1-15-1994

Optometric management and business policy for the new graduate

John H. Jett
Pacific University

Recommended Citation
https://commons.pacificu.edu/opt/1104
Optometric management and business policy for the new graduate

Abstract
This thesis is designed for the graduate of an optometric program to assist them in obtaining a job, purchasing a practice, running a practice and deciding on a mode of practice. It includes detailed information on accounting, finance, management, marketing and law. Additionally, there is an appendix containing information on products, services, taxes, operations, SBA loans, etc. for the use of the graduate for future reference. Finally, there are three computer programs presented for Macintosh use. GOAL is presented in their offered screening format, there is a program for producing financial documentation on Excel which was created specifically for this thesis and there is a copy of the thesis on Word format.

Degree Type
Thesis

Rights
Terms of use for work posted in CommonKnowledge.

This thesis is available at CommonKnowledge: https://commons.pacificu.edu/opt/1104
Copyright and terms of use

If you have downloaded this document directly from the web or from CommonKnowledge, see the “Rights” section on the previous page for the terms of use.

If you have received this document through an interlibrary loan/document delivery service, the following terms of use apply:

Copyright in this work is held by the author(s). You may download or print any portion of this document for personal use only, or for any use that is allowed by fair use (Title 17, §107 U.S.C.). Except for personal or fair use, you or your borrowing library may not reproduce, remix, republish, post, transmit, or distribute this document, or any portion thereof, without the permission of the copyright owner. [Note: If this document is licensed under a Creative Commons license (see “Rights” on the previous page) which allows broader usage rights, your use is governed by the terms of that license.]

Inquiries regarding further use of these materials should be addressed to: CommonKnowledge Rights, Pacific University Library, 2043 College Way, Forest Grove, OR 97116, (503) 352-7209. Email inquiries may be directed to: copyright@pacificu.edu

This thesis is available at CommonKnowledge: https://commons.pacificu.edu/opt/1104
OPTOMETRIC MANAGEMENT AND BUSINESS POLICY FOR THE NEW GRADUATE

By

JOHN H. JETT

A thesis submitted to the faculty of the
Pacific University
College of Optometry
Forest Grove, Oregon
for the degree of
Doctor of Optometry
January 15, 1994

Adviser: Donald Schuman, O.D.
Signature Page

John H. Jett, Candidate for degree of Doctor of Optometry

Donald Schuman, O.D., Faculty thesis advisor
Bio-page

John H. Jett

Education

Doctor of Optometry - expected
Pacific University Forest Grove, OR

Bachelor of Business Administration
University of Georgia Athens, GA

Biography

After attending the University of Georgia, I began my career with the Singer Co. as a store manager. After reaching the position of Atlanta district manager in three years, I purchased a Singer dealership in Columbus, GA. After running and expanding my Singer dealership for three years, I sold the store and began my career as a stockbroker with Kashner-Davidson Securities in Sarasota, FL. As a stockbroker, I gained 1,200 account in three years and specialized in stocks, options, mutual funds and life insurance. I left Kashner's to enter Pacific University College of Optometry.

I hope to return to Georgia upon graduation and purchase a practice in Atlanta or Athens, Georgia.
Abstract

This thesis is designed for the graduate of an optometric program to assist them in obtaining a job, purchasing a practice, running a practice and deciding on a mode of practice. It includes detailed information on accounting, finance, management, marketing and law. Additionally, there is an appendix containing information on products, services, taxes, operations, SBA loans, etc. for the use of the graduate for future reference. Finally, there are three computer programs presented for Macintosh use. GOAL is presented in their offered screening format, there is a program for producing financial documentation on Excel which was created specifically for this thesis and there is a copy of the thesis on Word format.
Acknowledgements

I would like to thank the following people for helping with this thesis:

My wife, Sally F. Jett, CPA, for assisting with and reviewing the accounting and finance section. Also for her patience and understanding during the research and writing.

My friend, Ronald S. Iddins, Attorney at Law, for assisting with and reviewing the section on law.

My advisor, Donald Schuman, O.D., for reviewing the entire thesis, editing and for offering useful comments.

John H. Jett
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Introduction</td>
</tr>
<tr>
<td>II</td>
<td>Basic Business Organization</td>
</tr>
<tr>
<td>III</td>
<td>Finding an Associates Position</td>
</tr>
<tr>
<td>IV</td>
<td>Starting and Running Your Own Business</td>
</tr>
<tr>
<td>V</td>
<td>Purchasing an Existing Business</td>
</tr>
<tr>
<td>VI</td>
<td>Modes of Practice</td>
</tr>
</tbody>
</table>

Bibliography
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Introduction</td>
</tr>
<tr>
<td>II</td>
<td>Basic Business Organization</td>
</tr>
<tr>
<td></td>
<td>Flow Chart of Basic Business</td>
</tr>
<tr>
<td></td>
<td>Departments</td>
</tr>
<tr>
<td></td>
<td>Applications to optometry</td>
</tr>
<tr>
<td></td>
<td>Concept of &quot;TQM&quot;</td>
</tr>
<tr>
<td>III</td>
<td>Finding an associates position</td>
</tr>
<tr>
<td></td>
<td>The Resume</td>
</tr>
<tr>
<td></td>
<td>Cover letter</td>
</tr>
<tr>
<td></td>
<td>Networking</td>
</tr>
<tr>
<td></td>
<td>Interviewing</td>
</tr>
<tr>
<td></td>
<td>Follow-up letter</td>
</tr>
<tr>
<td></td>
<td>General information</td>
</tr>
<tr>
<td></td>
<td>Where the O.D.'s are</td>
</tr>
<tr>
<td>IV</td>
<td>Starting and running your own business</td>
</tr>
<tr>
<td></td>
<td>MANAGEMENT</td>
</tr>
<tr>
<td></td>
<td>Goals</td>
</tr>
<tr>
<td></td>
<td>Setting policy for efficiency</td>
</tr>
<tr>
<td></td>
<td>Paper flow</td>
</tr>
<tr>
<td></td>
<td>Credit policy</td>
</tr>
<tr>
<td></td>
<td>FINANCE AND ACCOUNTING</td>
</tr>
<tr>
<td></td>
<td>Obtaining funds</td>
</tr>
<tr>
<td></td>
<td>Putting together a proposal for the you and the bank</td>
</tr>
<tr>
<td></td>
<td>Understanding basic accounting reports</td>
</tr>
<tr>
<td></td>
<td>Role of the accountant</td>
</tr>
<tr>
<td></td>
<td>Role of the financial advisor</td>
</tr>
<tr>
<td></td>
<td>Purchase of equipment and inventory</td>
</tr>
<tr>
<td></td>
<td>MARKETING</td>
</tr>
<tr>
<td></td>
<td>Define the market with research</td>
</tr>
<tr>
<td></td>
<td>Setting fees and prices</td>
</tr>
<tr>
<td></td>
<td>Competition</td>
</tr>
<tr>
<td></td>
<td>Practice physical layout and design</td>
</tr>
<tr>
<td></td>
<td>Consumer Behavior</td>
</tr>
<tr>
<td></td>
<td>Obtaining patients and customers</td>
</tr>
</tbody>
</table>
LEGAL
Forms of Business Operation
Contracts
Insurance
Prescriptions
Misc. legal issues
AOA Code of Ethics
Role of the attorney

V  Purchasing an existing business
   Determining your preferences
   Evaluating a practice

VI  Modes of Practice
Section I
Introduction

The purpose of this thesis is to provide the new graduate of any optometric program with the basic tools of business. A great deal of the information is compiled to allow continued reference to this single source as the goals of the graduate change. There is information on getting a job, starting and operating your own business and catalogs and references for finding how to do something or where to find something.

Coverage includes some basic information about how a business is organized and run. I have attempted to include information and present that information in the same way that I learned it while obtaining my Bachelor's of Business Administration. In this way, I hope that the presentation feels like it was written by a fellow student to help fellow students. I have attempted to stay on subjects pertaining to the practice of optometry and eliminate those areas of business used in different or much larger businesses. In the appendix of this thesis is a number of catalogs and reference sources geared to the future needs of new graduate. Catalogs on products, directory of software manufacturers, information from loan sources, etc. are all included in the appendix. Some of this information is timely, but most simply requires a call to the distributor in order to obtain a new copy of the catalog. This information will assist the new graduate with crude budgeting of set-up costs and break even analysis in order to gain loans and determine cost vs. benefit of various aspects of running a practice.

I have attempted to eliminate information that is redundant and covered because it was covered in the required curriculum. However, some of the information comes almost verbatim from required lectures and projects because the information is so important. For example, coverage of financial analysis and financial records is, in my opinion, so vital to the operation of a business, that I have included it even though it was covered in our curriculum.

Finally, let me introduce myself and say a few things about my way of thinking. I earned a bachelor of business administration degree from the University of Georgia and a great deal of the information in this thesis comes from the knowledge that I gained in that program. Upon graduation, I found employment with the Singer Company as a store manager. I was employed in a period of time when the Singer Company was in a transition from having their company owned stores sold to individuals as dealerships.
I became specialized in recovering poorly run stores and converting them into profitable stores so that Singer could gain the highest price possible. Eventually, I became a district sales manager for Singer's Atlanta area stores. My district accounted for some $4,000,000 in annual sales produced by 7 stores. Eventually, I left Singer to purchase my own dealership in Columbus, Georgia. I owned and operated this dealership for three years and in that time expanded operations to include many new products. I gained access to the seven area school districts to become their distributor. We sold industrial sewing equipment to many of the mills and private enterprises in Columbus and expanded our service department greatly. I sold the dealership to join a regional securities firm in Sarasota, Florida named Kashner Securities.

I was a retail stock broker for three years. I acquired over 1,200 accounts over three years. I handled stock, bond, mutual fund, options and life insurance over my three years as a broker. I gained Securities and Exchange Commission licensing as a "general securities representative", a "multi-state registered representative", and "options principal" in addition to gaining Florida "life insurance representative" licensing all of which require classes and competency testing. The market crash of 1989 showed me that it would take a long recovery period before retail investors were ready to trade again. I decided to come to Pacific University.

Finally, while I have been at Pacific, I have worked as optometric tech and optician in an optometric practice in Lake Oswego, Oregon. In that time, I have tried to learn something about the operations of an optometric practice, something about the market, something about merchandising and pricing and something about purchasing. I assisted the doctor, Claude Stevens, in many areas of operations and management, and tried to learn as much as possible about communicating with patients and customers.

The following information comes both from my experience and knowledge as a businessman and from a multitude of reference sources. I have tried to include a reference source to every area of this thesis and I have listed that source immediately after the topic. This will allow the reader to find the source quickly without cross referencing a bibliography many pages away. In areas where an opinion becomes important, I always note that the statement is an opinion. A word about my sources. In basic business knowledge, I have tried to find texts from a business curriculum on topics of general business. I have tried to highlight those texts with other information specific to the topic or specific to optometry. Those sources are varied but mostly comprise, periodicals in optometry and government publications. I have also included other sources including items from class
notes and quotations from guest lecturers. I encourage the reader to use these references to learn more about a specific topic.

I hope that you enjoy this manual and find that the information is helpful. Obviously, there are areas which could be expanded upon. Business is a huge field, with multiple professionals, so no single work could hope to be all encompassing. It is my opinion that you can never learn enough about business.
Section II
Basic Business Organization

Flow Chart of Basic Business

The concept of business organization is the first step to understanding how all the pieces fit together. In a small business, many of the parts of the organizational chart are headed by one person, so the pieces can get mixed together. It is the first step to understand that, in my opinion, one of the primary roles of the optometrist acting as a business person is to maintain the organizational chart without letting the pieces fall together. Here is an example of one of many possible forms of organizational flow chart.

```
Chief Executive Officer

Marketing Management Legal Accounting Finance
```

It is important to think of each department as separate, while allowing the information to integrate for accomplishing certain goals. To put it another way, as optometrists, we have to think departmentally, but act on the total information generated by "departmental thinking".

