


**5 Strategies For Improving Your Bottom Line**

**Mick Kling, OD  
Impact Leadership**




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**Vision Expo Has Gone Green!**

We have eliminated all paper session evaluation forms. Please be sure to complete your electronic session evaluations online when you login to request your CE Letter for each course you attended! Your feedback is important to us as our Education Planning Committee considers content and speakers for future meetings to provide you with the best education possible.




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**Disclosures**

**Impact Leadership**

**Practice Management and Transition Advisor, Vision Source**




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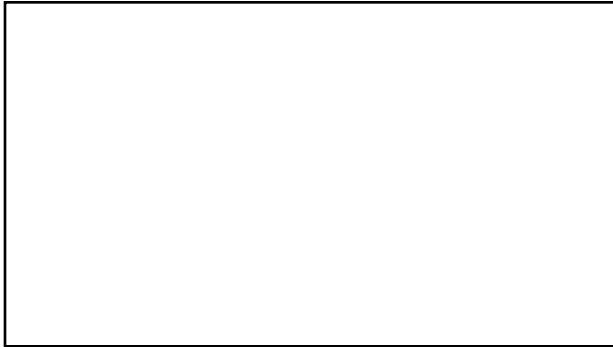
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**MLOAATBATAP: Money Left Over After All The Bills And Taxes Are Paid**

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Profit (and Loss)		Vs. Cash Flow	
<b>INCOME</b>	\$1,000,000	<b>INCOME</b>	\$1,000,000
<b>EXPENSES</b>		<b>EXPENSES</b>	
COGS	\$280,000	COGS	\$280,000
People	\$250,000	People	\$250,000
Place	\$80,000	Place	\$80,000
Things	\$120,000	Things	\$120,000
<b>Net Operating Income</b>	<b>\$270,000</b>	<b>Net Operating Income</b>	<b>\$270,000</b>
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
<b>Practice "Profit"</b>	<b>\$45,000</b>	Equip Loan (P+I)	\$24,000
		<b>Practice Cash Flow</b>	<b>(\$24,000)</b>

**GAAP** → ↑ **Profit...taxes owed on this!**

↓ **MLOAATBATAP** ↓ **Cash Flow**

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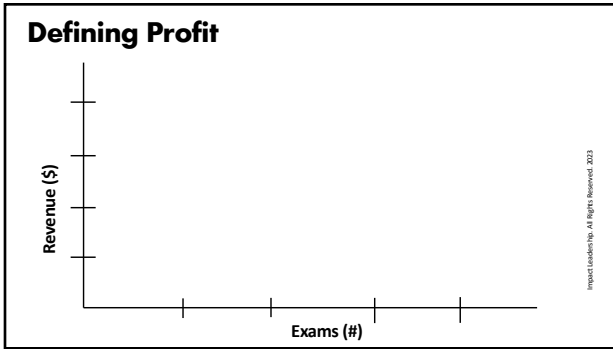
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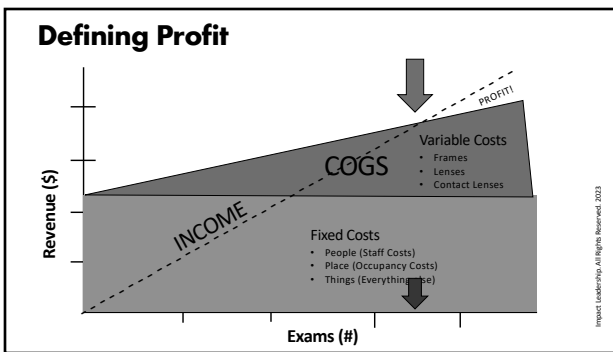
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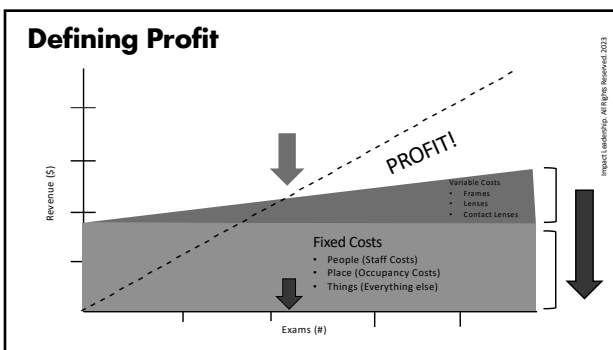
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**Strategy #1:  
Maximizing Gross Profit Margins**



