



# Challenges and Opportunities in the *Future of Independent Optometry*

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# Challenges and Opportunities in the Future of Independent Optometry

## Introduction

This special report, developed by the editors of Review of Optometric Business, presents a strategic SWOT analysis of the current competitive situation faced by independent ODs across the United States. SWOT analysis is a widely used business tool that identifies the key issues a business must confront to remain profitable and to grow.

A SWOT analysis is often a first step in an annual business planning process. The acronym abbreviates the four SWOT components –

**S**trengths

**W**eaknesses

**O**pportunities

**T**hreats

The strengths and weaknesses of a practice are the internal factors under the direct control of the practice which influence performance, while opportunities and threats identify external factors affecting results, usually beyond the direct control of the practice.

A SWOT analysis for an individual OD practice in a specific geographic locale might produce quite different results than one which considers the competitive situation faced by all independent ODs, such as that presented here. Nevertheless, the broad appraisal in this report has value because of the many commonalities in the competitive situation faced by independent ODs across the nation.

This analysis was commissioned by Vision Source®, the leading alliance of independent ODs, with 2,700+ member practices and 5,500+ member doctors in the U.S. and Canada. Vision Source® wanted an objective, independent source to appraise the current market position and future prospects of independent ODs, to provide current and prospective members a factual foundation for planning. The assessments in the analysis are grounded in quantitative market research from reliable sources including Vision Watch, Jobson Research, the Management & Business Academy (MBA) and other sources.

The value of a SWOT analysis is the short list of action priorities and strategies that it produces. Such a list can focus efforts to improve office processes on a manageable set of projects with the greatest potential pay-off. This can lead to a more realistic matching of a practice's resources and capabilities with the competitive environment. This SWOT analysis highlights the reasons so many ODs are joining alliance groups, including Vision Source®, which bolster independents' competitive position.

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## The Independent ODs' Position in the Primary Eyecare Market

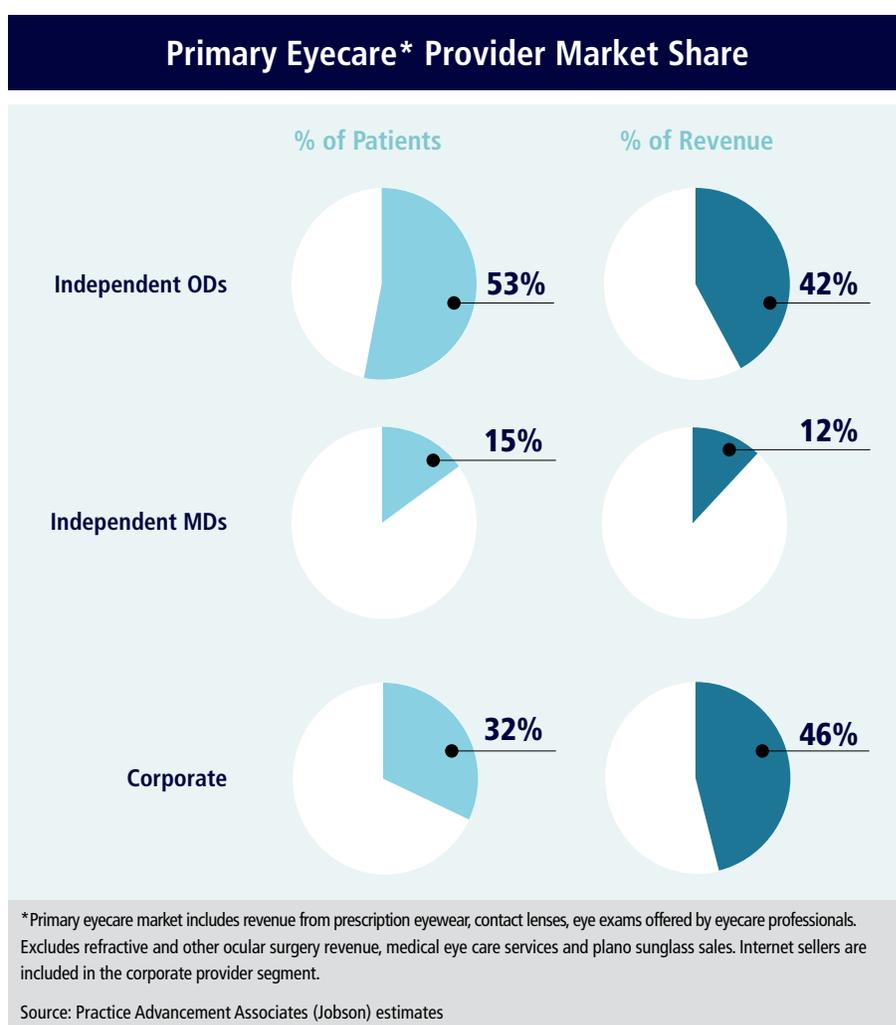
Independent ODs compete in a dynamic retail market, facing-off against some of the most sophisticated retail corporations in the world to capture primary eyecare consumers. Primary eyecare is a huge industry. The 180 million U.S. adults who use vision correction devices spend \$29 billion annually for primary eyecare.

Although professional services are an important revenue contributor for independent ODs, device sales remain the dominant revenue producer in most practices, typically accounting for 55-65 percent of revenue. Independents compete to sell essentially the same range of products offered by giant retail optical corporations – companies which enjoy greater buying power, economies of scale and have greater management sophistication. On the surface, independents' market position would appear to be perilous and unsustainable.

Nearly all independent OD practices are small businesses. They typically operate a single location with less than \$1.5 million in annual revenue and with 12 or fewer employees. Almost none are owned by executives highly trained in business management.

During the last century, small mom-and-pop businesses disappeared in many retail categories (grocers, druggists, clothing stores, bookstores, etc.), squeezed out by multi-unit retail corporations. There was a time when the same consolidation appeared to be unfolding in eyecare. During the 1970s and 1980s, retail optical chains rapidly increased their share of the primary eyecare market. They added thousands of new locations and introduced new dispensing concepts, such as one-hour eyewear, that attracted customers. But then the momentum slowed. Over the past 20 years, the market share growth of retail optical chains has flattened. Independent ODs as a group have not only survived, but many have prospered.

Currently it is estimated that independent ODs (not affiliated with large eyecare corporations or ophthalmology practices) have a 53 percent market share of the primary eyecare patient population and a 42 percent share of primary eyecare revenue. Independent ODs' share of revenue is lower than their share of patients because their capture rate of patients' device purchases is much less than 100 percent. Ophthalmologists hold a 15 percent share of primary eye care consumers. Corporate providers, primarily retail chains, control 32 percent of patients and 46 percent of primary eye care revenue.



There is no on-going national audit of the market share of independent ODs. But the Vision Council's Vision Watch consumer survey measures the market share of all independent primary eyecare providers, most of whom are optometrists. Over the past five years independents have enjoyed small gains in market share of both eyewear and contact lens sales and have maintained their share of eye exams. There is no evidence that the primary eyecare revenue of ophthalmologists has grown faster than that of independent ODs in this timeframe, so it's highly likely that independent ODs have increased their market share.