Departments

1. Management

Management is a distinct department within the basic business organizational chart and it is made up of many distinct departments. In a large corporation there are many managers of separate departments (i.e., marketing manager, financial manager, production manager, etc). For our purposes, management is the department that keeps things going based on information supplied by the other departments. For the optometrist, management will involve making and implementing policy such as setting personnel policy, operations management, financial policy and integration of information.
2. Finance and Accounting

Finance and accounting are usually separate departments within the organizational chart, however in a small business, they can be included together as one department because of their close ties.

In a small business, the accounting department is usually involved in only simple bookkeeping with that information sent to a professional accountant called a C.P.A. (for Certified Public Accountant). The C.P.A. then advises management on policy decisions based upon information provided. The accounting department is usually in charge of controlling funds to prevent waste. This is why the head of the accounting department is called a controller.

The finance department is usually involved in managing money. That includes acquiring funds, investing money and making policy for the use of funds. As you can see, in a small business, and usually in medium business, these departments are so intertwined that they sometimes act as a single unit.

It can be thought of as accounting handling the money coming into and out of a business and of finance as acquiring and managing funds.

3. Marketing

The marketing department is involved in a varied number of undertakings most of which involve acquiring new customers. However, marketing departments are usually in charge of market analysis, channels of distribution, research of both consumers and new product ideas, setting prices and other seemingly unusual responsibilities.

Marketers have a term called the "Marketing Mix" which includes;

1. Product
2. Price
3. Place
4. Promotion.

This is a good way to think of the marketing department's responsibilities. If it involves anything within the "Marketing Mix", it belongs in the marketing department.
4. Legal

The legal aspects of business comprise the responsibilities of the legal department. Anything that involves law, should be run through the legal department. That includes all legal documents, legal agreements, liabilities, risk assessment, and often insurance coverages. If there is any legal question, the legal department should be consulted.

Applications to optometry

Optometrists are not usually involved in large corporate decisions unless they are employed by a large corporation. Since this thesis is geared to the graduating optometrist, we will make the assumption that these departments are going to be geared to running a single practice with the optometrist as "Chief Executive Officer".

Generally, management, marketing, finance, accounting and legal are all headed by the same person in a small business. If that person is smart, they will seek advise from professionals who specialize in these disciplines. Most optometrists are capable of handling management and marketing because many of the concepts are intuitive. However, financial, accounting and legal concepts are specialized fields and optometrists are often intimidated by these disciplines so they should seek professional advice. The C.P.A. is well known to the optometrist and is usually thought of as the person to go to for tax assistance. The banker is often used as the financial consultant and is often very qualified to assist in such matters. The attorney is used in legal matters and can act as a consultant.
Unfortunately, we rarely consider using these professionals to their fullest capacity in helping to run our businesses. There are hundreds of firms that specialize in setting up management policies. There are hundreds of firms that specialize in marketing policies and projection also. Your C.P.A. can assist in every area of accounting, including setting up bookkeeping systems, assisting in tax implications of financial decisions, preparation and analysis of financial statements. Financial consultants are available to assist in acquiring funds and managing funds. These people can be bankers, stock brokers, insurance agents and a multitude of others. It is important to understand the motivation of these financial individuals and for those of us that have a difficult time using these professionals, there are other professional financial consultants that can be consulted for a fee. Attorneys are often misused, or poorly used because we think in terms of using an attorney to assist us in getting out of a problem. However, attorneys can be of great use in setting policy to prevent trouble in the first place. They often act as a consultant in setting legal policy.

**Concept of "TQM"**

"TQM" is a new "buzz word of the 90's" that stands for total quality management. It is a concept in business to eliminate customer dissatisfaction and enhance the total quality of doing business. This includes satisfaction of customers, employees, managers and owners of businesses. The approach began in the U. S. in the 80's as a result of management systems overseas and the decline in American product quality. The concept is simply stated, however very difficult to achieve. It is an ongoing process and requires monitoring and dedication. In TQM thinking, profit results from quality and so profit is not the motivation; total quality is the motivation. TQM is a current theory and comes to us through the guru of post-WWII Japanese management, Mr. W. Edwards Demming. He is generally credited with creating Japan's policies after 1950 and therefore the growth of Japanese industrial power. TQM is a concept that you would need to research individually, as it is very complicated and requires commitment. TQM is included in so many aspects of business throughout the world that it is important to mention it in any discussion of business.
REFERENCES and Suggested Readings for Section II:


*Total Quality Optometry*, Carol A. Schwartz, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 12

*How To Be Productive 8 Hours A Day*, Christine Winslow, Review of Optometry, Volume 128, Number 2, Feb 91, p. 38
Finding an associates position

Most of you will be looking for a job upon graduation rather than purchasing a practice or joining a partnership. The process for finding a job is difficult. Graduation occurs in May or June and an examination for a state license will be required in June or later. This all occurs before you can even market yourselves to prospective employers. That is not to say that you shouldn't start looking as soon as possible. It only means that you have to look for and find a job before being licensed to practice. This is risky for the employer because there is no guarantee that the position will be filled until examination results are received.

Finding a job is marketing; marketing yourself! The tools of marketing work well in marketing your services in the same way you market your services to patients. The first step in marketing and finding a job is to determine your goals. Get an in depth analysis of your assets (strengths) and liabilities (weaknesses). These tools of self analysis will help to set your marketing strategy as you look for that perfect job.

The Resume

Your resume requires some toil on your part. This resume should tell a prospective employer enough about you that he/she requests an interview with you. Some basic components of a resume are:

1. Identification
   - Name, address, phone number including area code.

2. Career objective
   - Should come from the analysis of your goals
   - Include exactly what you want stated in a professional manner
   - Mention anything of importance
     - To be in a particular mode of practice
     - To live in a particular location
     - Skills you wish to develop, etc.

3. Education
   - List degrees, date you received the degrees, institution, GPA possibly
   - Undergraduate degrees, minor, date, institution
   - List any honors and awards
   - Relevant course work, specialty education, languages, etc.
4. Work experience
   - Most recent first with dates of employment
   - Mention job title, description and special tasks
   - Mention any special skills learned or any awards/recognition
   - Mention any internships/externships and what was learned

5. Activities
   - Especially school/community (shows strength of character).

6. Honors/Awards

7. References
   - Should state "References available upon request"

Resume do's and don'ts

**Do**

✓ Be complete
✓ Be short and accurate
✓ Try to fit on one page
✓ Use proper English and spell correctly
✓ List the most important items first
✓ Make it fast and easy to read
✓ Use bold, underlining, etc. to point out important information
✓ Use quality paper with good print type
✓ Tailor the resume to the opportunity
✓ Update regularly
✓ Seek help

**Don't**

* Make errors
* List family or personal information
* Mention religious or political preferences
* Mention anything that would limit your opportunity

A sample resume follows.
Name
Address
City, ST ZIP
(AC) 123-4567

GOAL/INTERESTS

Interested in acquiring an associates position ...(add any goals/interests specific to you)

EDUCATION

Doctor of Optometry, May 1993, Pacific University
Bachelor of Science, June 1989, University of Someplace, City, State, Major in Biology

EXPERIENCE

Ophthalmic Technician/Optician April 1993 - Present
Some Eyecare Place
Bill Johnson, O.D.
Address and phone

Part time work during optometry school. I gained experience in sales, repair, dispensing, fittings, office procedures, ordering, contact lenses, and many other duties.

Another Eyecare Place - Intern May 1993 - September 1993
Address and phone

Strong emphasis in ocular pathology. Worked closely with the various surgeons and assisted in surgical procedures. Gained strong clinical skills in pathology.

Some other job January 1991 - August 1993
Some other place of business
Address and Phone

Shortened listing of the job and the job requirements

ORGANIZATIONS/MEMBERSHIPS/COMMUNITY

AOSA member, AOA Contact Lens Section student member
Third Year Class Secretary
Phi Theta Upsilon
Volunteer - American Red Cross, City, State
Volunteer - SPCA, City, State
CPR current through 5/7/94
Mention any awards or achievements

References available upon request
Cover letter

The cover letter is a letter written to the individual with whom you are seeking employment. The letter accompanies the resume and should be cordial, short and make some mention of how you came across the job opening. You might mention how this job meets some goal. You might mention how your skills meet the job requirements. The letter is a selling job beyond the resume. The cover letter should tie you to the job and tie the resume to you. Making reference to the resume is OK, but only one reference please. The cover letter should mention any way that the person could contact you beyond what is listed on the resume. It should be short, concise, to the point and offer a sense of humanity. End the letter properly with "sincerely" or "regards", etc. Don’t get too personal or overeager. Make sure that the cover letter does not conflict with the resume. Have name, address, phone and date on the cover letter. A sample cover letter follows.
Dear Dr. ..., 

I am interested in learning more about the position you advertised in the June issue of "Publication Name". Based on the information in the ad, I may be the associate that you are looking for.

Your ad indicates that your practice is looking to expand into Vision Therapy. I have a strong interest in vision therapy and I have participated in (list any special knowledge/skills).

I have enclosed my resume for your consideration. I find that I will be in (town of the practices location) on (date) and would enjoy the opportunity of speaking with you about the position during my visit to (town's name). Thank you for your consideration. I look forward to hearing from you soon.

Sincerely,

Your name, O.D.

Enclosure
Networking

Networking can find the job openings for you. Let everyone you know that you are seeking employment. Talk about your goals and interests. Leads will come from this word-of-mouth effort.

Obtaining information from associations and trade publications are a good way to find job openings. The AOA offers 4th year optometry students a job search cross referencing system that sends you a fairly detailed analyses of every job offering in their system by location. Enclosed in the appendix is the AOA Student Handbook with information on the service and a mail-in card to sign up. Optometric trade journals publish job openings information in the classified section. Newspapers are a poor source; it just doesn't seem to be the place for optometrists to advertise job openings. You can obtain any published Yellow Pages in the United States from large libraries. If you are looking for a particular location, you can simply call every optometrist in the area and ask if they are looking for an associate.

Interviewing

When the resume and cover letter work, you will be offered an interview. The interview is a two way street; it acts to inform the potential employer about the applicant and it acts to inform the applicant about the employer and job description. You must prove that you are worthy of the job in the interview. To prepare for the interview there are several things that you can do that might be helpful;

1. Find out as much as you can about the prospective employer so that you will be prepared with your own questions. This preparation will also make you appear more knowledgeable about the practice.

2. Dress appropriately. Dress in a businesslike manner, conservative but in style.

3. Bring information about yourself. Items such as additional resumes and a list of references are excellent things to have if the interview goes well.

4. Bring a brief case or binder with pen, legal pad, etc.

5. BRING A GOOD ATTITUDE!
You don't want to sit back and answer "yes" and "no" to interviewer's questions. Be articulate and poised, ask questions, enjoy the experience and try to interject questions of your own. An interview is a two way street, so be involved. If you come to the interview and note any specific problems in the practice, you may be able to offer your services to help. For example, if the office is not computerized, you can offer your services to get the office computerized. Some do's and don'ts of interviewing.

