



# The True Costs of Optical Dispensaries

Steven R. Robinson

*When an eyecare practice explores the idea of dispensing eyeglasses or contact lenses, the first question is usually, "How much will it cost?" But the money you will spend isn't the only aspect to evaluate. Therefore, you must be proactive rather than reactionary in estimating the true cost of opening an optical dispensary.*

There are two strong reasons an ophthalmic practice should consider optical dispensing as a part of its business plan:

- Your patients deserve the best vision attainable.
- As the cost and income lines approach each other on the graph, you will have to be more creative to survive.

### Your Patients' Vision

You may think you already provide your patients the best possible vision. However, when patients come to your practice, it is likely because they believe they will receive significantly better quality eyecare than at a shop located in the mall. Eyewear stores are in business to sell glasses. They often emphasize cost and convenience rather than vision, as shown in some of their advertising slogans: "Finished in One Hour," "Buy One, Get One Free," and "Eye Exam and Two Pairs of Glasses for Only \$49.95."

However, although your practice's main purpose is to ensure the health of your patients' eyes, you perform what most consumers believe is a vast "disservice" by giving your patients a prescription and pointing them on their way. What happens next in some cases is a trip to a chain or so-called discount store, with getting a bargain being number one on the patient's agenda. Often, that patient will show up on your doorstep shortly thereafter complaining about not being able to see. This means that you must now spend additional time with the patient to determine what went wrong. Perhaps the bargain wasn't such a good deal after all; the quality of the lens was poor, a mistake was made filling the prescription, or the frame was too large for the -9.00 diopter lens.

Consider how much time you and the patient have now spent. Is this what either of you bargained

for? Wouldn't the patient have been better off being served at your dispensary by a topnotch optician who complements your method of practice? Then, if a problem does occur, the patient must consult only one rather than two, sometimes conflicting, sources.

### Costs and Income

The 1998 Medicare Fee Schedule contains little to excite those in the ophthalmic profession. To hedge their bets, some practitioners are planning to perform more refractive surgery or offer cosmetic procedures. Others are seriously considering quitting the profession. The potential financial dilemma that awaits us in 1998 is no joke. That's why you must ask whether you can afford not to consider optical dispensing.

So, back to the first question: How much will it cost? In the short term, there is a financial investment. In the long term, it is the same as buying a phacoemulsification unit for cataract surgery. You will make money, your patients will love the convenience and service, and you will know that you have fulfilled the patient's initial desire; that is, the best vision attainable. And, you

achieve this goal without inconvenience and frustration.

There is no magic formula that tells exactly how much to invest and exactly where to spend it. The first thing to consider is where the dispensary will be located. If you don't have enough space available in house, you could rent a site elsewhere. However, that tends to put the patient back into the decision-making process.

Locating your optical dispensary on the premises or next door offers patients ease and convenience, which will motivate them to choose your facility over others. And, in view of the rumblings from the Health Care Financing Administration and Stark legislation, be sure that your dispensary is not set up as a separate company.

### Needed: Quality Personnel

Regardless of the obstacles you may encounter, it is imperative to acquire a first-rate, professional optician. If you don't, you are courting disaster. Your patients deserve the very best care throughout your organization. Find out what opticians are making in your area. In Chicago, it's one price, in Tuskegee, a little less. Make

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sure that your optician is fashion conscious, with an eye for the clientele you serve.

Businesses in the United States are quickly learning that employee "buy in" or ownership is vital to their success. Your employees do not actually have to own a part of the dispensary; they will be glad to own a part of the profits. If the dispensary profits, your employees should profit with it, and they should be able to clearly see the connection.

This approach to pay can be one of the most effective motivators of your dispensary staff. However, make it clear, both verbally and in writing, that employees should never put their personal gains ahead of total patient satisfaction. Let them know that it is considered unacceptable behavior that will have an adverse effect on the entire practice.

### **Inventory**

Nothing is worse than offering a lot of (or a little) inventory that is not interesting to your patients. How much inventory is enough, and how much is too much? Talk to the optician. Visit the competition; mentally count the number of frames they have on display to see what they believe is the proper number.

The only way to buy merchandise is on a price point basis. If 5% of your business is in children's plastic frames, that's where 5% of your inventory should be. If women's metal frames will be 43% of your business, that's where 43% of your inventory should be. This will change over time, but some of your non-competing colleagues or a really good consultant will be able to help you with this problem.

An optician I know bought, at wholesale, \$700 worth of low-end plastic goods thinking that they would be what a particular segment of the population would buy. A little research showed that population

would purchase about two to three frames a month. The upshot? A two-year supply of goods sat on the shelf collecting dust, but not interest.

When you make the decision to dispense, you make decisions about what lines to carry. Don't allow duplication. In time, you will be able to see that line A is responsible for 22% of your business and line B, for 14%, and purchase your inventory display accordingly. Don't let frame representatives persuade you to deviate from this methodology. Remember, they sell frames for a living and often approach negotiations on this basis rather than on what is best for your practice.

plays. Add some track lighting, and you're off to the races.