These results flatly contradict the conventional wisdom that unsophisticated independents, without deep pockets, cannot survive against corporate eye care giants. The reality is that the current competitive climate is not unmanageably threatening for independent ODs. No significant loss of patients or revenue to other brick and mortar retailers is anticipated in the near term.

## Independent ECP Market Share

	2008	2009	2010	2011	2012
Eye Exams	65.1%	67.0%	67.3%	67.5%	68.0%
Eyewear Sales	47.7%	49.0%	49.9%	50.5%	51.0%
Contact Lens Sales	55%	56%	56%	57%	57%

Total Primary EyeCare	50.9%	51.6%	52.7%	53.6%	53.7%
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Sources: VisionWatch for eye exams, eyewear sales and total primary eye care; PAA estimates for contact lens sales, based on industry audits.

## Optical Chain Competition

For decades, Vision Monday has published an annual census of the top 50 U.S. optical retailers. The latest census showed that in 2011 the major optical chains accounted for 29 percent of the primary eyecare market, as estimated by VisionWatch.

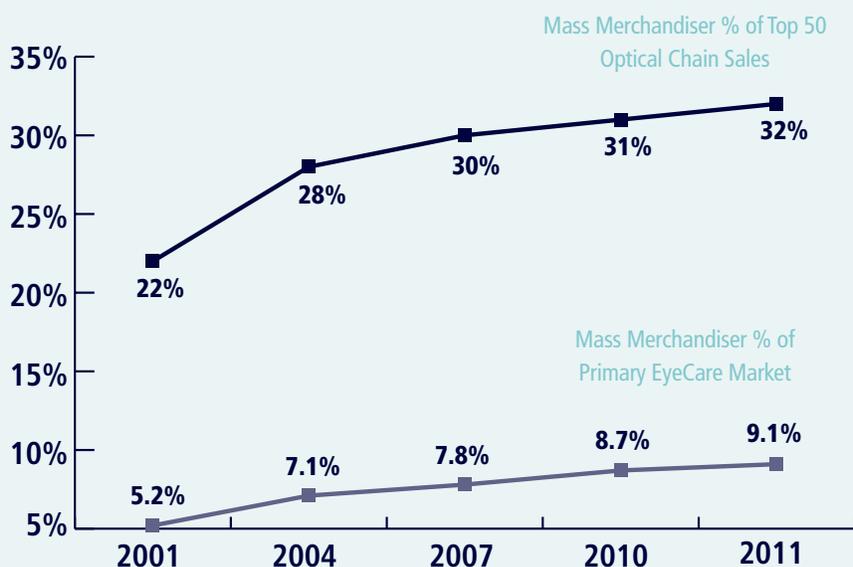
Much of the growth in optical chain sales over the past decade has been among mass merchandisers, primarily Walmart and Costco. Since 2001, the mass merchandisers have grown from just over one fifth of optical chain sales to nearly one third. Big box retailers have become the chain optical format with the largest share of revenue. During the second half of the last decade, mass

merchandise growth slowed, primarily because Walmart slowed its openings of new optical locations.

In 2011, mass merchandisers accounted for 9 percent of the primary eyecare market. If current growth rates persist, mass merchandiser optical departments will control about 12 percent of the primary eyecare market in 2020.

Some independent ODs obsess over big box optical retailers, viewing them as unfair competition and the ultimate destroyers of independent optometry's profitability. That assessment is clearly overwrought.

## Mass Merchandiser Primary Eyecare Market Share



Sources: Vision Monday Top 50 U.S. Optical Retailers, Vision Watch

Although optical chains do not pose a significant threat to the survival of independent optometry, achieving strong growth in today's primary eyecare market remains a challenge.

An analysis of demand drivers through the end of the current decade suggests that the overall primary eye care market will grow slowly. Vision Watch data show that the U.S. adult vision correction population is growing just 0.9 percent annually. Refractive surgery is removing nearly half a million patients annually from the vision correction population. Total primary eye care revenue is growing just 1.5 percent a year. That means that independent ODs, even with modest share growth, can expect revenue growth of less than 2 percent a year from market demand alone. To accelerate practice growth, it's necessary for independents to stimulate higher demand among current patients, as will be discussed in the "Opportunities" section.

Managed vision care has steadily grown in recent decades and now accounts for over 70 percent of revenue among independent ODs. It's a rare practice which does not rely on third-party payments to keep the lights on and the staff paid. An American Optometric Association member survey indicates that 80 percent of OD patients are covered by a managed vision care plan. New federal healthcare programs are likely to expand the number of people with vision benefits.

Insurance companies mandate professional fees and limit reimbursements for corrective devices, shrinking the pricing latitude of independents and reducing average revenue per patient. "Managing managed care" has become a critical activity in most practices and the importance of this activity is unlikely to diminish.

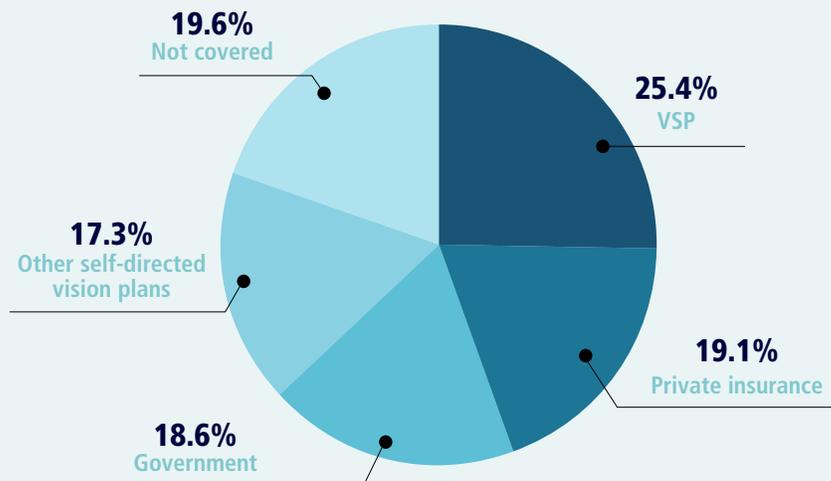
Demographic trends are impacting the vision care market. The aging of the huge Baby Boom generation is the most important phenomenon currently unfolding. U.S. Census Bureau projections show that the fastest growing population segment through 2020 will be people over 55 years of age.

The rapid growth of the over 55 population will mean accelerating demand for medical eyecare services including treatment for dry eye, glaucoma, cataracts, diabetes and macular degeneration. The increased demand for ocular therapies, coupled with a stable number of ophthalmologists in the U.S., makes it unlikely that optometrists will witness significant new encroachment by MDs into primary eye care market for corrective devices.