**Interviewing do's and don'ts**

**Do**

- Be prepared
- Dress and groom professionally
- Arrive on time
- Be able to explain yourself to the interviewer
- Anticipate questions and rehearse answers
- Firm handshake, make eye contact and smile
- Be polite, interested, confident, enthusiastic
- Relax, but remain alert
- Point out any specialty knowledge not on the resume. i.e. computer, payroll
- Talk in a normal tone
- Show your sense of humor but no jokes (especially crude or controversial)
- Be honest, direct and candid
- Interview as though this is the only job you are interested in
- Evaluate your performance after the interview to improve for next time

**Don't**

- Arrive late
- Schedule too many interviews closely together
- Dress eccentrically
- Show fear, shame, lack of confidence
- Don't ramble on with your answers
- Discuss your shortcomings unless asked directly
- ASK ABOUT THE SALARY ON THE FIRST INTERVIEW unless the interviewer mentions it first

**Follow-up letter**

After the interview, send a letter of thanks; this shows your professionalism, your attention to business etiquette and your interest in the position. Make the letter short and simple. Offer to provide any additional information.
about yourself. Try to make some small reference to any unique favorable occurrences in the interview itself; this may remind the interviewer about your interview if they are interviewing many applicants. Send another letter if you haven’t heard anything in about two weeks. After that time, you may phone, because the prospects don’t look good. A sample follow-up letter follows.
Dear Dr. (interviewer's name),

Thank you for taking the time to talk with me on July 7, 1993. I enjoyed our discussion and gained a great insight into your needs.

I am excited about the possibility of working with (the practice name) (or "you" if the O.D. is alone). I believe that my skills, education and background will fit well into your practice.

Please let me know if I can provide any additional information. I look forward to hearing from you soon.

Sincerely,

Your name, O.D.

Enclosure
General information

After the job interview and offer, negotiations will begin. You will need to discuss:

Terms of employment
- Immediate compensation including paid benefits
- Insurance
- Vacation
- Sick leave
- Areas of responsibility and/or authority
- Trial periods
- Future compensation and bonuses

Buying-in - see finance/accounting and legal sections
- Partnership possibilities
- Partnership terms
- Covenant to compete

Any other specific needs
- Military obligations, Association obligations, etc.

Where the O.D.'s are

Reprinted from the AOA student handbook is a list of O.D. concentrations per 100,000 population per state:

13+ active O.D.'s per 100,000 population

Indiana  Oregon
Maine    Rhode Island
Massachusetts  South Dakota
Montana

11-12.9 active O.D.'s per 100,000 population

Alaska  Nevada
Arkansas  New Mexico
California  North Dakota
Idaho    Pennsylvania
Illinois  Tennessee
Iowa  Wisconsin
Kansas  Wyoming
Nebraska
9-10.9 active O.D.'s per 100,000 population

Arizona                  Hew Hampshire
Colorado                 Ohio
Connecticut              Oklahoma
Hawaii                   Vermont
Michigan                 Washington
Minnesota                West Virginia

7-8.9 active O.D.'s per 100,000 population

Alabama                  Missouri
Wash. D.C.                New York
Delaware                 North Carolina
Florida                  South Carolina
Kentucky                 Utah
Maryland                 Virginia
Mississippi

Under 7 active O.D.'s per 100,000 population

Georgia                  New Jersey
Louisiana                Texas

REFERENCES and Suggested Readings:

Pathways in Optometry, seminar by Allergan, AOSA, AOA, Association of Schools and Colleges of Optometry, presented September 13, 1992
AOA Student Handbook, July 1993
Notes from OPT 862, Optometric Economics and Practice, John Rumpakis, Jan 94
Before any analysis, before any budgeting, before any planning, the first step in starting any new enterprise is to decide where you are going: you have to set goals. Goals are the building blocks on which all plans are founded. It is much easier to plan the path that your business must take if you have goals to strive for. Business planning is based upon goal setting.

It is not enough to say that your goal is to make money, because questions such as "how much money" and "by when" are the natural extension of that statement. You must have goals that are concrete, specific and attainable in order to know if your goals are being met. Everyone knows that goals are personal, so I cannot and would not suggest the optimal goals or which are correct goals to set. I would suggest, however that your goals should be spaced chronologically and contain short term, intermediate term and long term goals.

You can begin with a basic goal, such as "happiness", and then expand on that goal. Happiness might include starting a family, having time to spend with family and financial security for you and your family. The time off and financial security part of that overall goal can definitely become a goal of the business. You may feel that you want to earn $75,000 annually and work 5 days a week with 2 weeks vacation per year. These are concrete goals. Now let's apply a time frame. You may decide that you will work hard the first year by working 6 days a week and only take off an occasional long weekend. You may decide that since you require only $35,000 over the next year to cover all personal expenses, that you can be frugal that first year and only take $35,000 out of the business. But, if you want to earn $75,000 annually, make short term financial goals around a personal income of $75,000 annually. You can now begin to forecast business operations to determine when you can start taking out $75,000 and this allows you to set your time frame for that goal. Now, you have to determine how many patients are required to allow for a bottom line of at least $75,000 within your time...
frame. This will determine your time required at work and therefore your free time with family. As the goals begin to expand, you can see that details are more easily filled in. An excellent test of your goals is presented in the Pathway seminar of September 13, 1992 in which the sponsor, Allergan, suggests the SMART test. The SMART test includes a way to put your goals into perspective. Your goals, according to Allergan, should be -

Specific  
Measurable  
Achievable  
Realistic and  
Time Bound

A goal plan might include a list such as:

<table>
<thead>
<tr>
<th>Ultimate goal</th>
<th>Happiness</th>
</tr>
</thead>
</table>
| Business goals      | 5 day work week with two weeks off per year  
|                     | $75,000 annual take home salary - minimum |
| Intermediate goals  | Attain business goals within three years  
|                     | Pay off all school loans in 5 years  
|                     | Pay off all business loans in 10 years  |
| Short term goal     | Earn a minimum income of $35,000 this year  
|                     | See 500 patients this year and gain 500 patients each year for the next 3 years.  
|                     | Work 60 hours per week for first 6 months, 50 hours per week in the second six months and continue working 50 hours per week until able to work to stated goals.  
|                     | Pay off highest interest school loans first  
|                     | Gain profitable operations in 6 months |

These can continue on ad infinitum, until you have sound, concrete goals for your business. Once goals are set, planning can begin.
Setting policy for efficiency

In reality, a business is only in control of income and expenses. As discussed earlier, marketing is responsible for producing income and finance/accounting is responsible for controlling costs and keeping records for analysis. It is management’s role to make the office as efficient as possible so that expenses are as low as possible. Management has the greatest involvement with "TQM" and Management makes things happen. Your role as manager is to make everything and everyone as efficient as possible and to delegate responsibility to insure that efficiency standards are met. The manager controls the resources, both financial and personnel. The manager controls personnel, reviews performance of the business and makes strides to make operations as smooth as possible. Often, in a small business, a major role of the manager is the role of personnel manager.

Employee Policy

Management of employees can be a delight or a nightmare depending on the policies you set as manager. It has been my experience that most employees will perform only up to a standard required by management. Occasionally, some employees exceed those requirements and those employees are the greatest of finds. If you are to expect employees to maintain a standard, you must present a standard. That is, you must tell your employees what you expect of them. This is the role of communication. Your greatest contribution to your business, as far as personnel is concerned, is that of the great communicator. Before getting into specifics of management policy, it is important to remember that employees are human and you are also human. If you cannot communicate effectively, those human relationships will break down along with the efficiency of the office. Personnel are people and have needs, goals and individual differences. You cannot expect an employee to set aside all of their individual differences for the sake of the business. You always have to act as the communicator so that individual problems can be overcome.
Your first act as an employer is to hire, train and explain the job expectations to the new employees. My personal experience (and this is repeatedly reinforced in my sources), says that your best asset for personnel is a printed job description. This job description explains all duties and performance expectations for anyone holding that specific job. You will have several job titles in your office, all of which should have a job description. The job description will tell your employees what to do when you are not available to ask. I would strongly suggest that you develop as detailed and understandable job descriptions as possible before you hire any employees. The job description is your first task as a communicator.

When your job descriptions are finished also develop an employee handbook to give to potential employee when he/she becomes an actual employee. This document will explain the rules of the practice, incorporate the job description, explain benefits and offer other pertinent information. The employee handbook should be signed and dated by the employee as soon as the employee reads and understands the handbook. Items to include might include:

- The Job Description
- Goals of the practice
- Information about all principal owners, partners, etc.
- Practice history
- Compensation package, including base pay, commissions and bonuses, benefits, etc. and items such as pay period and any other specific policies concerning compensation. Also include the salary review process.
- Tax forms to be filed out (W-2 and I-9) by the employee
- Mention holidays, vacations (what is paid vacation), jury duty, etc.
- Sick leave policy, including maternity policies for both sexes
- Any pension/profit sharing plans
- Health insurance benefits including the plan options, availability for review of the policy by the employee
- Dress codes, allowances for uniforms, etc.
- Office hours, overtime and other matters of working condition
- Policy for employee grievance, confidentiality, etc.
- Termination and severance
- Education availability and policy on tuition
- Requirements of attendance at staff meetings
- Instruction to research policies in the "Staff Policy Handbook"
- Other items such as smoking policy, personal telephone calls, discounts on fees and services, etc.
Basically, everything that concerns the employee, should be in the employee handbook. I have always felt that the handbook should include statements by past employees written to new employees about the history of the practice and a description of how some of these policies came about. This lets the new employee gain a sense that their input is desired from the moment they join the practice. Upon signing, the employee should know what is expected of them.

Finally, the establishment of a policy and procedures handbook is important to the employees as a tool to be used to find out how you want something done. The policy and procedures handbook should spell out every policy and procedure related to the practice. These might include;

- "How to" information
  Separate sections for office procedures, paraoptometric procedures, dispensary procedures, lab procedures, etc.
- Who is responsible for what
- Credit policy
- Telephone procedures, such as, correct use, determining urgency of calls, price and fee information given out or not, any log on calls.
- Filing and other paperwork procedures
- Information on office equipment especially cash register/obtaining credit card approval
- Required paperwork on accounting of the days income - general ledger
- Emergency medical situations, 911, poison control, etc.
- Policy on how to handle a robbery or other criminal act. (Basically, you don't want any heros. Tell them that you want to give the criminal anything they want to avoid bodily injury. Tell the employee that you are insured for anything of value.)

When the job description, employee handbook and office policies are combined, employees will have available to them, all information concerning their job and what is expected of them.

REFERENCES and Suggested Reading;

*Hourly Vacations*, Stephen O. Sherburne, Optometric Economics,
Volume 3, Number 2, Feb. 1993, p. 38

*Setting the Ground Rules*, Paul Farkas, Optometric Economics,
Volume 3, Number 2, Feb. 1993, p. 40

*Keeping The Doors Open*, Pamela J. Miller, Optometric Economics,
Volume 2, Number 2, Feb 92, p. 35
1. Hiring and Compensation

Hiring employees should be a difficult task. When I talk with employers that do not have difficulty finding employees, I usually find employers that either have little respect for their employees or have grossly understated job descriptions. Usually this results in high employee turnover and the resulting costs associated with that turnover. Finding employees is like finding family. You had better pick your employees wisely or you will have problems down the road.

Most people approach a new job opening from a variety of channels. The applicants are either currently employed and dissatisfied with their current position or they are unemployed and looking to find a new start. Employed applicants require caution because, if they do not get the job, they will stay at their old job and you do not want to jeopardize their situation if you cannot come to an agreement. This usually means that you cannot call their current employer for references or make it public that this person is looking for a job with you. Unemployed persons have no such problems and can be approached without trepidation. Unemployed persons can come from many situations. You want to gain a real understanding of why they are unemployed. Did they perform so poorly at their last job that they were fired or did they quit because of a problem at work? Are they looking for a new career, which often happens when mother's find their children have grown and they wish to pursue a new role in society. Whatever the applicants situation, you need to gain a full understanding before you begin discussing the job requirements.