**Max. Pricing + Best Deals = High Gross Profit Margins**



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**Defining Gross Profit Margin**

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

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**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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### 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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### Frame Pricing Strategies

Frame Markup Calculator		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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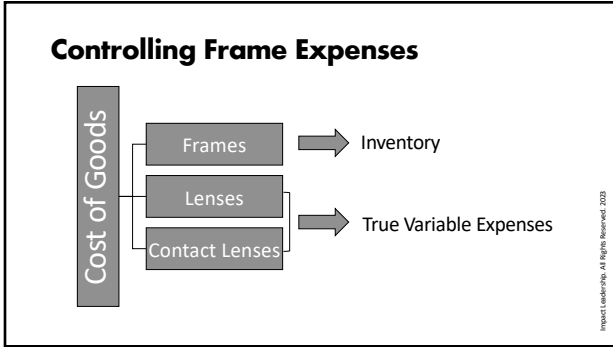
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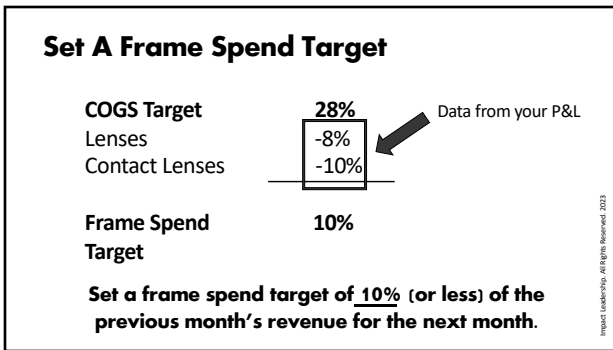
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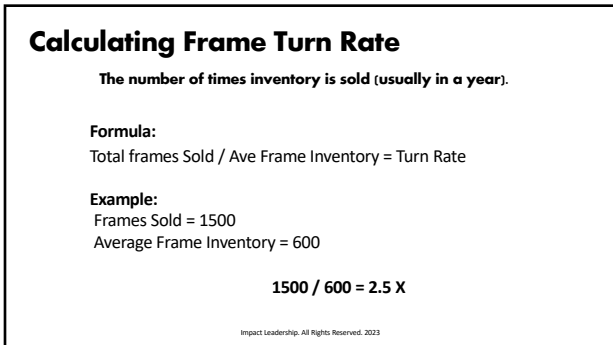
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### Calculating Frame Turn Times

	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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### 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
<b>Turns per Year</b>	<b>8X</b>	<b>Turns per Year</b>	<b>4X</b>
Annual Profit	\$800	Annual Profit	\$1,200
Annual Investment	\$400	Annual Investment	\$600
<b>ROI</b>	<b>200%</b>	<b>ROI</b>	<b>200%</b>

**50% Increase in Profit**

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### Measuring Days Sales of Inventory (DSI)

**Formula:**

Average Inventory Value / Total COGS \* 365 = DSI

**Example:**

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

\$60K / \$150K \* 365 = 146 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					
SKU	Q	Physio-VR	Comfort Data (Compare to)	MSRP	Wholesale Price	30%	SKU	Q	Physio-VR	Comfort Data	MSRP	Wholesale Price
Critical Sapphire HR	5255	\$227	\$188	\$127	\$89	30%	Critical Sapphire HR	5817	\$757	\$620	\$400	\$250
TruView H-1	5254	\$230	\$186	\$120	\$89		TruView H-20	5847	\$767	\$620	\$400	\$250
HR 3.0 (H&S)	5266	\$237	\$213	\$147	\$106		HR 3.0 (H&S)	5857	\$867	\$720	\$450	\$280
HR 3.0 (H&S)	5266	\$232	\$218	\$152	\$111		HR 3.0 (H&S)	5867	\$907	\$750	\$450	\$280