The aging population will also cause a gradual increase in the market share of vision devices that correct presbyopia. Prescribing eyewear and contact lenses to correct presbyopia will be a larger part of the daily activity of independent ODs over the next two decades.

Over the past 40 years, there has been a steady rise in the percentage of people in the vision correction population who wear contact lenses, a trend which continues today. VisionWatch estimates that 16 percent of adults currently wear contact lenses. By 2020, it's likely that 19 percent of adults will wear contact lenses. The growing penetration of contacts has been a good thing for primary eye care providers because contact lens patients make more frequent visits, pay higher fees and make more frequent purchases.

## % of OD Patients Covered by Managed Care Plans: 2011



Source: American Optometric Association

## 2010-2020 % Change in U.S. Population by Age



Source: U.S. Census Bureau

# S.W.O.T. Analysis

As you examine the SWOT analysis for independent optometry that follows, keep in mind that every practice is unique. Not all practices share the same strengths, weaknesses, opportunities and strengths. As you digest the overall assessments, compare your own situation to the median OD practice situation described here.

Remember that for virtually every practice metric, there is a performance bell curve. To help you identify improvement priorities, it's useful to assess your position on the bell curve for every important performance metric. The MBA website ([www.mba-ce.com](http://www.mba-ce.com)) provides the most comprehensive set of national norms available to assist independent ODs in performance assessment.

## Independent OD | STRENGTHS

This section discusses the principal competitive advantages of independent ODs as a provider segment. To improve competitive position, independents must continuously reinforce these major competitive strengths.

### 1. Enduring patient relationships

Without a doubt, the most important competitive strength independent OD practices have is the depth of patient relationships. Surveys consistently show a higher patient loyalty to independents than to corporate affiliated ODs. Independent ODs' loyalty advantage has been measured in many ways. It manifests itself as a higher overall satisfaction rating, greater likelihood to return for the next eye exam and greater likelihood to recommend the practice to others.

Frequency of patient referrals is a reliable indicator of both service quality and patient loyalty. Surveys show that typical independent ODs derive half of their new patients from referrals from current patients. Corporate affiliated ODs obtain a lower proportion of new patients from this source.

Can the economic value of patient loyalty be measured? It can. Studies across many industries show that loyal customers buy more, buy more frequently, are more profitable and require less marketing expense. Strong relationships with patients translate to profits. And creating strong patient loyalty insulates independents from inroads by commercial providers more effectively than any other business strategy.

Qualitative research suggests that the patient loyalty advantage independents enjoy is built on a continuity of care and a greater personalization of service than can be obtained from typical corporate providers.

Typical independent ODs have been in practice for 20 years and retain a high percentage of patients from year to year. Price is usually a secondary consideration to patients of independent ODs. In corporate settings, a higher percentage of patients are new each year, many attracted by price

promotions. The average longevity of corporate affiliated ODs is lower.

As in any retail business, patients prefer to deal with providers who develop an understanding of their individual needs and can translate this into advice that improves daily life. Patients value a personal connection with the people in the practice, which persists over many years. The depth of patient relationships that many independent ODs enjoy translates to an ability to command a modest retail pricing premium relative to corporate providers.

Although patients of independent ODs are more loyal on average, that is not the case in every practice. Some practices make only token efforts to personalize service and build relationships.

### Patient Assessments of Independent and Corporate Affiliated ECPs

(% of patients)

	Location of Most Recent Eye Exam	
	Independent ECP	Chain
Overall satisfaction with eye exam experience (% extremely satisfied)	58%	45%
Likelihood to return to same place for next eye exam (% extremely likely)	71%	53%
Likelihood to recommend eye doctor to friend or relative (% extremely likely)	61%	39%

Sources: Jobson Optical Research "2012 Adult Consumer Eye Exam Experience and 2009 "Consumer Eye Exam Study." A recent Bain & Company study conducted for VSP, titled "The Future of Independent Optometry," confirms the greater likelihood of patients of independent ECPs to recommend their eye doctor for eye exams to friends and relatives. But patients of independents are much less likely to recommend independent ODs for materials purchases.

If you ask independent ODs to rate their service, 97 percent will tell you that their patient service is "above average." This illustrates the "Lake Wobegon Effect" – a human bias to overrate abilities and performance, named after humorist Garrison Keillor's fictional Minnesota hometown, where "all the

women are strong, all the men are good looking, and all the children are above average.”

The universal self-congratulation among ODs can lead to complacency and a tendency in some offices to put the practice’s interests ahead of patient interests. Very few practices make consistent delivery of exceptional patient experiences their top priority and few monitor their service performance. Although many independent ODs enjoy a loyalty advantage, most could productively devote much more attention to strengthen this competitive edge.

## 2. Early technology adoption

Eyecare is an industry characterized by very rapid technological advances. There are high rates of new product introductions and correspondingly high rates of product obsolescence. This makes the rate of technology adoption an important source of competitive advantage or disadvantage.

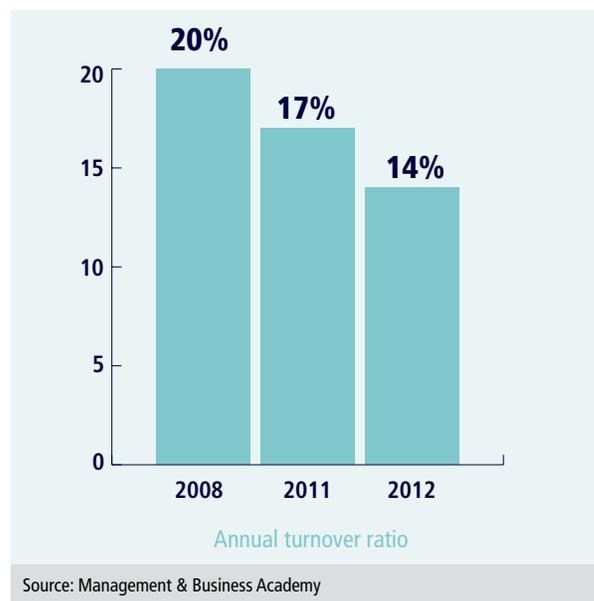
Independent ODs tend to adopt new diagnostic instrumentation earlier than do corporate affiliated ODs, because independents control decision making on instrument purchases. Independents also tend to be earlier adopters of new spectacle lens and contact lens technology.

Early technology adoption enhances patient loyalty. It conveys that a practice is state-of-the-art, that the quality of the medical care is high and that no better solution to vision needs could be found anywhere else.

## 3. Low staff turnover

In most eyecare settings, much of the human interaction occurs between patients and support staff, and patient loyalty is heavily influenced by the quality of these interactions. An important competitive advantage many independents have is relatively low staff turnover. Staff longevity translates to greater clinical and product knowledge and a better ability to serve patients.

## Independent OD Annual Staff Turnover



MBA surveys peg current average annual staff turnover among independent ODs at 14 percent -- about one-in-seven staff members leave during a typical year. In some corporate eyecare settings, annual staff turnover is 35-40 percent. Weaker economic conditions over the past several years have apparently reduced staff turnover among independent ODs.

