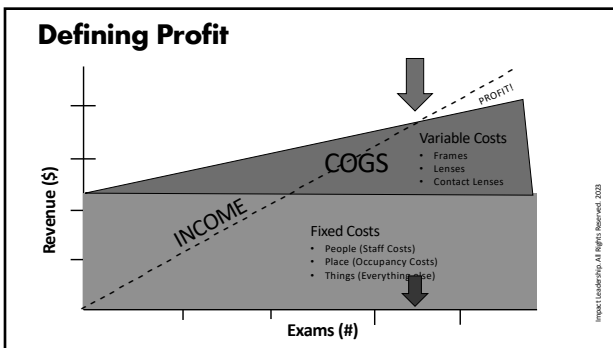
Profit (and Loss)		Vs.		Cash Flow	
INCOME	\$1,000,000			INCOME	\$1,000,000
EXPENSES				EXPENSES	
COGS	\$380,000			COGS	\$280,000
People	\$250,000			People	\$250,000
Place	\$80,000			Place	\$80,000
Things	\$120,000			Things	\$120,000
Net Operating Income	\$270,000			Net Operating Income	\$270,000
Owner Comp (W-2)	\$75,000			Owner Comp (W-2)	\$75,000
Assoc Comp (W-2)	\$75,000			Assoc Comp (W-2)	\$75,000
Interest Expense	\$25,000			Owner Draw	\$60,000
Depreciation	\$50,000			Bank Note (P+I)	\$60,000
Practice "Profit"	\$45,000			Equip Loan (P+I)	\$24,000
				Practice Cash Flow	(\$24,000)

GAAP → **Profit...taxes owed on this!** **MLOAATB-AT-JAP** **Cash Flow**

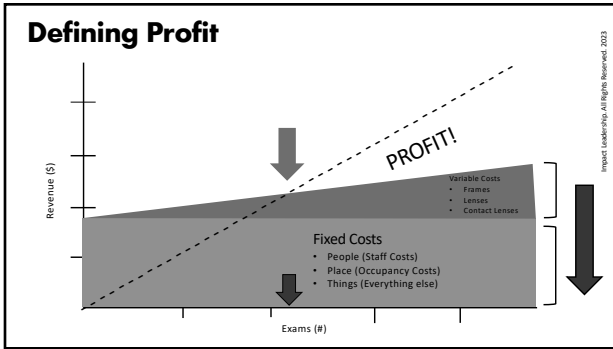
8



9



10



11

Strategy #1: Maximizing Gross Profit Margins

Max. Pricing + Best Deals = High Gross Profit Margins

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12

Defining Gross Profit Margin

INCOME	\$1,000,000
EXPENSES	
COGS	\$280,000
Gross Profit	\$720,000
People	\$250,000
Place	\$80,000
Things	\$100,000
Net Operating Income	\$290,000
Owner Comp (W-2)	\$75,000
Assoc Comp (W-2)	\$75,000
Interest Expense	\$25,000
Depreciation	\$50,000
Practice "Profit"	\$65,000

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13

Pricing Strategies

Pricing Strategy	Advantages	Disadvantages
Competitive Analysis	Best gauge of what the market will bear	Time Consuming
MSRP / Rep Recommendation	"Just tell me what to charge"	May not truly reflect what the market will bear
Multiple of Cost	Easy to calculate; Easy to implement	May not truly reflect what the market might bear
Target Gross Profit Margin	Best financial strategy for the business	Slightly more difficult to understand/calculate

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14

Calculating Gross Profit Margin

Profit Margin: The amount by which revenue from sales exceeds costs in a business.
Ratio of a company's profit (sales minus all expenses) divided by its revenue.

Profit Margin Formula:
Step 1: Sales – Expenses = Profit (GAAP)
Step 2: Profit / Sales *100 = Profit Margin (%)

Example:
 Sales: \$400 **Step 1:** \$400 - \$125 = \$275 (Profit)
 Expense: \$125 **Step 2:** \$275 / \$400 *100 = 68.75%

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Calculating Gross Profit Margin

Profit Margin: The amount by which revenue from sales exceeds costs in a business.
Ratio of a company's profit (sales minus all expenses) divided by its revenue.