After gaining a full understanding of the applicant's situation, you should start discussing the job requirements. The printed job description will often give the applicant great understanding of the position's requirement and act to screen your applicants. After reading and discussing the job and it's requirements, you should start to find out if this person can fill that role. Most people are familiar with the need to have a printed resume, and you should use their resume to familiarize yourself with their accomplishments. Review of a resume takes great care and understanding. The applicant may have no experience in the skills required to fill the requirements of the job. I have found that, except for the optometrist's job, most jobs in the optometric office can be learned quickly, with more difficult skills learned more slowly. Still basic skills may be listed on the resume that may tell you that they can handle the job. Unless you are looking for a previously trained employee, you are looking for a person that has the maturity, desire, intelligence and confidence to learn the new job requirements. The resume may show these in different ways. Look at education, accomplishments on
previous jobs, presence of job-hopping and length of employment periods, special skills, and any other item that will tell you about the person. For positions that require previous training, you want to look at the training source and determine if those skills that you require were trained in their program of learning.

The interview should seek to discover any missing information and gain an assessment of the person's outlook. Ask questions about the resume and probe into their personality. Some questions are illegal to ask of a potential employee, so be careful. You may not request any information that would disqualify the applicant from the job based upon the discrimination laws of the state. Questions such as "Are you planning any children?" may be discriminatory, if you are trying to find out if the person will quit if they or their spouse becomes pregnant. However, you can ask questions about attitude, motivation goals, etc. You want to find out if the person has the needed "people skills" for the job. If the position requires contact with the public, "people skills" are more valued than for a back office person with whom patient contact is limited.

Employee compensation should have several elements. First, the employee needs to be compensated financially based upon fulfillment of the basic job requirements. It is often desirable to compensate employees based upon work above and beyond the basic job requirements. With tangible performance numbers like sales or number of patients seen, job orders filled, etc, compensation programs can easily be outlined. With office jobs, this is often more difficult. How do you reward employees that routinely take it upon themselves to keep the bathrooms clean, or comes up with more efficient programs, or routinely assists other employees? Often bonuses are a good way to show your appreciation. Your employees can be financially compensated with base pay (salaried or hourly), commissions, bonuses, perks such as paid health insurance or pension funds, and any number of other ways. Remember, any financial compensation has to be reported to all taxing bodies.

Money, believe it or not, is not the sole motivator of employees. Many employees are happy with gifts, prizes, trips and any number of creative rewards. Basically, employees should get base pay for doing required work and receive additional pay based upon additional work and overall value to the practice. A personal note on compensation - pensions are a great reward. Explained in a later the section on finance and accounting, a pension rewards employees based upon performance and loyalty. A pension can also work for the employer, but the benefits from offering a pension to employees can often be superior for all concerned.
2. Training

You will need to train every employee that comes into your small company. The training might simply be teaching employees where things are and how you would like things done. You might be required to provide extensive training just to get a person up to speed. Often compensation can be based upon that training. You may pay a gradually increasing base pay as training progresses and the employee gains the skills to take on more responsibility.

Training manuals are helpful if you have the time and skill to produce them. Many components of our industry offer training such as contact lens companies, labs, associations, etc., in the form of texts and seminars. You may even wish to pay for college classes such as opticianry or office skill classes offered at most community colleges. Many companies offer video tape education classes which can be purchased by anyone. You can find many of these training resources at trade shows which you will probably attend from time to time. Many of our trade magazines have regular articles on training employees and are available simply by purchasing the magazine.

Finally, training may take place in an ongoing manner in the weekly office meetings. Sales reps. are usually very happy to discuss their products and services during your office meetings if they can come at your meeting's scheduled time. Employees should be encouraged to discuss information concerning their jobs with these reps. whenever possible.
3. Office meetings

Weekly meetings are vital to the continued progress of any business. Great care has to be taken to hold regularly scheduled meetings. Make the meetings productive and informative, and make the meetings enjoyable to all that attend. Meetings start with an agenda. The agenda can vary from meeting to meeting, but the major portion of the time should be used to discuss the running of the practice. Attendance must be mandatory for all full-time employees and with some required attendance for all employees. For example, if you have weekly meetings every Monday at 9:00 am, full-time employees should be required to attend all meetings with part-timers required to attend the first meeting of the month only.

An appropriate agenda might include discussion of the week's financial goals, satisfaction of a recent problem, discussion of new events, welcoming of any new employees, round-table discussion of any new ideas, mention of new products, development of new policies and many related topics. The one thing a meeting should never become, in my opinion, is a session for employees to gripe between themselves or with you. Meetings have to be productive. Gripe sessions should be handled outside the regularly scheduled meetings. The weekly meeting is expensive in employee time and in your preparation time so they have to be productive. One of the best ways to make meetings effective are to make them enjoyable. Serving food and giving out freebees are great to reach this end. When you rep comes in and announces that he has free T-shirts for the staff, have them distributed at the meeting. Order coffee and pastries to take the edge off the seriousness of the meeting. You can often have the meeting outside of the office, which is always a nice change of pace. The meetings have to be productive and upbeat in order to motivate properly, your job as a personnel manager is to make this happen.

Often you will find that your more skilled employees are willing and able to provide training to the less skilled employees. The weekly meeting is a good time to discuss this and set up a program of cross training.

REFERENCES and Suggested Reading;

*Meeting Responsibilities*, Melvin Lilly, *Optometric Economics*, Volume 1, Number 2, Feb 91, p. 26
4. Performance review

The performance review is an important aspect of communication between employee and employer. The performance review allows the employee to understand any problems related to their performance, understand any progress that they have made in their performance, and tells them if you are concerned about their performance. If all goes well in other areas of personnel management, performance reviews should be an uplifting, positive experience for all concerned. You want to discuss problem areas and you want to offer praise for a job well done. The employee may take this time to reconfirm misunderstood directions, discuss a problem related to performance or to tell you what they think of your performance as an employer. This is the time to reestablish broken down communications and to develop loyalty. If you are a proponent of "TQM", this performance review acts to make sure that your employees are happy and loyal, not unlike quality control in a manufacturing plant.

REFERENCES and Suggested Reading;

How to Keep Star Performers, Mark Silverman, Optometric Management, Oct 92, p. 37

5. Termination

Termination can be the result of many situations. The employee may decide this job is not for them. The employee may retire. The employee may find a job more suited to their needs. The employee may have performed their job poorly enough to warrant termination. Whatever the reason, termination has to be handled professionally, with courtesy and dignity on the manager's part. Policies have to be established, in advance, regarding termination. Termination for any reason other than poor employee performance, may require you to pay severance pay and allow the collection of pension benefits. These provisions should be already spelled out in the job description, employee handbook and office policy and procedures handbook.

The happiest situation is the mutual decision to end employment due to a new life situation such as birth of a child, marriage, retirement, etc. This often involves disbursement of any severance/pension/benefits and a handshake for good luck. Sometimes, things just don't work out between an employer and an employee. Often, this is as much the fault of the employer as the employee. In the job description, employee handbook and office policy and procedure handbook, a description is given about what is
expected of each employee and what actions make termination necessary. Repeated variations from the stated policies, within reason, should be dealt with in the performance review. After the employee has repeatedly varied from the set policies and has been amply warned, termination should begin. Forced termination of an employee may have legal implications, so care must be taken to avoid any termination based upon either discrimination or any form or unreasonable expectations of the employer. However, after repeated discussions of policy violations, you may have to fire an employee. If any severance pay is warranted, severance pay should be issued at this time. Additionally, the employee may receive unemployment benefits if they show that they were not fired, so the manager needs to make sure that the employee knows this at the time of termination. It is important to have everything in order if you intend to refuse to allow an employee to receive unemployment benefits. When the employee is terminated and applies for unemployment benefits, the practice will receive a form from the unemployment office stating that the employee has requested unemployment benefits. The form will ask you to verify the cause of the termination. If you state that the ex-employee was dismissed due to poor job performance, you may be required to prove it if the ex-employee says differently. This is a serious matter involving possible legal action. You may have to show, in court, that the employee was terminated for poor performance - and you may need documentation to prove it!

Two final points about termination. First, if you are involved in a partnership, it is important to inform your partner that you intend to terminate an employee. Second, employees terminated based upon poor performance should be terminated immediately. Employees leaving under other circumstances may give you some time to find a replacement; often two weeks.

6. Embezzlement

It is a sad fact, but employees do embezzle. This embezzlement can take many forms and occur for many reasons. Employees can embezzle money, inventory, office equipment and anything else of value. You may find that items such as pens, pencils, contact lens solutions, contact lenses, frames, and other small items are stolen every day by employees. Petty embezzlement is so common that I can't think of anyone that hasn't taken something from work. In fact, as I write, I notice that I have 3 Pacific University pens in my pen holder on my desk. You should not expect employees to be above taking items of minor value. I will concentrate the rest of this section on serious embezzlement.
I have found that embezzlement occurs for these reasons, but not these reasons alone:

- Employee dissatisfaction
- Distressing personal life situation
- Basic dishonesty (not always evident regardless of pre-employment screening)
- A feeling that something is owed to them beyond any pay
- A feeling that petty theft is not really embezzlement
- Having no one to check them, especially employees that handle cash

There are ways to monitor employee embezzlement, and therefore reduce its occurrence. I would suggest:

- Use a posting system that enables you to enter charges and payments simultaneously on the general day sheet or ledger
- Assign financial record keeping to one employee, however be careful to monitor that single employee regularly
- Compare patient sign-in sheet to receipts.
- Make regular and frequent reconciliations with bank records
- Have employee's initial all work
- Review transaction slips
- Mark all checks "For Deposit Only"
- Keep duplicate records of all deposit slips and compare to the day sheet.
- Balance day sheet with deposits every night
- Sign checks for invoices only when the invoice is present for review
- Never allow any financial records to leave the office by employees
- Take regular inventory
- Only open large boxes of inventory one at a time. i.e. contact lens solutions
- Make sure your accounting system has procedures for checks and balances to insure against embezzlement by partners, accountants, etc.
- Personally monitor all aspects of the business and let employees know that you are involved in monitoring.
- Watch for the "Danger Signs" which include:
  - Past-due notices from suppliers
  - Missing ledger cards or patient records
  - Any increase in the number of petty cash checks that you write
  - Increases in operation expenses, especially sudden
• Complaints from patients about discrepancies in their accounts
• Infrequent balancing of accounts receivable
• Checkbook not up to date in balances carried forward or reconciliation
• Noticeable changes in employee attitude or mood
• Unusual overtime requests
• Employees that don’t want to take vacations
• Employees that are having serious personal problems
• Employees that take accounting work home with them
• Employees that assume more financial control
• Employees who seem to have an abrupt increase in lifestyle - better clothes, more expensive trips, etc.
• Unexpected requests for job termination

Often your C.P.A. can help you review your records to monitor for employee embezzlement. Additionally, there is insurance available to cover employee embezzlement, so ask your insurance representative to discuss what is available. You may choose to have your employees bonded. Bonding is a form of insurance for you and it tells the employee that the bonding company will also be watching them. There may be legal problems for you as a result of bonding employees, so check out bonding with your attorney.