## 4. Community involvement

Many independent ODs are engaged in community activities and organizations. The visibility that this involvement creates enhances their reputations and builds loyalty among patients. It’s more difficult for corporate affiliated ODs to translate community involvement into business reputation because the image of the practice is so heavily influenced by the image of the retail corporation.

## Strategy Implications of Independent ODs’ Strengths

To reinforce the primary competitive strengths of independent ODs, the following are recommended strategic priorities for independent ODs:

### Personalize the patient experience

Pursuing a personalized service strategy will improve a practice’s value proposition and take price out of the discussion with patients. It will minimize defection to other providers, increase referrals and increase revenue per patient visit. One service consultant recently labeled this business strategy as “out-loving the competition.” Optical chains and Internet providers have a hard time competing against a well executed service strategy. An independent practice which makes no ongoing effort to personalize patient experiences is vulnerable to the convenience and price advantages of corporate providers.

### Focus on staff loyalty

When you ask ODs about their major business challenges, the largest number will cite managing staff. Many OD owners characterize their relationships with staff as “you can’t live with ‘em and you can’t live without ‘em.” ODs struggle to gain alignment of staff behavior and practice goals and standards.

Attention to staff leadership is critical to keep staff turnover low and engagement high. Service experts unanimously agree that strong customer

loyalty never develops unless bosses make an effort to build strong employee loyalty. Staff will treat patients well only if they are treated well. Among the basic requirements to build staff loyalty:

- Define and continuously reinforce a practice mission that elevates work above completion of functional tasks.
- Communicate quantitative goals and achievements to staff
- Engage staff in process improvements; give staff a role in designing work processes
- Provide continuous feedback on individual performance
- Never tolerate staff behavior inconsistent with practice mission
- Weed out poor performers
- Insist on continuous improvement
- Match talents to duties
- Understand personal aspirations
- Provide personal growth opportunities

### Remain at the leading edge of technology

Independent ODs profit when they remain alert to new technology developments in instrumentation, digital communications and corrective devices. Prescribing the latest correction technologies is an evergreen opportunity to tailor treatment plans to individual needs and to increase patient satisfaction and revenue per exam.

## Independent OD | WEAKNESSES

This section discusses the principal competitive weaknesses of independent ODs. To enhance competitive position, independents must address weaknesses.

### 1. Insufficient management discipline and sophistication

Independent ODs spend years learning to be clinical technicians and most are highly proficient in the medical aspects of practice. But few receive much education about running a small business, which is just as important to success.

Many ODs do not apply even the most rudimentary business management techniques to run their practices. For example, only about one-in-four

practices has a written annual budget and one-in-five has a current marketing plan.

Typical ODs spend approximately 85 percent of their time in the exam room, providing patient care. Less than 5 percent of time is typically spent in business analysis and planning. Most ODs spend nearly all their time working in the business, not on it. That undermines performance.

Small business management education is readily available. It's not always helpful, because some of it fails to translate general theory into practical solutions in an eyecare setting. But there is a growing body of useful information available to guide independent ODs in practice management, including instructional materials and seminars from OD alliances such as Vision Source. As small businesses, independent ODs have had difficulty training staff in administrative techniques, customer service skills and basic clinical knowledge, lacking curriculum materials and a cost-effective way to conduct training sessions. Some OD alliances, like Vision Source, provide help.

### 2. Ineffective eyewear merchandising

VisionWatch reports that in 2012 independent ECPs conducted 68.0 percent of the eye exams performed in the U.S., but sold just 43.7 percent of frames pairs. That suggests that one-in-three eyeglass patients of independent ECPs takes their prescription to another provider to be filled. Said another way, the average frames capture rate is just 64 percent of the frame purchases of patients of independent ECPs.

Translating this to an individual practice with \$750,000 annual gross

### Independent OD Management Technique Adoption (% of ODs)

Have written staff job descriptions	<b>58%</b>
Have quantified revenue/net income goals	<b>50%</b>
Calculate revenue per exam monthly	<b>36%</b>
Discussed practice mission with staff during past quarter	<b>29%</b>
Have written practice budget	<b>27%</b>
Developed current year marketing plan	<b>19%</b>

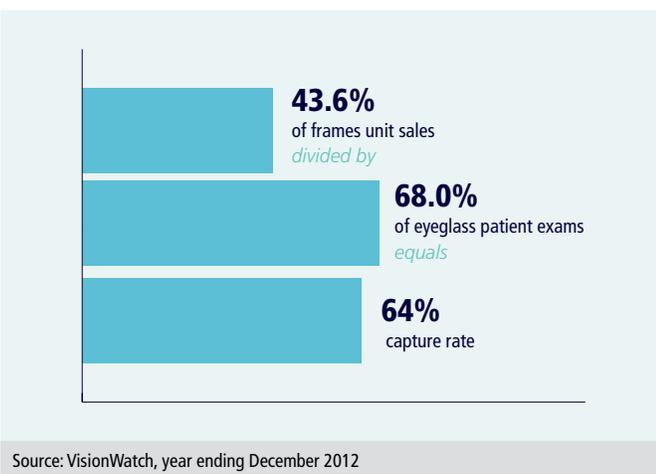
Source: Management & Business Academy 2012 Practice Profile survey

revenue, a 64 percent capture rate would mean that \$160,000 of eyewear revenue walks out the door each year. That typical loss may seem impossibly high. It's largely invisible, but it's real.

One of the major reasons patients of independent ODs take their eyewear prescription elsewhere is inadequate eyewear merchandising by independent ODs. When frames are haphazardly displayed or when selection is limited, patients can conclude that selling eyewear is not a specialty or priority of the practice. Patients then decide they are more likely to find their ideal pair of glasses somewhere else.

Many practice owners have little interest in the optical dispensary and totally delegate management of the department to an optician or office manager. This is all too common despite the fact that the dispensary

### Independent ECP Eyewear Capture Rate



generates 45 percent of revenue and profits and is actually the major business of the practice.

Inadequate attention to eyewear merchandising plays right into the hands of the optical chains. These retailers make eyewear merchandising their top priority and devote much of their office square footage to eyewear display. They know that the principal reason customers come to their stores is to enhance their personal appearance with attractive eyewear. That's the same reason most patients go to independent OD offices as well, but not all practices choose to recognize that.

### 3. Less buying power/higher retail prices

Large optical chains are able to negotiate lower prices from eyewear and contact lens manufacturers, which can be passed on to consumers in lower retail prices. While this is not a fatal weakness for independents, it's a fact that lower price is a leading reason consumers select chains for eye care.