Retail Pricing Formula:
 Wholesale Cost / (1.0 - Target Profit Margin) = Retail Price

Example:
 Wholesale Cost: \$100 Retail Price = \$100 / (1.0 - 0.65) = \$285
 Target Profit Margin: 65%

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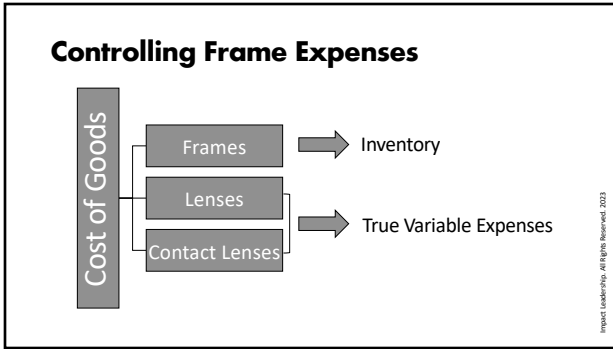
16

Frame Pricing Strategies

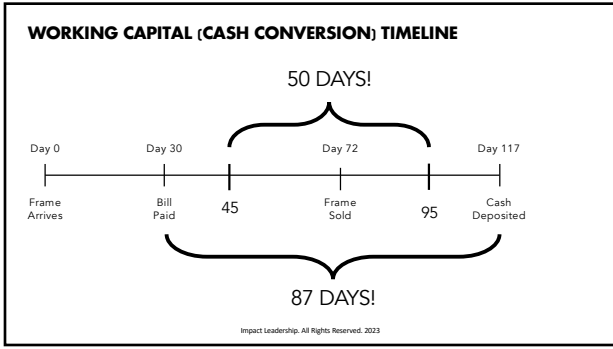
Frame Mark-Up Calculator		X	2	2.5	2.6	2.7	2.8	2.9	3	3.1	3.2	3.3	3.4	3.5
Wholesale Frame Cost	Retail	\$200.00	\$250.00	\$260.00	\$270.00	\$280.00	\$290.00	\$300.00	\$310.00	\$320.00	\$330.00	\$340.00	\$350.00	
\$100.00	Margin (\$)	\$100.00	\$150.00	\$160.00	\$170.00	\$180.00	\$190.00	\$200.00	\$210.00	\$220.00	\$230.00	\$240.00	\$250.00	
	Margin (%)	50%	60%	62%	63%	64%	65%	67%	68%	69%	70%	71%	71%	

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17



18



19

Set A Frame Spend Target

COGS Target **28%** Data from your P&L

Lenses **-8%**

Contact Lenses **-10%**

Frame Spend Target **10%**

Set a frame spend target of 10% (or less) of the previous month's revenue for the next month.

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Calculating Frame Turn Rate

The number of times inventory is sold (usually in a year).

Formula:
Total frames Sold / Ave Frame Inventory = Turn Rate

Example:
Frames Sold = 1500
Average Frame Inventory = 600

1500 / 600 = 2.5 X

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21

Calculating Frame Turn Times

	Scenario #1	Scenario #2
Number of Frames	1000	500
Wholesale Investment (\$80/Frame)	\$80,000	\$40,000
Frame Turn	2x	4x
Inventory Cost	\$160,000	\$160,000
Retail Revenue (3X Markup)	\$480,000	\$480,000
Profit	\$320,000	\$320,000
Return On Initial Capital Investment	400%	800%

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22

Frame Turns and Profitability

Frame #1	Profit Analysis	Frame #2	Profit Analysis
Wholesale	\$50	Wholesale	\$150
Retail	\$150	Retail	\$450
Profit per Frame	\$100	Profit per Frame	\$300
Turns per Year	8X	Turns per Year	4X
Annual Profit	\$800	Annual Profit	\$1,200
Annual Investment	\$400	Annual Investment	\$600
ROI	200%	ROI	200%

50% Increase in Profit

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Measuring Days Sales of Inventory (DSI)

Formula:

$$\text{Average Inventory Value} / \text{Total COGS} * 365 = \text{DSI}$$

Example:

Ave. Inventory Value = \$60K
 Total COGS = \$150K

$$\$60K / \$150K * 365 = 146 \text{ Days (Inventory turns every 146 days)}$$

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Lens Pricing Strategies

Lens Package Pricing Analysis - Updated 7.15.2023

	Progressives - Wholesale					Desired Margin	Progressives - Retail					Bill-to-Rate (DSI)
	XR	X	Physio WSA	Comfort Dite	Entry		XR	X	Physio WSA	Comfort Dite		
Part	\$225	\$227	\$180	\$127	\$99	70%	\$347	\$377	\$620	\$990	\$220	
Turns (1-X)	\$254	\$290	\$186	\$120	\$69	CRITICAL Sapphire HR	\$647	\$707	\$620	\$400	\$230	
HR 1.67 (1-20)	\$392	\$257	\$219	\$147	\$96	HR 1.67 (1-20)	\$937	\$657	\$720	\$490	\$300	
HR 1.75 (1-20)	\$296	\$273	\$208	\$162	\$111	HR 1.75 (1-20)	\$892	\$667	\$790	\$450	\$190	

MARK UP

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25

Contact Lens Pricing Strategies

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26

Contact Lens Pricing Strategies

Formula:
 $\text{Wholesale Cost} / (1.0 - \text{Target Profit Margin}) = \text{Retail Price}$

Example:
 Wholesale Cost: \$35
 Target Profit Margin: 45%

Retail Price = $\$35 / (1.0 - 0.45) = \64

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27

COGS – Measuring Gross Profit

Frame Profit = $\$64,823 - \$22,201 = \$42,632$

Profit Margin = $\$42,632 / \$64,823 * 100 = 65.8\%$

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28

Setting up your financial software to track Income Sources


- Create a **production** report from your PM software
- **Apply the percentages** of production for frames, lenses, contact lenses and professional services to the actual receipts (money in the bank)
- Make a **general journal entry** into your practice financial software to reflect these amounts
- **Not perfect**, but if tracked consistently over time, trends will emerge

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29

Strategy #2:

Manage People Costs




How many people do I need?


How do I know they are productive?

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30

How many people do I need?

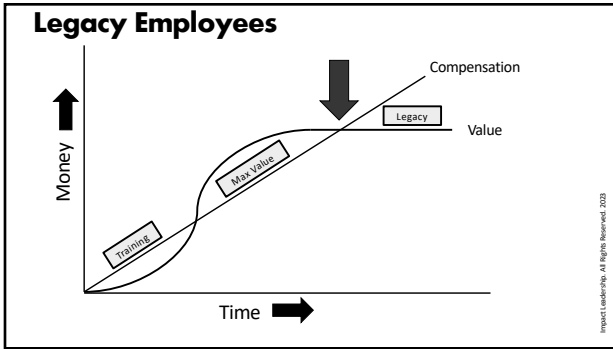
 1 FTE = \$150,000 Practice Revenue

 Ave Hourly Wage = \$18.00 = 25% People Costs

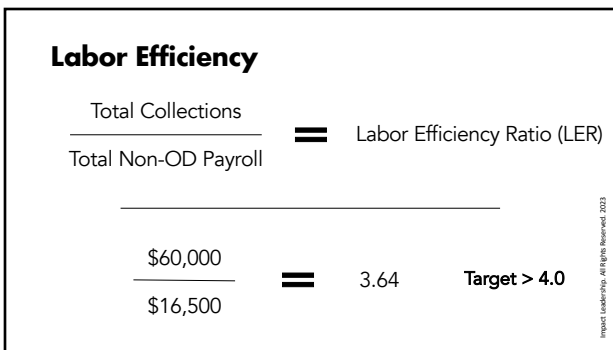
New Rule? 1 FTE = \$200,000 Practice Revenue = \$24.04/HR

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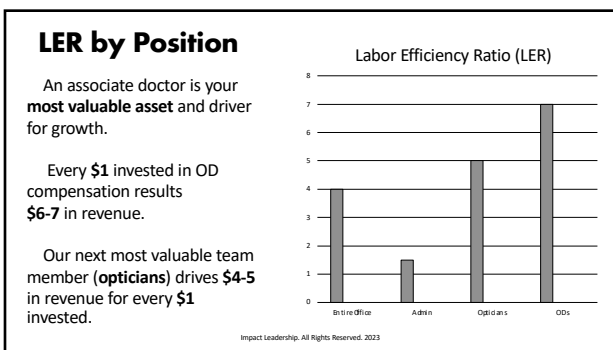
31



32



33



34

Collections per Staff Hour

$$\frac{\text{Total Collections}}{\text{Total Non-OD Staff Hours Worked}} = \text{Collections per Staff Hour}$$

$$\frac{\$60,000}{640} = \$94 \quad \text{Range } \$85 - \$150$$

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35

Optician Productivity

Vision Source Frame Sales Survey Results*

Frames Sold Per Day	# FTE Opticians	Frames Sold Per Optician Per Day
7.6	3.0	2.6

Selling one additional frame per day (Retail \$200)
= \$50,000 additional frame revenue

*N = 28 practices; High = 4.8; Low = 1.2

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36

How many opticians do I need*?