REFERENCES and Suggested Reading:

Developing an Employee Handbook For The Optometric Practice, Professional Enhancement Monograph, AOA Publication, 1984

Rigid review of financial statements

Short and sweet - you must regularly review your financial statements. In the section on accounting and finance, you will find information on how to prepare and analyze financial documents. You should monitor financial documents, at least, monthly. You should obtain an income statement and balance sheet at the end of every month and review these with care. As is shown in the section on finance and accounting, you can learn a great deal about a business by a review of the financial statements. In addition to monthly viewing of statements, you should monitor income and set goals for gross income every week which should be discussed at the regular monthly employee meetings. As with the assessment of patient health, financial review assesses the health of the business. If you find a problem quickly
enough, it may be corrected before the business is compromised. Let me suggest a few items to look for in the financial records:

1. Gross sales vs. projected sales and changes from prior year
2. Income from different departments
3. Cost of goods sold
4. Expenses that are out of line
5. Check for proper preparation of the statements
6. Check accounts receivable for proper balance and monitor turnover
7. Check records to monitor for embezzlement
8. Monitor marketing effectiveness
9. Check for employee performance changes - better and worse
10. Analyze the ratios for any trends vs. prior year and industry standards
11. Monitor cash flow and act to rectify any negative balances
12. Set goals for next month/year
13. Review debt
14. Investigate any unusual account balances
15. Compare reported vs. audited figures and determine reasons for any audit adjustments at year end

Patient flow

Patient flow deals with areas such as scheduling, recall, how to use technician assistance and the actual physical flow of the patients in and around the office. Often overlooked, proper patient flow can be a major component of efficiency. Also, happy patients become loyal patients, so, if you have a patient flow system that allows for short waiting time and fluid flow, you will be enhancing loyalty into your existing patients.

REFERENCES and Suggested Reading:

*The Profit Builder: How To Unclog a Congested Practice*, Christine Winslow, Review of Optometry, Volume 128, Number 8, August 1991, p. 43

*Profit Builder: These Steps Avoid an Inefficient Office*, Christine Winslow, Review of Optometry, Volume 128, Number 9, September, 91, p. 48

*Put Pretesting In Your Practice*, Chris Thumann, Review of Optometry, Volume 128, Number 9, September, 91, p. 57

Technician assistance

There are some practitioners that do not use technicians and there are some that depend upon them. Use of technicians is a personal decision. Many argue that using technical assistants allows you to increase the number of
patients seen in a given time. Others argue that fixing mistakes and possibly having less time with patients destroys any gains from having the help. This is your call. One thing that you can be sure of, technicians cost money, so you may not be able to afford one when you first start out.

Some advantages for the use of technicians;

- Increase in number of patients that the Dr. can see in a given time period
- Allows the Dr. to have time to perform more sophisticated, diagnostic tasks and to be able to delegate other routine tasks
- Patients like and expect the Dr. to have assistants
- Possibly less waiting time for patients

Disadvantages might include;

- Increases in payroll cost (usually $6.00 to $12.00 per hour)
- Equipment requirements (may need another complete lane)
- Mistakes (errors, miscommunications, disagreements)
- Redundancy of some tasks to check technicians or to recheck unusual exam findings (tonometry, CL insertion)
- Problems associated with personnel (i.e. moods, missed work)

The point is, you will either decide to use or not to use technical assistance and it is important to plan your patient flow around that decision. Are your patients expected to see you or a technician after checking in with the receptionist? This is quite important.

You may also have to decide how much to delegate to the technicians. I worked in one practice that relied so heavily on technicians that the technicians performed all tasks up to dilation. I worked in another practice that used the regular staff to perform auto-refraction, fields and lensometry only. Obviously, these different methods of technician use require different skill levels within the technicians themselves.

REFERENCES and Suggested Reading;

*Train A Technician You Can Trust*, Christine Winslow, Review of Optometry, Volume 128, Number 3, July 91, p. 26

*The Chairside Assistant in Primary Care*, Neil B. Gailmard, Optometric Economics, Volume 1, Number 11, Nov. 1991, p. 12

*Delegation = Survival*, Irvin M. Borish, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 30
Scheduling

Your method of scheduling may depend on both your mode of practice and your reliance upon technical assistants. For example, if you are a sole practitioner with no technical help, you will have different scheduling requirements than a three Dr. staff which employs four technicians. Scheduling also will differ based upon your patient type and any specialty optometric services that you may offer. For example, a VT practice that uses trained VT technicians will have different scheduling requirements than a large CL practice that may offer limited VT services. Scheduling, as you can see, depends on the type of practice you are involved in.

Patients expect to call your office, talk to a staff member, and schedule an appointment over the phone for a date in the near future. You will need to offer available appointment times, within the patient's own requirements, and be able to do so on a regular basis. Hopefully, you will find yourself with a schedule of patients that is full and reaches far into the future. Most often, this is not the case, because patients will not commit to an appointment time in the distant future, and, even if they do, the chance of "no show" increases. We want to be busy, but not unaccessible.

The components of scheduling include:

- Doctor's hours
- Time required per exam type (expanded, focused limited, etc.)
- Patient type (infant, handicapped, elderly, CL f/u, VT, etc.)
- Availability and ability of technical staff
- Routine or emergency

With these variables, you should set your schedule. Your schedule can be altered based upon manipulation of these variables. Often you will find Doctor's hours will compete with patient's scheduling needs. In other words, you can either alter your work schedule to meet existing patient schedule or you can alter the patient schedule to meet your desired hours. For example, you may decide to clump patient types in some days and see only routine or new patients on other days. Patients often like evening/weekend appointments due to their work schedule and you may decide to work a few Saturdays or a set number of evenings to meet those needs. You may want
to see most CL f/u's at a particular time and schedule only 15 minute slots. You might decide to schedule a two hour lunch break to overcome any time overruns in the AM schedule. You will have some patients that do not require scheduling during Dr.'s hours. Staff may be able to perform routine automated visual fields, handle tear testing, color vision testing, f/u visual acuity testing and f/u keratometry all of which will not require the presence of the Dr. Obviously, emergency patients are handled differently than routine patients, but even emergencies differ. You will need to deal with a foreign body differently that an alkali chemical burn and all scheduling may have to be altered to handle such emergencies.

In the literature, you will find all sorts of suggestions on how to schedule appointments. I suggest that you put some thought into how you will schedule your patients based upon the above listed variables. There are always going to be conflicts between the Dr.'s hours and the needs of the patients. You will have to decide on how your schedule will resolve that conflict.

REFERENCES and Suggested Reading;

*Make Every Weekend Four Days Long*, Richard Shuldiner, Optometric Management, May 92, p. 26

**Recall**

Your recall system will also affect your schedule. If you automatically enter patients into the schedule for a recall in one year, you will have a great number of no-shows if you do not follow-up on that appointment with a card or phone call. Recall methods differ as much as any other method in patient scheduling. You will need to establish the time frame for recalls and, at times, that time frame should be varied according to specific patient problems. You may decide on a 2-year recall for routine patients, 1-year recall for CL patients and other times for other patients. The recall system (hopefully computerized) will need to reflect these differences. Most optometric software has recall capabilities. Refer to the appendix for a catalog on available computer software. Without a computer, you can simply use the method of having the patient fill out a postcard, date the card and send it out before that date. You will need to follow up all recalls with some form of reminder just before the appointment or you will have an increased number of no-shows. Having a staff member simply call to confirm all appointments two or three days before the scheduled time will make schedules accurate and allow you to make any adjustments to enhance patient flow. For example, if you find that you are booked heavily, you can
add personnel, solicit the assistance of your partner, offer patients alternative appointment times, or any number of possible solutions. However, if you do not know if these patients are planning on coming, all your pre-planning will cause increases in expenses and possible personnel disputes. Get commitments from your scheduled patients to avoid patient flow problems resulting from over-booking or no-shows.

REFERENCES and Suggested Reading;

Total Recall, Richard Shuldiver, Optometric Management, July 91, p. 14
Beyond the Postcard, Richard S. Hubler, Optometric Economics, Volume 1, Number 2, Feb 91, p. 12

Physical flow

Patients have to move around the office and that physical movement itself has to be controlled for purposes of efficiency. You want your patients to enter your office, see the receptionist, fill out any needed paper work, enter the waiting room, see any technical assistants, see the Dr., visit the dispensary, visit the cashier and exit the practice all within a reasonable amount of time and without causing any chaos with the staff or other patients.

1. Reception

For most practices, the first point of contact, beyond the front door, is the reception area. You want the reception area to be easily assessable and well identified. At the reception desk, the patients will offer their name and appointment time, fill out any paper work, learn of your payment policy and be directed to the waiting area. Obviously, you want reception to be a pleasant experience for the patient. To that end you will need a receptionist that will be available to the patient immediately, have a pleasant manner, possess knowledge of the office policies concerning the patient and who can answer patient's questions.

In addition to the receptionist themselves, the reception area needs to be pleasant. The counter top should be at a height that allows for smooth transactions and allows the patient to write. The receptionist's desk should be equipped with a telephone, typewriter, computer terminal, patient exam files, required paperwork, clipboards, pamphlets and an ample supply of pens for the patients in addition to regular office supplies. The receptionist will typically have multiple duties and they will need to be equipped with
everything they need to complete their other tasks. The receptionist will also need easy access to other areas of the practice, so make sure that the reception area is accessible for both patients and personnel.

REFERENCES and Suggested Reading:

Room For Improvement, Denise Osburn, Optometric Economics, Volume 1, Number 10, Oct. 91, p. 28
What Does Your Reception Area Say About You, Jack Persico, Optometric Management, July 92, p. 33

2. Waiting room

The waiting room will be filled with patients waiting for examination, filling out paperwork, waiting for dilation in addition to those persons simply waiting for others to finish their examination. These people will have different personalities and different schedules of their own, so your waiting area will need to fill the needs of all of your patients. A filled waiting room causes anxiety for everyone.

The waiting room need to be accessible to both the reception area and to the next station, so plan accordingly. You don't want traffic tie-ups. As mentioned in the section on marketing, you want to fill the waiting room with activities to pass the patient's time. Items such as reading material, optometric educational material, TV for viewing regular programs or in combination with a VCR for viewing desired programming, possibly an area separate for children and any other activities to help pass the patients time. For some busy patients, access to a telephone will be appreciated.

Finally, the waiting room needs to be comfortable. Design of a waiting room may require the assistance of a professional designer to assure efficiency and comfort. Bright, cheery colors that combine to form a decor is appropriate and furniture that is comfortable are all minimum requirements. Be careful to have access to rest rooms. You will need some capability to handle wheelchair bound and other handicapped patients.

3. Exam time

Your goal should be to use the minimum amount of examination time needed to complete a thorough examination. Adding technical assistants and additional equipment may decrease the Dr.'s exam time, but will it decrease the patient's exam time? It is my opinion that patients really don't know what to expect, yet they expect an exam to take only as long as the
testing required for examination - or minimal waiting. The patient may not care if the exam is 20 minutes or 1 hour as long as they were being tested the entire time. My personal suggestion on exam time would be to fill the patient's time with testing by the Dr. or assistants, yet only do testing that fills some diagnostic or "standard-of-care" need. Remember, the patient has a schedule also. The patient came in to be tested, not to wait, so if their time is filled with testing, they are happier and leave with a positive feeling.

4. Flow to dispensary

After examination, the patient should be introduced personally to someone in the dispensary. The frame board is an overwhelming thing to a patient and, I believe, that patients require assistance from trained staff to make an appropriate selection. The dispensary may be visited during dilation or before/after the exam, but the patient must have some help when picking out frames. The dispensary time may also include choosing CL enhancement tints with trained personnel. You want to limit the use of the more valuable Dr.'s examination time and have patients pick out CL colors in a special CL dispensary area. One technical assistant or staff member may have their entire job task involved in CL matters in a large practice. As with any staff member, you want personnel in the dispensary to have a pleasant attitude and appearance and have enough skill to help patients make difficult choices. Refer to the personal selling section within the marketing section for techniques in closing-the-sale (aka helping people make choices).