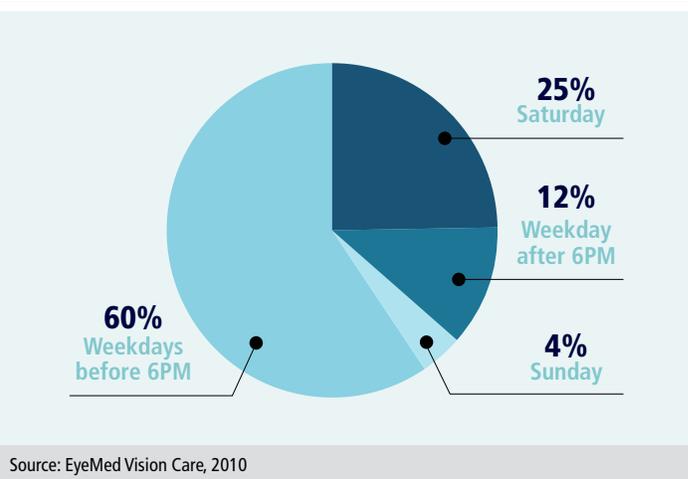
Cost-of-goods expense accounts for 30 percent of gross revenue in typical

independent OD practices. It's incumbent on independents to be diligent to lower cost-of-goods to keep retail prices at a modest premium to chain prices and remain competitive. Discounts negotiated by OD alliances alleviate this competitive weakness.

### 4. Less convenient office hours

A 2010 consumer survey sponsored by EyeMed revealed that 40 percent of consumers who are in the market for vision correction services prefer

### Consumer Preference for Visit Times at Optical Locations



weekend or evening hours over nine-to-five workday hours. Twenty-five percent of eye care consumers said they preferred Saturday hours, 12 percent evening hours and 4 percent Sunday hours.

Independent OD offices are open for business an average of 44 hours weekly. About half are open Saturday mornings, and 44 percent are open in the early evening on one or more days a week. By contrast, virtually all optical chain locations are open Saturdays and many on Sundays. Many chains are open during the week until 9-10PM every night. The big box retailers and chain optical locations in busy retail areas are usually open for business 70-80 hours weekly. The restricted office hours of some independent OD offices is a competitive

### Independent OD Office Hours

Weekly hours open (average)	<b>44</b>
% open Saturday	<b>57%</b>
% open one or more evenings	<b>56%</b>
% open Sunday	<b>2%</b>

Source: Management & Business Academy "Office Hours Survey," 2009

weakness that results in some patients seeking chain optical locations with more convenient hours.

## 5. Lack of business transition planning

Many OD practice owners view their business as their job – a place where they can use their technical knowledge to earn a comfortable living. They do not perceive their practice as an entity separate from themselves that has a market value that must be continuously managed. Until late in their careers and facing retirement, many OD owners give little thought to an exit strategy or the market value of their practice. By then it's usually too late to increase practice equity significantly in the time remaining.

A lack of focus on transition planning and practice equity can become a competitive weakness. It has many consequences:

- Inattention to investments to keep facilities and technology current
- Inattention to budgeting and annual business planning to assure steady revenue growth and strong profitability that will be attractive to a potential buyer.
- Avoidance of expanding staff or adding Associate ODs to maintain growth and assure continuity during a transition.

Firms engaged in brokering optometric practices report that valuations are declining. This is occurring because many practices being sold are stagnant from a lack of investment, because the return on investment in an OD practice is often not competitive with alternative investments and because few OD graduates can afford to or desire to acquire an established practice.

## Strategy Implications of Independent ODs' Weaknesses

To eliminate or reduce the primary competitive weaknesses of independent ODs, the following best practices should be pursued:

### Set aside time for management

Time management is a critical skill for any business owner. Owners must fight the natural tendency to spend a lot of time dealing with urgent matters that are unimportant to long term success, and to spend too little time on important issues that can be dealt with later.

Business analysis, planning and oversight are among the things competing for an OD's attention which are critically important. But these activities are not brush fires that demand immediate attention. Lacking urgency, these critical activities are often postponed or given token attention.

To assure that time is spent on managing, hours should be blocked off the appointment calendar each week, when no patients will be seen. Some consultants recommend that 20 percent of an owner's working hours be spent on management.

An effective way for ODs to learn practice management strategies and techniques is through sharing of best practices with colleagues, which OD alliances such as Vision Source foster.

### Personally direct dispensary operations

It's a mistake to totally delegate management of the leading profit center of the practice. Owners who devote personal attention to the eyewear product mix, frames inventory management, eyewear retail pricing and dispensary displays can neutralize the competitive advantage that retail optical chains now have as eyewear merchants.

### Offer convenient hours

Every independent practice should offer some hours on Saturday and evenings to accommodate patients whose schedules make it convenient to visit the office during normal weekday business hours.

## Independent OD | OPPORTUNITIES

This section presents the leading business growth opportunities most independent ODs have.

### 1. Expand medical eyecare services

Expanding the scope of optometric practice is an effective way to increase revenue and deepen patient loyalty. It is also a way to differentiate a practice from optical chains, which are less engaged in medical eyecare. Independent ODs are slowly embracing this growth opportunity.

Although interest in expanding medical eyecare services is high among independent ODs, today only a minority of ODs are fully engaged in medical eyecare. Currently in typical practices, medical eyecare accounts for 15-20 percent of patient visits and practice revenue.

Rapid growth in the number of OD prescriptions for ophthalmic pharmaceuticals suggests that medical eyecare's share of OD revenue is growing. But the fact remains that most practices have only scratched

the surface of the medical eyecare opportunity. For example, only a small number of OD patients who suffer from ocular allergies and dry eye are diagnosed or receive therapy. And many ODs continue to refer glaucoma patients to other medical professionals.

## Medical Eyecare in Independent OD Practices

Median % of annual patient visits	<b>18%</b>
Median % of practice revenue	<b>15%</b>
Medical eye care visits per 1,000 active patients	<b>73</b>
Pharmaceutical Rxes per 1,000 active patients	<b>53</b>

Source: Management & Business Academy

Consultants indicate that many ODs do not have office processes in place to collect revenue from medical eyecare services, particularly if provided during the course of a refractive exam.

A growing number of ODs derive 30 percent or more of revenue from medical eyecare and that proportion is within the reach of most, with no dilution of revenue from refractive services and materials sales. A practice grossing \$750,000 annually which increases medical eyecare revenue from 15 to 30 percent of total revenue would enjoy annual revenue growth of \$160,700.

## 2. Increase revenue per patient

At some level, independent ODs compete with every other merchant in town for a share of consumer spending. Most patients have discretionary income; few have inflexible budgets. People use discretionary funds to buy what they value most. They can choose to buy the latest iPad or a great pair of designer eyeglasses. Eyecare is a small part of household budgets. Per capita spending for primary eye care is just \$88 annually, compared to \$1,014 for entertainment, \$596 for household furnishings and \$684 for apparel.