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### Contact Lens 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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### Contact Lens Pricing Strategies

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

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

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

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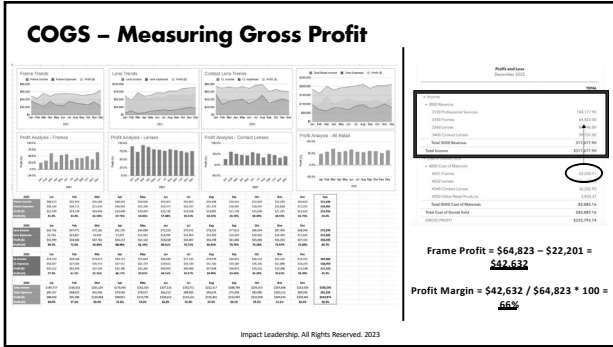
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### Setting up your financial software to track Income Sources

- 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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### Strategy #2: Manage People Costs

**How many people do I need?**  
**How do I know they are productive?**

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### 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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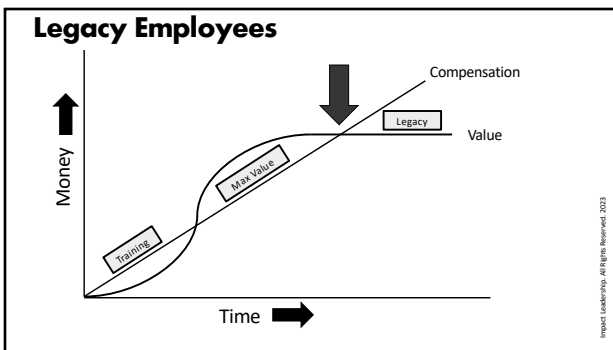
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### Labor Efficiency

$$\frac{\text{Total Collections}}{\text{Total Non-OD Payroll}} = \text{Labor Efficiency Ratio (LER)}$$

$$\frac{\$60,000}{\$16,500} = 3.64 \quad \text{Target} > 4.0$$

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### LER by Position

An associate doctor is your **most valuable asset** and driver for growth.

Every \$1 invested in OD compensation results **\$6-7** in revenue.

Our next most valuable team member (**opticians**) drives **\$4-5** in revenue for every \$1 invested.

Position	LER
In the Office	~4.2
Admin	1.5
Opticians	5.0
ODs	7.0

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### 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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### 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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### 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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### Outsourcing People

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### Strategy #3: Managing Occupancy Cost

#### Occupancy Costs: What's Included?

Rent	Repairs/Maintenance
Utilities	Property Taxes
Security	Janitorial

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### 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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### 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  
 $\$1,000,000 / 2500 = \$400/SF$

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### 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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**Strategy #4:**  
**Manage Operating Costs**



**Operating Costs: What's Included?**

Media & 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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**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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**Loss Aversion**



P = Profitable
R = Replace/Renegotiate
U = Unnecessary

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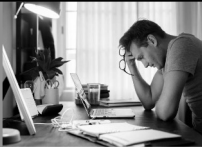
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**Strategy #5:**  
**Manage Your Debt**



**THE number #1 cause of cash flow problems!!**

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**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%
<b>Net Operating Income</b>	<b>\$270,000</b>	<b>27%</b>
Doctor's Compensation (W-2)	\$170,000	17%
Available for Debt (P+I)	<b>\$100,000</b>	<b>10%</b>

This is pre-tax income!