5. Payment

At the end of the entire exam and dispensary process, the patient will be required to pay for selected products and services or make arrangements for third party coverage. To do this adequately, your personnel should understand the credit and reporting policies of the office. Often, the dispensary staff can handle this task with great skill and ease. In larger practices, there may be a single individual, often the receptionist, that handles this task. The person responsible for collecting payment and rescheduling will need to have access to the scheduling book in addition to the general ledger. Often, the reception area can double up for this task since this is the place that generally houses the schedule. You will also need a cash register or computer terminal with printer in this area in order to collect payment.
Paper flow

Just like the patient flow, the paper flow requires management for efficiency. Usually, an optometric office will have multiple paperwork, often more than our colleagues in medicine/dentistry/etc. since we also prescribe an eyecare product that must be specially made for the individual patients. Some of the required paperwork in an optometric practice might include:

- A "Welcome the new patient" form combined with your credit policy
- Previously established patient form
- Examination recording form
- Superbill
- Rx form
- Lab and product ordering form
- Bookkeeping forms - daily ledger, purchase order, inventory
- Third party billing forms (HCFA form 1500)
- Patient signature cards
- Patient direct billing forms and other accounts receivable forms
- Literature/pamphlets/business cards
- Individual contracted lab forms
- Patient recall forms/letters/postcards
- Ancillary testing forms
- Government forms (DMV, Certificate of Blindness, etc.)
- Logs of calls/marketing monitoring/etc.

The AOA and other private businesses offer pre-printed paperwork that you can purchase. You can purchase one of the third party billing forms, HCFA #1500 from the government. Included in the appendix are some catalogs showing examples of printed forms that are available to optometrists.

Upon entering the office, a patient is given the new patient form with standard questions and statements of policy. Since a beginning of the case history is included in part of this form, this form must be presented to the doctor before examination. The superbill is also started with name, address, etc. and this is also given to the doctor. Finally, an examination form (or blank sheet if preferred) is offered to the doctor for his/her notes on testing.

After examination, the doctor will circle items on the superbill which will represent diagnosis and treatment received during the examination. The prescription can also be written on the superbill so that, when presented to the dispenser, this needed information is available. The dispenser can then use the same superbill to fill out orders to the lab. The items of the examination and the eyecare products can then be priced and the superbill
becomes the cash ticket and receipt. If you use a cash register, the register ticket, credit card slip and any other supporting documentation can be stapled to the superbill. The patient and lab all receive one copy each and one copy remains in the patient's file. The patient is then given a separate prescription, if requested. You can also find computer programs that allow for all superbill documentation to be stored, processed and retrieved for multiple uses including electronic filing for third-party coverage.

Super bill

This is the bill with insurance codes and diagnostic codes all listed on one sheet. This can easily transformed into lab forms, money slips, third party billings, office data base, patient receipt and other uses. The use of the superbill can offer the greatest input towards efficient paper flow because everything you need to know about the patient can be included in the form (except, of course, the patient medical records and optometric testing results). Included in the appendix is a copy of Pacific University's superbill for your reference.

Rx forms

According to Eyeglasses I ruling from the FTC (see Legal Section), optometrists are required to offer spectacle prescription to any patient that has requested the prescription and paid the examination fee. In terms of the office flow, it is important that dispensary personnel receive the spectacle prescription after the examination. The prescription should list all items related to the finding in order for a lab to manufacture spectacles. This includes sphere power, cylinder power, axis, add power, any prism written in base direction form and any other components such as tint, seg. type, etc. Forms are available from the AOA.

In therapeutic states, you will also be required to write prescriptions for therapeutic drugs, so forms need to be available for this need. These are also available from the AOA.

Lab forms

Labs require any information pertaining to the spectacles needed for filling the order. Most larger labs will offer you preprinted forms for you to use so they can process your order efficiently. You may use your own form, but many large labs require transference to their forms, so know the policy of your lab.
Filing and records maintenance

You are required to maintain a printed copy of examination forms and you are required to store those records into the future. Obviously, the amount of stored material will be determined by your record keeping system and the laws of your state. The problem of storage can be lessened with minimal paperwork. Often, you will be able to include only examination records, superbill, signature cards and new patient records. There are many imaginative systems of filing available.

Credit policy

With a credit policy, you want to balance the requirements of your patients to the needs of the business for cash flow. Whatever your policy is, you should stick to it without exception and your staff has to understand this. For example, you may require full payment of optometric services and a 50% deposit on all materials. Now, if a patient has $70.00 in exam fees and $200.00 in materials, you need to collect $70 + $100 = $170.00. You will find that your employees may think that your policy means to collect 50% of the entire bill or $135.00. This can become a big problem if employees don't fully understand this aspect of your policy.

Additionally, the office needs policies on employee discounts and Dr.'s friends/family discounts. You will set your own policy, just stick to it. In our profession, it is wise not to have a balance in accounts receivable of more than 30 days gross revenue.

REFERENCES and Suggested Reading;

Reducing Accounts Receivable, Linda L. Miles, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 23
Controlling Credit and Collections, John Muellerleile, Optometric Economics, Volume 1, Number 2, Feb 91, p. 17

Cash

Cash is cash, but checks are often considered cash as far as your bookkeeping is concerned. On your daily ledger, you will separate cash and checks and at the end of the day, you will reconcile these entries. You will find that "bad check" writing is not a big problem in our profession. You may, however, need a "bad check" policy to recover any charges imposed upon you by the bank as a result of handling the bad check.
Credit cards

Offering credit via credit cards is not free. Bank cards, such as Visa® and Mastercard®, will charge as much as 3% of the transaction. American Express®, Diners Club® and Carte Blanche® charges as much as a 6.5% transaction fee. You can negotiate your bank fees on bank cards and you may negotiate the time at which the bank collects their fee from your account. It is to your advantage to have the fee drawn once a month as compared to daily due to the time value of money discussed in the section on finance/accounting.

Third party co-pay

Most insurance companies and Medicare accept HCFA form #1500 for processing claims. Most computer programs offering electronic filing offer formats that copy HCFA form #1500.

Since HCFA form #1500 is such an important form in our business, let's discuss this form. When you sign up to any third party coverage group including Medicare, you will receive the directions for filing the proper forms, usually HCFA form #1500. Insurance billing can be difficult and tie up your cash flow if you do not do it properly. First you must understand the insurance codes noted as ICD-9-CM, HCPCS (which has three levels), and EMS.

The ICD-9-CM stands for International Classification of Disease, Edition 9 - Clinical Modification. These codes are 5 digit codes with three digits, a decimal point, followed by two more digits. These codes are available by purchasing the ICD 9th Edition manual. These codes refer to diagnoses of medical conditions. The Pacific University superbill offers codes for most of the common ocular conditions. This code will be placed on line 21 on the HCFA form 1500. An important note, refractive conditions are not covered by Medicare and most insurance companies, so don't expect reimbursement if you enter a refractive code on line 21.

HCPCS stands for Health Care Procedural Coding System and is administered by HCFA, Health Care Finance Administration. HCPCS offers codes for procedures and comprise a five digit code with no decimal points. The Pacific University superbill offers the HCPCS codes next to the procedures for most ocular conditions. These codes are listed on line 24-d on the HCFA form 1500. These codes are available through HCFA or the AMA. You will note that some of these codes have modifiers which often distinguish test subcategories. HCPCS has three levels of coding. The first level is CPT-4,
which stands for Current Procedural Terminology, Edition 4, and this code level is usually what is referred to when talking about HCPCS codes. The second level codes are National Material Codes used for durable medical equipment costs. These codes are also five digits, however the first digit is a letter A-V. These codes include frames, lenses, gauze, tape, etc. Enclosed in the appendix are most HCPCS level II codes for ophthalmic equipment. The third level codes are regional material codes for those items not in the national material code. These codes are also five digits and begin with a letter W-Z. You may have to call your regional Medicare provider or the insurance company to get these codes.

The EMS codes are the level of care codes for outpatient procedures. These codes are Dr. dependant because the Dr. is legally responsible for their accuracy. These are five digit codes starting with 99. Enclosed in the appendix are the codes for different levels of care and the criteria for each level.

A few final notes on HCFA form #1500. The directions are clear as to what is required on each line of the form, however some information is more important than others. If line 10 has any "yes" answers, your claim will usually be rejected because Medicare or the insurance company are not the proper agencies for this claim. You must require a signature card from your patient, which is retained in their file, authorizing you to receive direct payment. You will then write "lta on file", for "Lifetime Authorization", on line 12 and 13. You will be assigned ID numbers by the carrier. HCFA form #1500 must be printed or typed or it will be rejected. You have to use the HCFA form #1500 itself, not a photocopy because it is optically scanned for processing. A copy of HCFA form #1500 is included in the appendix.

I highly recommend that you take the time to learn the codes and how to use them. Our health care system may change, but the coding system is bound to be used into the future.

REFERENCES and Suggested Reading;

Turn the Tables on Insurance Hassles, Kerry Beebe and Robert Carter, Optometric Management, May 92, p. 30
Medicare 1992, Harvey P. Hanlen, Optometric Economics, Volume 2, Number 2, Feb 92, p. 41
Keeping Them In Your Chair, Gilbert D. Weger, Optometric Economics, Volume 1, Number 4, April 91, p. 29
Billing

Billing will take one of three forms, HCFA form #1500 or similar, electronic filing or direct billing to patients. I have already discussed some aspects of the HCFA form #1500, so let's turn our attention to items required for HCFA billing, direct patient billing and other billing procedures.

HCFA can take 27 days to even look at your batch of bills if they are mailed to Medicare (17 days if electronically filed). If you only bill Medicare once per month, you may have some claims that are not even looked at for almost two months. If you make errors, the payment time can be longer. It is important to process claims rapidly. As a note on policy, Medicare pays 80% of the maximum allowable fee for a particular procedure. The other 20% is collected from the patient or filed against another Medicare supplement insurance carrier. The allowable Medicare maximum fees are published and based upon a system called RB-RVS (Resource Based Relative Value System). This system sets up three variables;

1. the work required to perform the procedure,
2. the expense to administer the procedure and
3. a malpractice factor.

These factors are then compared to still another conversion factor for surgical vs. non-surgical procedures and the product is the maximum available fee for that procedure. These fees are easily calculated by using government published tables (also published intact by the AOA and available from the AOA). Medicare and most insurance companies handle claims as they come in one at a time or in bunches. Finally, as mentioned before, Medicare and insurance companies pay for MEDICAL PROCEDURES ONLY so don't plan on getting reimbursed for refractions independent from medical procedures. It is wise to photocopy both sides of the patient's insurance card at the time of first visit. The card has group and individual ID numbers in addition to the name, address and telephone number of the insurance carrier so you know where to file the claim.

Billing patients is a whole different thing. People have a difficult time understanding bills that itemize medical procedures. You need to make it clear on the bill how much has been billed to the third-party and how much
the patient owes. Of course, it is best to collect all fees at the time of service. People often receive their paychecks at the beginning and at the middle of the month. It is best to bill in such a way as to make sure that you bill comes at paycheck time, so it can be beneficial to bill just before month end. The cost of billing can be very expensive, so you want your employees to understand all credit policies of your business.

REFERENCES and Suggested Reading;

*Professional Courtesy*, Laura Sachs, Optometric Economics, Volume 1, Number 11, Nov. 1991, p. 39

*The Golden Fleece*, Judith Silverstein, Optometric Economics, Volume 1, Number 2, Feb 91, p. 25

*When Credit Fails*, John Muellerleile, Optometric Economics, Volume 2, Number 1, Jan 92, p. 25

**Past due policy**

Interest may be charged to patients for overdue accounts if you choose. There are laws that regulate how much interest you can charge, so be careful of the APR of your stated interest. The patient is not legally bound to pay this interest unless they have signed a form accepting your credit terms. It is therefore important that your patients read, understand and sign your credit policy when they become a new patient.