Eyecare spending is expandable when patients understand the value of the products ODs recommend. Many independent ODs prove it every

## Consumer Annual Per Capita Spending

Primary eyecare	<b>\$88</b>
Household furnishings	<b>\$596</b>
Apparel	<b>\$684</b>
Entertainment	<b>\$1,014</b>

Sources: 2011 U.S. Bureau of Labor Statistics "Consumer Expenditure Survey;" Vision Watch

day in their practices. Production benchmarks for independent ODs indicate median gross revenue per exam of \$306 and median revenue per eyewear sale of \$227. At the 75th performance percentile, gross revenue per exam is \$371, and revenue per eyewear sale is \$288. It's feasible for any OD to achieve the 75th percentile production level and enjoy large revenue increases.

The low median production levels reflect the fact that many ODs adopt a passive approach to selling corrective devices and worry that patients can't afford the best solutions. Most ODs capture only a portion of the eyewear and contact lens demand that exists within their patient bases. They make too little effort to educate patients about the performance advantages of the latest technology products, ignoring the fact that most patients will never ask about these new products because they don't know they exist. Managed care allowances and restrictions are also allowed to depress revenue per patient metrics.

## Independent OD Revenue Production Benchmarks

	Median Practice	75th Percentile Performance	% Increase
Gross revenue per exam	<b>\$306</b>	<b>\$371</b>	<b>+21%</b>
Revenue per eyewear sale	<b>\$227</b>	<b>\$288</b>	<b>+27%</b>

Source: Management & Business Academy

## 3. Increase frequency of patient eye exams

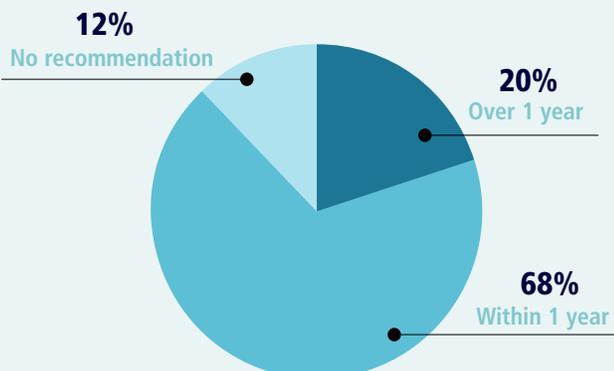
Retail corporations know there are just three ways to increase revenue: attract new customers, sell more to each customer or have customers buy more frequently. Attracting new customers is the riskiest and most expensive growth strategy, usually with the lowest return on investment. Many independent OD practices pay too little attention to the third growth strategy -- increasing the frequency of patient visits.

Let's look at the opportunity to increase the frequency of patient visits in more detail. Sixty-eight percent of consumers report that their independent ECP recommended that they return for their next eye exam within one year. Other surveys confirm that ODs recommend yearly exams for most patients.

But despite ECP recommendations, typical patients have eye exams half as often as recommended -- every two years, not every year. Compliance with exam frequency recommendations is low because many ECPs make only token efforts to encourage patients to come back after 12 months. In some offices recall is not emphasized because the appointment calendar is booked weeks in advance and there appears to be no capacity to increase the number of exams performed.

## Independent ECP Timing Recommendations for Next Eye Exam

(% of patients receiving recommendation)



Source: Jobson Optical Research "2012 Adult Consumer Eye Exam Experience"

In reality, typical independent ODs perform just one eye exam per working hour. That ratio hasn't changed over the past 20 years. A great majority of OD offices have excess capacity that could be filled by increasing the exam frequency among existing patients.

Many practices do not devote enough attention to recall. Management & Business Academy surveys show that in typical practices, performing 45 eye exams a week, staff spends just two hours a week on recall activities. That translates to a staff time cost for recall activities of just 78¢ for each exam performed. That represents less than 1 percent of the median revenue generated by an eye exam.

## 4. Increase contact lens penetration

Most independent ODs adopt a passive approach to contact lens discussion with eyeglass wearers – a deficient process which could be called "don't ask, don't tell." Unless a patient initiates a conversation about contact lenses, there is no discussion.

The financial rationale for increasing contact lens penetration flows from the fact that contact lens patients, on average, generate higher revenue annually. Most independent ODs think they make more money from selling eyeglasses. And they do if the frame of reference is an individual transaction. But over the long term contact lens patients generate more because they have more frequent eye exams, pay higher exam fees, purchase more frequently and also purchase eyeglasses.

## 5. Network with other independent ODs

The English poet John Donne wrote that "No man is an island." He must never have run a small business. It's difficult for isolated, small entrepreneurs to achieve a global perspective of their business or to learn from the trial-and-error experience of peers. Historically, independent ODs had difficulty creating peer groups to share best practices. Today the situation has changed. Alliances such as Vision Source greatly remove the isolation of independent ODs, providing on-going opportunities to interact with peers and share growth ideas. This networking opportunity greatly reduces the advantage in management sophistication of the corporate eyecare providers.

## Strategy Implications of Independent ODs' Opportunities

### Increase marketing of medical eyecare services

Medical eyecare revenue remains undeveloped in many practices because patients aren't aware these services are available. Here are steps to increase medical eyecare revenue:

- Review the practice website homepage and practice brochures to determine if sufficient space is devoted to medical eyecare marketing.
- Develop a standard process to identify candidates for medical eyecare services.
- Educate staff to discuss medical eyecare benefits with patients.
- Put in place processes to assure legal and accurate claims filing and timely reimbursement

### Establish revenue-per-patient goals

Because patient demand for eye care products is expandable through education, nearly every practice has an opportunity to increase revenue per patient. Here's a recommended process:

- Start by assessing current performance. Divide last year's annual revenue by the number of exams performed. Compare that number to industry norms.
- Calculate revenue generated by third-party eye exam visits compared to private-pay patient visits.
- Next, establish 3-month, 6-month, 9-month and 12-month improvement goals for both third-party and private-pay patients.

- Dig deeper to understand the opportunities to increase the product sales mix, raises prices and fees or gain multiple device sales.
- With staff input, pick a few specific revenue increase ideas to focus on initially. Agree on the concrete process changes that will change results.
- Adopt office processes that position vision benefits to patients as a valuable contribution to eye care costs, not as payment in full.

### Upgrade recall process

Reducing the average elapsed months between patient eye exams by just two months increases revenue by 9 percent in typical practices. There are few marketing activities that yield as large a return per dollar invested as patient recall.

To improve recall success it's effective to appoint a staff member to be responsible for recall, to make personal contact with each patient after a year has elapsed to confirm an appointment and to measure recall performance. Pre-appointment is proven to be a more effective method than a recall mailing.

### Offer free contact lens trial to all teen and young adult glasses wearers

Strategies to increase contact lens penetration include:

- Showcase the practice's expertise in fitting contact lenses on the practice website and in other marketing materials
- Ask every teen and young adult glasses wearer: "Are there times when you would rather not wear your glasses?"
- Make trial easy. Ask for no long term commitment or large investment to try.

## Independent OD | THREATS

This section presents the leading external threats independent ODs face:

### 1. Internet sellers

Currently it's estimated that 8 percent of all U.S. retail sales are made on the Internet, a market share that is increasing rapidly. The rising penetration of smart phones and e-tablets will only accelerate the trend. Across every consumer product category, the Internet brings a greater pricing transparency.