Frame Capture Rate	Frames Sold Per Year	Frames Sold Per Day	Opticians Needed
30%	750	3	1.2
40%	1000	4	1.5
50%	1250	5	1.9
60%	1500	6	2.3
70%	1750	7	2.7

If I hire more opticians, will I sell more frames?

*Assumptions: \$1M Revenue; \$400/Exam; 2500 exams per year

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37

Outsourcing People








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38

Strategy #3:

Managing Occupancy Cost




Occupancy Costs: What's Included?

Rent	Repairs/Maintenance
Utilities	Property Taxes
Security	Janitorial

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39

Occupancy Costs: What should they Be?



Target < 10% of collections

Is my rent too high for my practice?

Annual Occupancy Spend / 0.1 = Practice Size Required

Example:


Occupancy Costs: \$80,000

$\$80,000 / 0.1 = \$800,000$

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40

Do I have too much space?



Is my rent too high for my practice?

Sales Per Square Foot (SF)

Practice Revenue / Office Size (SF) = Sales Per SF

Example:

Practice Revenue: \$1,000,000
Office Size: 2500 SF

$\$1,000,000 / 2500 = \$400/\text{SF}$

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41


Do I have too much (or not enough) space?

Sales Per SF	Practice Size		
	\$500,000	\$1,000,000	\$1,500,000
\$250	2,000 SF	4,000 SF	6,000 SF
\$500	1,000 SF	2,000 SF	3,000 SF
\$750	666 SF	1,333 SF	2,000 SF
\$1000	500 SF	1,000 SF	1,500 SF

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42

Strategy #4: Manage Operating Costs



Operating Costs: What's Included?


Meals & Entertainment	Marketing
Medical / Optical Supplies	Automobile Expense
Office Supplies	Bank Charges
Postage	Technology Services
Legal & Accounting	IT Network Support
Taxes	Donations
Internet & Phone Services	Dues & Licenses
Travel	Seminars & Education
Alliance / Royalty Fees	Insurances

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43

Discretionary Spending


- Auto expenses
- Donations
- Continuing Education
- Personal cell phone
- One-time repairs
- Travel and meals
- Personal Taxes
- Excessive owner compensation
- Adjustment to staff wages
- Personal legal/accounting fees



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44

Loss Aversion




- P** = Profitable
- R** = Replace/Renegotiate
- U** = Unnecessary

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45

Strategy #5: Manage Your Debt



THE number #1 cause of cash flow problems!!

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46

Simplified Profit and Loss Statement

Income	\$1,000,000	% of Revenue
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Place	-\$80,000	8%
Things	-\$120,000	12%
Net Operating Income	\$270,000	27%
Doctor's Compensation (W-2)	\$170,000	17%
Available for Debt (P+I)	\$100,000	10%

This is pre-tax income!

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47

How Much Debt Is Too Much?

The Formula:
 $\text{Annual Debt (P+I)} / \text{Practice Revenue} = \% \text{ Debt}$

Example:
 Practice Revenue = \$800K
 Total Annual Debt Payments (P+I) = \$56K

$\$56K / \$800K = 0.07 * 100 = 7\%$

Recommended	Concerning	Red Flag
< 5%	5-10%	> 10%

*Principal + Interest
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48

Simplified Profit and Loss Statement

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People	-\$250,000	25%
Place	-\$80,000	8%
Things	-\$120,000	12%
Net Operating Income	\$270,000	27%
Pre-tax income!		
Doctor's Compensation (W-2)	\$170,000	17%
Available for Debt (P+I)	\$100,000	10%

Taxes = 30% = \$30,000 Left Over = \$70,000 = 7%

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49

