

Benchmarking helps ophthalmologist track performance of optical shop

Take the guesswork out of managing this aspect of your business, expert says

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Dorado, Puerto Rico-Optical benchmarking is a key tool that allows ophthalmologists to track the performance of their optical shops on a quarterly basis, according to James A. Rienzo, a practice management consultant, who spoke during the Current Concepts in Ophthalmology meeting here, sponsored by Johns Hopkins University School of Medicine and Ophthalmology Times.

It is important to have more than a "gut feel" for how this aspect of your business is doing.

"Optical benchmarking is not nearly as onerous a task as benchmarking in the practice," Rienzo emphasized. "There are just a few key statistics to look at on a regular basis."

These include gross revenue, cost of goods, staff payroll, net profit, inventory turns, number of remakes, number of vendors, frames in inventory, average sell price, and capture rate.

"This allows you to see the trends and where you are going so that you can maximize the opportunity," he continued.

Of all practicing ophthalmologists, about 75% are offering some form of optical dispensing in their practices. As far as eyewear dollars are concerned, ophthalmologists only have 13% marketshare whereas optometrists have captured 31% of the market and chains about 35%, according to Rienzo.

If you were wondering how many frames to have on display, anywhere between 300 and 500 should be the target. About 42% of ophthalmologists are just about at the benchmark, displaying between 201 and 499 frames, he said.

Turnaround time may not be as important an issue to patients as ophthalmologists think, Rienzo noted.

"Almost 50% of patients said they would wait more than 3 days for their glasses," he said. "So if you feel that you may need to compete with the local chain that is advertising heavily on 1-hour turnaround, you may want to ask your patients what they prefer. You can see (on this survey) that only about one out of 10 preferred a 1-hour timeframe."

Most ophthalmologists (79%) have an optician manage their optical dispensing shop. About 10% rely on their office manager and 5% are managed by the physician. Neither of these latter options is recommended, based on the number of responsibilities already undertaken by the office manager and doctor, Rienzo noted.

Most viable optical shops have a full-time optician with a retail background.

"If you can bring in a managing optician who previously worked for a chain in your area, it will probably give you the best head start," Rienzo said. "The reason is that most physicians are not really good sales people. Managing opticians, on the other hand, have been trained in a retail setting."

Operating benchmarks Take a look at the average sales price per completed job or product, which is \$210, and see how your optical shop compares. You take the total revenue and divide by your total number of jobs to compare to the national average, Rienzo said.

You need to determine the costs of goods, operating expenses, and then your net profit. Costs of goods include your frame inventory, any equipment used for upgrades such as tinting or coating, and ancillary hardware. Operating expenses is your overhead—anything except the costs of goods that are needed to run the business. And then your net profit is determined after subtracting the costs of goods and overhead.

"So for every dollar you bring in, we like to see about one-third go to costs of goods, one-third go to operating expenses, and the last third should be net profit," Rienzo emphasized.

How well is your full-time optician performing? Gross revenue per full-time equivalent optician is usually \$150,000. So if you have more than one optician, you will need to divide the number opticians into the gross revenue to reach this number, he noted.

"If the gross revenue number is much higher, you could reason that the person is a really good salesperson and hustles for the add-ons. If the number is significantly higher, you may need another optician because this person is overworked."

However, if the number is really low, there may be too many individuals selling.

Capture rate is also important to track and should be about 65% of all the prescriptions the physician writes. This can be easily tracked each day by using an NCR prescription pad. The white prescription is given to the patient and the yellow prescription written underneath goes to the optical shop.

"At the end of the day, the optician puts them together and adds them up to determine the capture rate," Rienzo said.

Inventory turnover is also tracked and usually occurs twice, maybe three times, a year. Some practices have determined that "just-in-time" sales are the most efficient way to handle frames inventory. Patients are able to select the frame that they want off the board and that is the one they receive. The optician is responsible for tracking what comes off the board that day and ordering new frames to replace the ones sold that day. "This keeps your inventory low, there is turnover at the right level, and your net is a little bit higher," Rienzo said.

Sometimes remaking glasses is the only option. This number should be no higher than 3% to 5% of the number of total prescriptions filled, he said.

In terms of number of vendors, ophthalmologists only have to deal with about five, because each vendor represents about 20 to 25 frame lines, Rienzo said. It is important really to know your customer base, so that you carry frames that they will buy, he said.

"If you look at your business in general and 25% of it is Medicaid and 60% is Medicare, you don't want to have \$10,000 worth of Gucci frames on the wall," Rienzo noted.

Your payroll ratio should be in the range of 20% to 22% of every dollar that you collect. This includes staff salaries, bonuses, and any health benefits you might offer, he continued. Salaries for managing opticians are in the range from \$30,000 to \$45,000 with a 2% to 3% incentive based off of net collections.

"We want the managing optician to keep costs down and keep things in line for a higher net profit," Rienzo said.

"Also, remember the 80/20 rule. Eighty percent of the sales are made on 20% of the frames, so consider who are the customers that are buying the frames and know what they can afford and like," he said.

"You will find that 10 to 15 frame lines are most commonly chosen," Rienzo concluded. "You may have some customers who will insist that you have some high-end frames, so you may want to have a small percentage of those frames on hand."