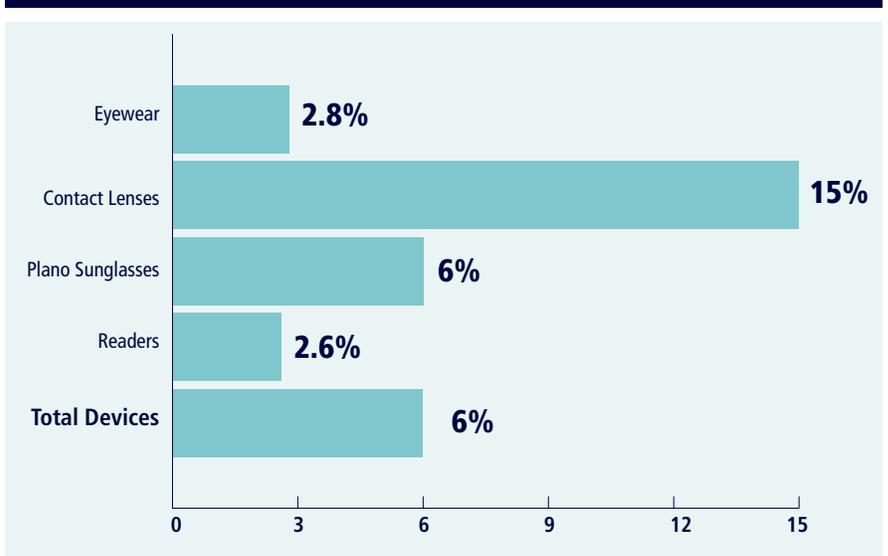
The recent upsurge in activity by low-cost, Internet-based eyewear retailers raises the specter of significant revenue loss for independent ODs. In theory, Internet eyewear sellers provide an even greater threat than Internet contact lens companies, because eyewear sales are typically three times larger than contact lens sales in independent OD practices.

A recent VisionWatch study indicates that 16 percent of consumers use the Internet during some phase of their eyewear purchase process. The greatest number of eyewear buyers uses the Internet to check prices and scout out frames designs before visiting their practitioner. When researching eyewear products, consumers are most likely to visit the websites of major optical chains. And the segment of consumers who patronize optical chains is more likely to use the Internet during an eyewear purchase than are patients of independent ECPs.

The Vision Watch study estimates that just under 3 percent of eyewear buyers actually purchase eyewear from Internet suppliers. Most online eyewear buyers are satisfied with the experience. However, the overwhelming majority of buyers continue to prefer to try-on eyewear before purchase and to get trusted advice from trained professionals about what looks and works best.

Demographic groups most likely to purchase eyewear online include males, people under 35, and higher income, better educated people. Young

**Internet Seller Share of Optical Device Sales: 2012**  
(% of revenue)



Sources: VisionWatch "2012 Internet Influence Report" and Practice Advancement Associate estimates

consumers are much more Internet-engaged, indicating the direction of all retailing. Internet eyewear purchases will continue to grow, as will use of the Internet to obtain pricing and product information. But over the next five years, Internet eyewear sellers will not seriously threaten the competitive position of independent ODs.

Internet sellers have already had a larger impact in the contact lens market. As branded package goods, soft contact lenses are better suited to Internet sales and distribution than are made-to-order eyeglasses. Internet contact lens sales grew rapidly during the 1990's, but leveled after the Internet companies began to verify prescriptions before shipping lenses. Currently Internet providers control about 15 percent of the soft contact lens business. Just as with eyewear, consumers use the Internet to compare contact lens pricing.

The recent move by Walmart to sever its relationship with the leading Internet contact lens provider (1-800-Contacts, now owned by WellPoint) could change both companies' pricing and marketing strategies. Stay tuned.

## 2. New refractive technologies

On the horizon are technologies which could perform adequate refractions online, potentially eliminating the need for patients needing correction to visit a practitioner's office to obtain an eyeglass prescription. That could be a game changer. This represents a threat of uncertain consequences for which no immediate response can be adequately formulated.

## 3. Managed Care

Over the past several decades, independent ODs have become increasingly dependent on third-party payers, including vision plans, medical insurers and government programs. Currently it's estimated that third-party sources account for two-thirds of OD revenue overall, and a somewhat higher percentage among independent ODs. Most independents have successfully accommodated the increased pervasiveness of managed vision care. But the landscape is about to change dramatically.

### OD Revenue from Third-Party Sources: 2011

Vision plans	31%
Private medical insurance	17%
Government	17%
Other	2%
<b>Total third-party</b>	<b>67%</b>
<b>Direct patient payment</b>	<b>33%</b>

Source: American Optometric Association, 2012 Survey of Optometric Practice

The 2010 Affordable Care Act, which starts to be implemented in 2014, and rapid growth in Medicare enrollment pose new threats of patient loss and lower revenue per patient visit, if independent ODs are unprepared to cope with new healthcare realities.

Beginning in 2014, companies with 50 or more employees will face the

choice of continuing current health benefits or discontinuing benefits and paying a penalty to the federal government for each uncovered employee. When an employer discontinues coverage, an employee will be able to purchase their own coverage via a newly created insurance exchange in their home state. Estimates of the percentage of the currently insured population who will lose employer funded coverage range from 8-20 percent, or 12-30 million people. As some employers drop medical insurance benefits, they are likely to simultaneously drop vision benefits.

Among companies which continue to subsidize employee medical insurance, the continuing rise in medical insurance premiums will pressure employers to contain or reduce employee health benefit outlays. Some may choose to discontinue vision benefits or reduce their contribution. This could reduce the number of patients with vision insurance coverage.

The likely decline in the percentage of patients enrolled in vision plans has important consequences. Loss of coverage will roil the eyecare marketplace, causing a segment of previously-covered patients to seek new providers to contain outlays. Lost vision benefits also have the potential to reduce the frequency of visits to OD offices.

The Affordable Care Act will cause a large increase in the population eligible for Medicaid benefits. In 2009, 15 percent of the population, or 48 million people, were covered by Medicaid. This number is projected to increase by 16 million people (another 5 percent of the population) under the more liberal eligibility requirements. Depending on practice location, this could cause a surge in the number of patients with vision benefits.

Aging Baby Boomers will produce rapid growth in Medicare enrollment in the years immediately ahead. Currently there are 51 million Medicare beneficiaries (16 percent of the total population). Medicare beneficiaries will rise to 61 million in 2020 (19 percent of population) and to 70 million in 2025 (21 percent of population).

In 2012, 13 million Medicare beneficiaries, or 27 percent of total beneficiaries, were enrolled in Medicare Advantage programs, providing a supplement to their government-funded Medicare coverage. Enrollment is increasing 10 percent annually. These programs are run by large insurers including United Healthcare, Blue Cross/Blue Shield, Humana, Kaiser Permanente, Aetna, Wellpoint and others. When such companies include vision benefits in their plans, they construct provider panels and dictate reimbursements. They rigorously seek to contain costs to maintain profitability. These giant companies will become increasingly influential in eyecare as the enrolled population mounts.