Many practices enlist the services of professional design companies to help design and furnish the optical dispensary. Professional designers will make a layout of your space and show you how to put the most you can into the least amount of space. Ask them to give you a couple of options, and always use at least two firms.

Another way to get ideas about the layout of the dispensary is to notice how your competition uses space. Ask yourself why they chose a particular layout. Pretend to wait for your spouse, and watch the traf-

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### **Creating Your Space**

After you decide on your inventory, you should determine the costs of furniture, decorations, renovation, and furnishings. These can be elaborate or as modest as prefabricated bookcase/cabinets with doors on the bottom and the shelves removed from the top. You can purchase plastic display articles from an optical furniture firm and mount them on the wall so that the bookcase cabinet "frames" them. If neither option appeals to you, talk to a local cabinet maker. A product called melamine can be used to make some fairly inexpensive, yet attractive dis-

fic. How much do the opticians have to move to service the client? Are things convenient or not? Ask for the input of frame representatives. They can give you insight and the names of successful competitors to check out.

### **In-house Labs**

A major decision you will face is whether to have an in-house lab. I would say no, at least not at first. It is more prudent to take things a step at a time. Find a local or regional lab, and use its services for a while until you get your feet on the ground. If you incorporate too many vari-

ables initially, you will find things very hard to control. If you decide to add an in-house lab later, you can start with an edging facility and work into a surfacing lab.

Before making the commitment to install a lab, make certain to determine how many jobs you would have to complete on a weekly basis to make it profitable. In our case, we need to turn around about 200 jobs per month to break even (or perhaps generate a small profit.) Use caution. If you decide to put in a lab, make sure the person who is going to use the equipment is involved in the purchasing decisions.

### Costs Versus Income

The last two things that you need to know are how much potential business you can expect and how much you should spend. The first is easy to calculate. Assuming you provide good service and have competitive pricing, at least 95% of your patients should buy from your dispensary. Look back at last year's patient visits, calculate the number of prescriptions you wrote; 95% of that number will constitute your potential buyers. If at least 95% of your patients aren't buying from you, you are doing something wrong (e.g., poor staffing or design).

Table 1 shows an example of an expense versus revenue analysis. Al-

**Table 1. Expenses versus revenue.**

	Number of Personnel in Dispensary			
	1	1	2	3
<b>Annual Retail Sales</b>	<b>\$125,000</b>	<b>\$200,000</b>	<b>\$450,000</b>	<b>\$600,000</b>
<b>Start-up Cost Category</b>				
<b>Cost of goods @ 40%</b>	<b>\$50,000</b>	<b>\$80,000</b>	<b>\$180,000</b>	<b>\$240,000</b>
<b>Debt service</b>	<b>10,320</b>	<b>10,320</b>	<b>18,440</b>	<b>23,480</b>
<b>Personnel</b>	<b>45,000</b>	<b>45,000</b>	<b>65,000</b>	<b>88,000</b>
<b>Other direct &amp; indirect costs</b>	<b>12,500</b>	<b>20,000</b>	<b>45,000</b>	<b>60,000</b>
<b>Total Operating Costs</b>	<b>\$117,820</b>	<b>\$155,320</b>	<b>\$308,440</b>	<b>\$411,480</b>
<b>Net Income</b>	<b>\$7,180</b>	<b>\$44,680</b>	<b>\$141,560</b>	<b>\$188,520</b>
<b>Profit Percentage</b>	<b>6</b>	<b>22</b>	<b>31</b>	<b>31</b>

though arguments can be made about the validity of the numbers, the percentages are fairly accurate. Some of the figures are on the expensive side; the rest are variables that take many things into consideration (e.g., location, cost of furnishings).

In Table 1, personnel expense includes optician salary, commissions, benefits, and taxes. The debt service for start-up costs over 5 years is at 10%, and the direct and indirect operating costs are figured as 10% of gross profits (annual retail sales). The profit percentage is derived from net income/gross sales  $\times 100$ . The direct operating costs will largely consist of frames, lenses,

and other goods to be sold. These amounts should be directly proportional to your sales. Indirect costs will be items such as advertising, increased insurance costs, and other variables that would be incurred as a result of opening the optical dispensary but are not related to your practice as it operates presently.

### A Full-Service Practice

A little homework quickly reveals the "twofer chains" don't control the lion's share of the market, as some believe. Rather, the market is controlled by independent optometrists and ophthalmologists. The market is clearly looking to you for guidance, and your patients are looking to you for complete eyecare.

By offering an optical dispensary, you will increase patient satisfaction. I also believe that you will be more fulfilled because your patients are now getting what they desire and deserve; that is, full-service eyecare. You will also meet the final goal of both you and your patients: attaining the best vision possible. æ

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