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**How Much Debt Is Too Much?**


**The Formula:**  
 Annual Debt (P+I) / Practice Revenue = % 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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### 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%
<b>Net Operating Income</b>	<b>\$270,000</b>	<b>27%</b>
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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### Create A Debt Snowball

**Step 1:** List your debts from smallest to largest regardless of interest rate.

**Step 2:** Make minimum payments on all your debts.

**Step 3:** Pay as much as possible (anything extra) on your smallest debt.

**Step 4:** Once smallest debt is paid off, apply that payment to next smallest debt until each debt is paid.

Debt Snowball						
	Min Payment	Loan A (10%)	Min Payment	Loan B (10%)	Min Payment	Loan C (10%)
Jan23	\$1,000.00	\$7,070.00	\$1,000.00	\$24,000.00	\$2,000.00	\$60,000.00
Feb23	\$1,000.00	\$7,180.00	\$1,000.00	\$23,760.00	\$2,000.00	\$58,080.00
Mar23	\$1,000.00	\$7,290.00	\$1,000.00	\$23,520.00	\$2,000.00	\$56,160.00
Apr23	\$1,000.00	\$7,400.00	\$1,000.00	\$23,280.00	\$2,000.00	\$54,240.00
May23	\$1,000.00	\$7,510.00	\$1,000.00	\$23,040.00	\$2,000.00	\$52,320.00
Jun23	\$1,000.00	\$7,620.00	\$1,000.00	\$22,800.00	\$2,000.00	\$50,400.00
Jul23	\$1,000.00	\$7,730.00	\$1,000.00	\$22,560.00	\$2,000.00	\$48,480.00
Aug23	\$1,000.00	\$7,840.00	\$1,000.00	\$22,320.00	\$2,000.00	\$46,560.00
Sep23	\$1,000.00	\$7,950.00	\$1,000.00	\$22,080.00	\$2,000.00	\$44,640.00
Oct23	\$1,000.00	\$8,060.00	\$1,000.00	\$21,840.00	\$2,000.00	\$42,720.00
Nov23	\$1,000.00	\$8,170.00	\$1,000.00	\$21,600.00	\$2,000.00	\$40,800.00
Dec23	\$1,000.00	\$8,280.00	\$1,000.00	\$21,360.00	\$2,000.00	\$38,880.00
Jan24	\$1,000.00	\$8,390.00	\$1,000.00	\$21,120.00	\$2,000.00	\$36,960.00
Feb24	\$1,000.00	\$8,500.00	\$1,000.00	\$20,880.00	\$2,000.00	\$35,040.00
Mar24	\$1,000.00	\$8,610.00	\$1,000.00	\$20,640.00	\$2,000.00	\$33,120.00
Apr24	\$1,000.00	\$8,720.00	\$1,000.00	\$20,400.00	\$2,000.00	\$31,200.00
May24	\$1,000.00	\$8,830.00	\$1,000.00	\$20,160.00	\$2,000.00	\$29,280.00
Jun24	\$1,000.00	\$8,940.00	\$1,000.00	\$19,920.00	\$2,000.00	\$27,360.00
Jul24	\$1,000.00	\$9,050.00	\$1,000.00	\$19,680.00	\$2,000.00	\$25,440.00
Aug24	\$1,000.00	\$9,160.00	\$1,000.00	\$19,440.00	\$2,000.00	\$23,520.00
Sep24	\$1,000.00	\$9,270.00	\$1,000.00	\$19,200.00	\$2,000.00	\$21,600.00
Oct24	\$1,000.00	\$9,380.00	\$1,000.00	\$18,960.00	\$2,000.00	\$19,680.00
Nov24	\$1,000.00	\$9,490.00	\$1,000.00	\$18,720.00	\$2,000.00	\$17,760.00
Dec24	\$1,000.00	\$9,600.00	\$1,000.00	\$18,480.00	\$2,000.00	\$15,840.00
Jan25	\$1,000.00	\$9,710.00	\$1,000.00	\$18,240.00	\$2,000.00	\$13,920.00
Feb25	\$1,000.00	\$9,820.00	\$1,000.00	\$18,000.00	\$2,000.00	\$12,000.00
Mar25	\$1,000.00	\$9,930.00	\$1,000.00	\$17,760.00	\$2,000.00	\$10,080.00

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### 5 Strategies For Improving Your Bottom Line



- Action #1: Measure Gross Profit Margin**
- Action #2: Measure People Costs**
- Action #3: Measure Occupancy Costs**
- Action #4: Challenge Operating Expenses**
- Action #5: Create a Debt Reduction Strategy**

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**5 Strategies For Improving Your Bottom Line**



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