When an account becomes "past due", you need to handle it immediately with a follow-up card or phone call. There is very little reason to expect a person to pay a bill on the 100th day if they didn't pay on the 16th day, so you need to pursue all past due balances over 30 days. Remember, account receivables decrease in value for every thirty days past due. At last resort, you can hire the services of a collection agency or you can place a lien against their property in the amount of the bill.

REFERENCES for entire Management Section;


Notes from OPT 862, *Optometric Economics and Practice*, John Rumpakis, Jan 94

*The Business of Optometric Practice*, Marc Provencher, Advisory Enterprises, 1975
FINANCE AND ACCOUNTING

The basic role of finance, as mentioned earlier, is the management of the business's funds. Finance deals with areas such as acquisition of funds and investment of funds related to the operation of the business. Accounting has the role of managing the flow of money and accounts from the day to day operation of the business, preparation of the financial statements and preparation of various reports such as payroll and income tax. In a small business, such as an optometric practice, these areas of business become so intermingled that we can consider them as a single entity. In this section, we will discuss those areas of accounting and finance that pertain to the operation of an optometric practice, such as, acquiring funds, banks, financial reports, taxes, and how to use the appropriate professionals. The areas of finance concerning investment will be limited for several reasons. First, financial instruments are numerous and understanding those markets is difficult. Second, the purpose of this thesis is not to teach investment and is geared to new graduate, who, presumable, has limited funds. Finally, when the day comes that you have money to invest, you will probably not need this manual for reference. So, let's begin with acquiring the funds necessary for starting a business.

Obtaining funds

There are many ways to raise money for beginning the operation of a business. Since most new graduates have little money, one of the first source of funds explored is the bank loan. However, other funds are available, such as capital stock, non-bank lenders like insurance companies, commercial paper, trust receipt loans against collateral and a multitude of others. We will start out learning the basic parts of loan agreements and then we can expand on that to gain an insight to the other sources.

Money has time value and that time value is one of the components of the cost of borrowing money. When you attempt to borrow money several variables have to be understood so you know how that money is to be valued.
Most components of a loan include:

1. the principal amount borrowed, which is the present value,
2. the interest rate, or the periodic charges by the lender representing the cost of the borrowed principal,
3. the term of the loan, or length of time, expressed in periods (usually months), of the time required to pay back all costs of the loan,
4. the number of payments required to pay back the loan,
5. the ending cost of the loan, or the future value.

The preceding items represent the basic components of a loan. Other parts of a loan can include points, fees, down payments and other items. These effect the calculation of the basic components above. Banks often hide some of the costs of the loan and legislators have required that all costs of a loan must be calculated into an A.P.R. or annual percentage rate. This rate includes all costs and fees in the loan expressed as a percentage of the principal on an annual rate. This was done to protect the consumer. When you see an interest rate expressed, for example, as 10.5%, you may find in the small print that the A.P.R. is 14.6%. The second percentage represents the increase in the loan rate to account for fees such as points.

A loan then is the combination of these funds and any loan calculation can be made with these variables. For example, if you require a loan in the amount of $250,000 to start your business and the current APR is 10%, the remainder of the loan can be easily calculated using a basic financial calculator or loan amortization schedules. If you want a 20 year loan, with monthly payments, your loan payments, based upon the above principal and interest amounts, would have the following calculations:

**TERMS**

Principal = Present Value = $250,000  
APR = 10%  
Number of payments = 20 X 12 = 240  
Int./period = 10%/12 = 0.8333%

**CALCULATIONS** - based upon tables or with a financial calculator

Monthly payment = $2,412.55  
Total cost over 20 years = $579,012.98  
Amount of principal paid in first payment = $329.22  
Amount of principal paid in last payment = $2,392.61  
Cost of all interest = $329,012.98
Other costs of funds includes points, or a fee paid in the beginning to the bank, expressed as a percentage point of the principal amount of the original loan. For example, a 2 point fee is 2% of the amount borrowed (2 points on a $100,000 loan would be $2,000). This fee is collected by the bank up-front and can be paid in various ways including adding it to the loan amount. You might find fees such as origination fees, down-payment requirements, application requirements and many more. These fees may or may not be included in the A.P.R. so, be careful to read and understand all aspects of a loan.

REFERENCES and Suggested Reading:


Types of loans

You can borrow money many different ways and for many different reasons. Lenders have created many individual financial instruments that provide special loans for special purposes. This area is complicated and beyond the scope of this thesis. However, be aware that you can find a specific loan to meet a specific need which can be customized to include various lenders and various terms.

Basically, there are two types of loans, long-term and short-term. The cost of borrowing funds varies based upon the length of the loan. Interest rates are based on changes in the bond markets and government policy. Banks borrow money from the federal government in the form of loans from the federal reserve banks and the cost of that money to the banks will be one of the determining factors in the cost of that loan to you. Oddly enough, most of the debt of the U.S. government is in short-term instruments. This helps the government leverage the markets, so that the government has better control over financial markets. For the rest of us, it is better to fund long term projects, such as starting up a new business, with long-term debt and fund short-term projects, such as cash flow management, with short-term debt. Long term debt usually, but not always, has a lower stated interest rate than short-term debt. Long term debt usually has provisions for the lender to gain better access to your money, such as adjustable interest rates and guaranteed maximums. Long term debt is often tied to a government bond, called a T-bill (for Treasury bill) and the prime rate (the interest charged to very large borrowers). This allows the bank to raise and lower the interest rate of your loan based upon changes in their costs of obtaining funds. This loan is called an "Adjustable Rate Loan". It is very common practice for
banks to structure loans in this manner. As an example, your loan might begin as a 10% adjustable rate loan with a maximum rate "cap" of 19% adjusted to the U.S. government's 90-day T-bill and might end up having an average interest rate of way over the original 10%. Depending on the terms of the loan, when the bank's cost of money goes up, yours may go up. Again, it is important to understand all provisions of a loan so read it fully! Short term loans usually have a fixed rate that is not tied to financial markets beyond the loan origination date. For example, you might need $3,500 to cover your cash flow in a bad month of operation and this would be a good reason to get a short term loan. Usually, short term loans have lower loan fees but have higher interest rates. You might call the bank and ask them to loan you the $3,500 for thirty days only at a rate of 13%. A line of credit, such as your bank card, is a good example of short term debt. A note of interest on the policies of the U.S. government; every week the government auctions short term notes in the form of T-bills to raise the money for funding one week's operation of the government. Our government borrows money from the purchasers of those notes to run the government! So, as taxpayers, we have funded the vast majority of the U.S. debt in short term, high interest money!

Sources of loans

For most small investors, banks are the primary lender of money so we will concentrate on obtaining bank loans. Banks are interested in making money and they do so by charging you more money than they are charged by the federal reserve and other sources. Banks have many restrictions placed upon them by the federal reserve banks and federal government including cash-on-hand requirements, financial accounting requirements and minimum asset valuation. These restrictions are designed to maintain protection for the bank (and therefore the bank's customers) against failure. Unfortunately, these restrictions do not always work as evidenced by the recent savings and loan association disaster of the 1990's. Additionally, banks must be willing to accept risk the risk that you will repay a loan. So, included in the bank's financial assessment of your new enterprise is an assessment of the repayment risk. The price of that risk is paid by the borrower in the form of higher interest rate. It is in the best interest of the borrower to show the bank that borrowing funds for your new business is of very little risk. This is usually done, by the borrower, in the form of a business plan. Later, we will discuss that plan, but understand that if your business looks great, the bank may charge you less interest to borrow the money. If your business looks risky, the bank may charge you a higher rate or decline to loan you money entirely.
**SBA and other loan guarantors**

One way to reduce the risk to the bank, and thereby obtain lower rates, is to gain the confidence of a third party (that has great credit) and to have that third party guarantee to the lender that the loan will be repaid. In smaller loans, like auto loans, these loan guarantors can sign up for the total principal amount and co-sign the loan. In this way, an 18 year-old person with no established credit can establish some credit. The co-signer guaranteed the lender that, if the other party did not fulfill the requirements of the loan, the co-signer would. "Dear-old-dad" co-signed my first loan, I established credit, and the next time I borrowed money, I had proven to the lender that the risk was small, so I didn't need a co-signer. In larger loans, it is difficult to find a third party to guarantee the amount of the entire loan. However, banks are more than happy to use loan guarantors for parts of the loan. So, "dear-old-dad" can help me again.

The largest loan guarantor for small businesses in the U.S. is the Small Business Administration or SBA. The SBA is a government agency that guarantees loans in order to stimulate the growth of small business. The best part of an SBA guaranteed loan is that the lender will loan you money at a far reduced rate, often 5% on all or part of the loan. The SBA has offices all over the U.S. and are thrilled to hear about your business. They have many requirements that change based upon new laws and the types of business that they feel need to be a part of the community which they serve. The SBA offers direct loans also, but the primary use of the SBA is as a loan guarantor for a standard commercial loan. They require a business plan and have specific forms for those plans to be presented upon. I have included, in the appendix, copies of printouts from the SBA on their loans and form requirements. The nice thing about the SBA, is that they force you to present a plan, and that same plan can also be presented directly to the bank. The SBA has many other services, such as a health benefit plan for small businesses, tax seminars, workshops and other programs to assist the small business person succeed.

Other guarantors can be found. Relatives and other interested parties can act as guarantors to help you obtain lower interest rates. Sometimes membership in associations can help you gain the backing of that association and the association may act as a loan guarantor. If you are a member of a minority group, many associations dedicated to the benefit and welfare of that group, may offer financial assistance to forward the success of their members. This was a big part of the rebuilding of Los Angeles after the riots. So check your memberships, many organizations offer financial assistance in the form of direct loans and loan guarantees.
Putting together a proposal for the you and the bank

As mentioned before, simply using some of the SBA forms, will produce a business plan for you to present to the bank (even if you don't qualify for an SBA guaranteed loan). The business plan should include basic information aimed at showing the bank that your idea for a new business has few risks. Banks are primarily interested in your ability to pay back the loan, so gear the business plan to answer that question. Items to include might be:

1. review of the market demonstrating the need for a new business,
2. review of the goals of the business,
3. review of expected cash flow for the first year of business operation which requires mention of;
   a. expected revenue in realistic terms,
   b. list of all costs - fixed and variable,
   c. proof of insurance, licenses, etc.,
   d. any important break even analyses,
   e. summary of personnel requirements-numbers and income needed,
   f. debt service,
   g. any accounting policies that demonstrate your ability to control costs,
4. budgets and projections, especially profit projections,
5. an analysis of how you came up with the principal amount of the loan
6. a list of all interested parties such as other lenders or stockholders,
7. personal credit history (which they will verify) and any business experience that you may already have.

The business plan is just that, a plan. The bank will be interested in how detailed your proposal is, how well researched and how realistic. They want to see how you plan on dealing with your personal finances if your income is derived from the operation of the business. The bank wants to know if you have a plan that will work successfully enough to satisfy the terms of the loan.