Baby Boomers with chronic conditions such as diabetes and glaucoma will increasingly rely on optometrists for ongoing monitoring of their ocular health. This will occur as Primary Care Physicians (PCPs) refer patients for routine testing. The Affordable Care Act will accelerate the trend of PCPs abandoning solo practices to become employees in very large group

practices or in hospital-owned networks. This will erode many long-standing referral arrangements between individual PCPs and ODs, as large MD groups seek arrangements with OD provider panels that can service a wide geographic area with consistently high standards.

What's do these changes in the health care landscape mean to independent ODs? Here are some reasonable predictions:

- A higher percentage of patients will have vision benefits, increasingly through government programs and medical insurers, and a lower number with traditional vision plans.
- The federal government's control over eligibility requirements and reimbursement rates will grow.
- There will be increasing pressure on government and private insurers to contain health care costs, including vision care.
- The average reimbursement for managed vision care patients will decline.
- Provider reporting requirements to payers will increase.

## Strategy Implications of Independent ODs' Threats

### Internet sellers

A current assessment is that Internet sales of eyewear will not pose of significant threat to independent ODs in the near term. By 2020, it's unlikely that Internet sellers will capture more than 6-7 percent of the eyewear market. Optical chains seem more vulnerable to inroads by Internet sellers. Chains are likely to be active defenders of their turf by launching and refining their own Internet initiatives. For independents it means patients are likely to be increasingly aware of eyewear prices in the future.

Internet sales of contact lenses are likely to continue to increase, and price awareness among contact lens wearers is likely to grow. The best defense against Internet sellers is to use manufacturer rebates to encourage annual supply purchases. Independents are also able to offer online contact lens reordering in response to Internet sellers, neutralizing the convenience advantage these companies offer.

### Managed care

To successfully cope with the major changes in the managed vision care environment, independent ODs must:

- Align with OD networks such as Vision Source, which have staff resources to negotiate with large insurers and with local PCP groups to assure accreditation of members, to structure referral arrangements and to aid members with claims management.
- Delegate testing and administrative duties to staff to the full extent possible.
- Lower business costs to preserve profitability in the face of declining reimbursements.
- Re-structure office processes to maximize revenue from each managed care patient.

## High-Probability Predictions for the Future of Independent Optometry

The editors of Review of Optometric Business are bullish about the future of independent optometry, even as the business environment continues to evolve and to pose new challenges. In the years ahead, the rewards will go to practice owners who are aggressive investors, not to defensive protectors of their practices. Here are some high-probability predictions about the future of independent practice:

**Fast pace of technology** The pace of technological advances in eyecare will remain rapid, forcing practitioners to keep current to remain competitive.

**More third-party, greater accountability** There will be a greater dependence on third-party payers, and greater reporting requirements on the outcomes of treatments. Adopting EHR will soon be a mandatory to meet government requirements and assure reimbursements.

**More medical model** The share of practice revenue from medical eyecare will gradually increase, but dispensing corrective devices will remain the mainstay of independent OD practices.

**Reliance on digital communications** Practices will increasingly rely on digital media to communicate with patients and attract prospective patients. Effective use of digital media will confer a competitive advantage.

**Consumer pricing awareness** Patient awareness of eyewear and contact lens pricing will grow, reducing pricing latitude of independents.

**More practice management education** Interest in practice management education will expand among independent ODs.

**Affiliation with OD alliances** Most progressive independents will affiliate with an OD network to enjoy cost-of-goods savings and take advantage of the professional education and peer networking they provide.

# How Vision Source® Enables Independent ODs To Meet Present and Future Challenges

From its inception in 1991, the mission of Vision Source® has been to strengthen the competitive position of independent optometrists to meet the very sorts of challenges that are outlined in this Special Report. Vision Source® now has 2,700+ member practices in the U.S. and Canada, including 5,500+ independent ODs and a member retention rate of 98 percent. As the largest independent OD network in the world with the broadest range of consultative services and practice-building tools, Vision Source® offers industry-leading value to its members and helps to neutralize the competitive advantages of optical retail corporations.

## Threats

### Vision Source® Tools to Answer Threats

#### Internet Sellers

**Enhanced Buying Power:** Vision Source® has 2,700+ member practices and produces over \$2 billion in annual revenue, giving Vision Source® a very strong negotiating position with leading optical manufacturers. Annual cost-of-goods savings along can offset membership cost.

**Exclusive Vision Source® Brands:** Vision Source® has a full line of exclusively branded contact lenses, ophthalmic lenses and frames, which cannot be purchased outside the Vision Source® network.

**Marketing Services:** Vision Source® offers a wide range of marketing services, including an online marketing toolkit, marketing materials templates, exterior and interior signage designs, next generation websites for members, reputation management, SEO and SCO. Also available: Strategic marketing consulting for individuals or groups of OD members and their staffs as needed.

#### New Refractive Technologies

**Ongoing Professional Education:** Dr. Walt West, Vision Source® VP of Practice Development and noted practice management expert, conducts more than 40 seminars annually throughout the U.S. Some of these programs are exclusive to Vision Source® members and others are for anyone in general optometry. These programs are focused on business-building topics, including the incorporation of new technologies. What's more, the Vision Source® website is a rich 24/7 resource for Vision Source® -exclusive educational programs for the whole office -with over 30,000 courses taken by members and their staffs.

**Personal Consulting by an Assigned Member Services Consultant:** The member services team provides personal consultation to members to assess opportunities to lower costs and boost revenue. An assigned consultant conducts regular practice enhancement calls with individual members. This is in addition to regular monthly webinars on marketing and social media that are available.

**Member Publications:** Vision Source® keeps its members current on both the optometric market and cutting edge products through two custom publications: Vision Source® OD, a quarterly print magazine that mails to each Vision Source® practice; and Vision Source® Network Update, a monthly electronic publication.

**The Exchange Annual Meeting:** The Exchange has become one of the most significant optometric meetings in the U.S., with best-in-class educational programs and exhibits.

#### Managed Care

**Local Meetings:** Vision Source® takes education on the road with an estimated 1,300 local meetings to share best practices.

**National Branding:** National branding leverages the power of Vision Source® and its growing national reputation among eyewear consumers and third-party providers alike. This includes being the only independent ECP alliance that has national TV advertising so members can gain new patients and be on a level playing field with retail optometry.

**Successful Managed Care Strategies:** Vision Source® has resources to negotiate with large insurers and local Primary Care Physician groups to assure accreditation of members, structure referral arrangements and aid members with claims management.

**Cost Reduction:** The unprecedented buying power of Vision Source® and its 2,700+ member practices helps lower costs to preserve profitability in the face of declining reimbursements.



Now accepting new membership inquiries at [VSforYou.com](http://VSforYou.com)