Many professionals can assist you in setting up your plan. Accountants, lawyers, financial consultants and even bankers are available to assist you in making a plan. Below, we will discuss some of the aspects of that plan.
REFERENCES and Suggested Reading:

Principles of Managerial Finance, Lawrence J. Gitman, Harper and Row, 1976

Determine the cost of doing business

The cost of doing business may be difficult to ascertain, yet important to know because most other aspects of business relate to the cost. In an optometric practice, the costs include all items required to operate the practice. Costs are broken down into fixed and variable costs with variable costs directly and indirectly tied to revenue. Fixed costs are those costs that remain unchanged regardless of the amount of revenue from sales. Examples of fixed costs would include:

1. Examination equipment
2. Office equipment
3. Rent
4. Yellow Page Advertising
5. Salaries (not commissions)
6. Insurance
7. Licenses
8. Taxes
9. Depreciation
10. Association dues
11. Telephone
12. Other utilities

Variable expenses are those expenses that change based upon sales and some examples would include:

1. Costs of goods sold
2. Bank charges
3. Commissions
4. Office supplies
5. Postage and shipping
6. Continuing education
7. Advertising
8. Leasehold improvements
9. Entertainment
10. Travel
11. Uncollectible debt
12. Temporary services

These items may vary from business to business, so you may find one expense in one business listed as fixed and another listed as variable and both will be correct. For example, legal fees, for some businesses, could easily be listed as fixed if the attorney acts on retainer, whereas for another business it could be listed as variable if the legal advice was requested only once. The deciding factor is whether the expense varies or not, if not, it's fixed. It's that simple.

Operating expenses are only some of the costs of doing business. To begin with, if you took out a loan to open the business, the interest expense is a
true expense and must be included. There is a sub-section of the expense section that is called debt service and includes interest expense (often it includes principal for cash flow purposes, but payments on principal are not an expense).

When determining the start up costs of opening a business, everything must be included for a reasonable loan request. You will need to include everything from phoropters to toilet paper to get a reasonable estimate of the cost of opening the doors. These calculations are categorized and added to the cash flow analyses which the bank will look at to determine if you are realistic in your proposal. The more accurate the estimates, the more the bank will feel that their money is in good hands. The lower the apparent risk of your proposal, the higher the chances are that you will receive a lower interest rate. The details of a financial report that deals with debt service, expenses, and revenues is discussed in the section on financial reports. Examples of financial reports are available in the appendix. The income statement should be referenced to show some possible costs of doing business.

Show how the business can overcome the costs with a "Profit Projection"

There are many ways to report to a lender the ways in which you intend to overcome the costs and project a profit. The main points to a profit analysis are the elements of revenue, costs and time. The lender will want to know how much revenue will be required to overcome the costs, they will want a complete breakdown of the costs of doing business (which has been already discussed) and they would like to know how long it will take before the business can overcome the costs solely with revenue. The SBA uses a monthly cash flow projection (form 1100 offered in the appendix) which attempts to answer these questions on a month to month basis. It is important to note that no lender expects a new business to be profitable from the beginning and the lender expects to see losses in the beginning. The loan amount should include enough money to cover the initial losses; the lender will also want to see that cost represented in the plan.

An example of a profit projection should include a table of projected revenues and costs. This should be listed monthly with enough months offered to show the first few profitable months. The revenue projections will come from an analysis of the market with realistic projections of revenue based on that analysis. So, the marketing analysis will need to include, for example, expected number of patients per month and average revenue per patient. Some of these figures are available from the AOA. So, in your first
month, you may only project 10 exams and $2,550 in revenue and mostly fixed costs. In your first month of profit, you may project 100 exams with $25,500 in revenue and larger variable costs. The lender just wants to see reasonable projections.

It is important to note that these projections and market analyses are not just for the lender, they are for you. These initial projections will tell you what to plan for and in what time frame you are working. The projections will help you later, as your business moves ahead, to tell you if you are on target.

**Understanding basic accounting reports**

Here we come to the nuts and bolts of business. It is accounting and financial reports that turn a great deal of people off. There is no doubt that preparation and analysis of financial information is time consuming and tedious. However, just like the analysis of the patient’s examination tells us about the health of the patient, the financial analysis tells us about the health of the business. The language used in financial reporting is another barrier and I will, whenever possible, attempt to make the language understandable. If you employ the services of a CPA, that person can set up a simple bookkeeping system that can easily be transferred to a financial statement. If fact, CPA or not, there are many computer programs that offer financial reports that you can work with yourself. The section on computer software may help you in finding the proper programs. In fact, with some programs, such as Microsoft Excel, you can create your own accounting reports and accounting systems. I have included my own Excel program for your use if you wish to use it. Refer to the appendix.

**REFERENCES and Suggested Reading;**

*A Better Way To Use Financial Statements*, Joseph Gekoski, Optometric Management, Oct. 92, p. 32  

**Balance sheet**

This is a very simple report of assets (or things that you own) and liabilities (things that you owe) that is broken down on one piece of paper at a single point in time. When you fill out a credit application, you are producing a
balance sheet of your personal financial situation at the point in time when you filled out the form. The basic principle of a balance sheet, is that total assets must equal total liabilities plus owners equity. That is how the balance sheet got its name.

Assets are broken down into current assets and fixed assets. Current assets are those assets that have a life of less than one year. Fixed assets include all of the assets that have a life of over one year. So, items such as cash, inventory and accounts receivable (the account that lists money owed to you) are listed in current assets. Fixed assets would include things such as office furniture, land, examination equipment and office fixtures. These items are totaled separately and then totaled under total assets. The liabilities are also subdivided between current and fixed with the exact same designation; current less than one year and fixed greater than one year. Current liabilities would include accounts payable (the account that lists money that you owe to others) and anything else that was due in less than one year such as short term loans. Fixed liabilities include all debt due over one year from the date of the balance sheet. Finally, owners equity includes money that is in the business that is owned by the stockholders, partners or proprietor. In the appendix you will find an example of a balance sheet. Note that it is dated for a specific date in time. The owners equity is found by comparing total assets to total liabilities. Owners equity, simply put, is that amount of the business owned by the proprietor, partners or shareholders. Owners equity = Total assets - total liabilities.

The balance sheet shows a great deal of information in a single form. For example, in one glance you can see if the business owes more than it owns or if the owner owns most of the business. There are many mathematical manipulations of a balance sheet that we will discuss in a moment, but some don't require a great deal of thought. For example, if you wanted to know how much the business owes vs. how much it owns, just compare total assets to total liabilities. If you want to see how much of those assets are owned by the owner (stockholders/partners/proprietor), just compare total assets to owner's equity. How about trying to find out if the business has enough assets to cover the bills that are due this year. You only have to compare current assets with current liabilities. These are all examples of how to analyze a balance sheet. In accounting, some standard methods of analyzing a financial statement have already been figured and you can easily use these methods known as "analysis of working capital".
1. Current ratio
   - Current assets/current liabilities.
   - The ratio of current assets to current liabilities.
   - This ratio shows if the business can cover its debt this year.
   - Industry standards call for a 2:1 ratio.

2. Acid test (aka "Quick test")
   - Quick assets/current liabilities.
   - The ratio of marketable assets to current liabilities.
   - Quick assets are assets that can be turned into cash very quickly. These include cash, marketable securities and accounts receivable, but not inventory.
   - This test shows if the business has enough cash to pay its current liabilities.
   - Industry standards call for a 1:1 ratio.

3. Turnover of accounts receivable
   - This analysis requires information outside the balance sheet, but the information is easily available from the income statement (requires "net sales" figures).
   - Net sales/year end accounts receivable
   - Shows a figure, that can be compared with figures of other periods. This tells if the business is collecting its accounts receivables faster or slower than in other periods.
   - There are no industry standards for turnover, just the lower the better as years go by.

4. Capital contribution of owners and creditors
   - Total liabilities/owners equity = creditor equity ratio
   - or Total owner's equity/total liabilities + owner equity = owner equity ratio
   - This calculation shows who owns the business, the owners or the creditors.
   - The higher the owners equity ratio, the better.

The balance sheet shows much pertinent financial information and when this information is combined with other statements, an in-depth analysis can be obtained.
Income statement (aka Profit and Loss Statement)

The income statement shows the source of income and expenses over a period of time. It is simply a compilation of all revenue and expenses, broken down into categories, itemized, and totaled on, usually, a monthly basis. So, you will end up with 12 monthly income statements per year and usually one annual income statement. This data has important tax consequences, so the information must be accurate and backed up with proof in the form of bank deposits, records and receipts. Income statements can vary from business to business and may or may not include debt service (sometimes this is listed as a separate statement). Many statements can come from the income statement such as a "cash basis income statement" which only lists those items where cash changed hands. This statement will create a cash flow statement in addition to many other statements if you desire.

There are many ways to analyze the income statement just as we analyzed the balance sheet. Some common manipulations are;

1. Turnover of merchandise inventory
   -Total cost of goods/average merchandise inventory.
   -This calculation is usually the annual COG/monthly inventory averaged over that same year.
   -Shows how many times per year the inventory is turned over.
     Describes how many times new inventory has replaced old inventory.
   -The figure can be used to analyze inventory management.

2. Turnover of accounts receivable
   -Discussed earlier in balance sheet section.

3. Days sales uncollected
   -Accounts receivable/charged sales.
   -Indicates the speed with which a company collects its accounts.

4. Rate of Return on total assets employed
   -Net income + interest expense/average # of employees
   -Interest is included because it is a return paid creditors for assets they have supplied; income should be after-tax income.
   -Shows return on employee investment and is compared to other years.

As with all financial data, there are many other ways to analyze the figures. If you are interested in a specific piece of information, you can do your own
ratio analysis and, as long as you use the same calculation method year to year, the ratios will give you the same trend information. Also, ask professionals to help you develop your own analysis methods. Just remember, any analysis of financial information is only as good as the information itself, so be accurate. An example of an income statement can be found in the index.

REFERENCES and Suggested Reading;

*O.D.'s Fight To Hold The Line*, Christine Winslow, Review of Optometry, Volume 128, Number 6, June 91, p. 44

**Cash flow report**

From the income statement, a cash flow statement can be derived. Generally, the income statement is reused ignoring all income and expenditures that do not involve real money. For example, depreciation is listed in an income statement but it represents an aging factor of equipment and fixtures already paid for. Depreciation is not involved in real dollar calculations, yet is allowed by the IRS as a deduction. A cash flow report would ignore depreciation and any other item that doesn't involve cash. The purpose of a cash flow statement (or "cash basis income statement") is to show money coming vs. money going out. If you prepare a cash basis income statement and find that cash expenses are greater than cash income, some provision has to be made to come up with the cash to pay the real expenses. Often banks will assign you a line of credit (almost exactly like a credit card) to overcome such situations. This can happen in months when a new expense is created, such as advertising, or when a new piece of equipment is purchased. It really has nothing to do with profitability, but for many business managers, cash flow means profit/loss. Cash flow is very important in the initial few months of business and the SBA form 1100 "Monthly Cash Flow Projection" is one of the key features in your presentation for a loan. The statement generated looks exactly like the income statement except that the non-cash items are removed showing a different bottom line.

**Break even reports**

Break even reports are done to show at what time an asset pays for itself. That asset can be a single piece of equipment or the it can involve the total business operation. In the United States, break even analysis is done on the average taxpayer, to see how many days of work are required before the worker is working for his or herself and not for the government. That figure, by the way, is almost a third of a year for most Americans.
Finding the break even point requires only a simple calculation. The break even point is the total cost of an item divided by the revenue received from that item per use. For example, if you were going to purchase a new piece of equipment for $10,000 that would generate $14 every time you used it, your break even would be $10,000/$14 per use = 714.2 uses. So, you would have to use the equipment 715 times and charge $14 every time you used it just to pay for the equipment. Now, if you obtained a loan to purchase the machine, interest on the loan would have to be included in addition to any other fees related to the loan and costs related to running of the machine.

The entire business can be put on a break even analysis. But businesses have fixed and variable costs which must be considered. In this case graphs help to understand the concept:

The break even graph shows most of the information that you would need to analyze a business decision and can easily be generated by the same computer programs that create the financial statements. The graphical breakdown show exactly that point in time and money (or units and money) where you break even. This is important information for you and for the lender of funds. It is important to know that every single revenue generating entity can be placed in a break even analysis for decision making purposes.
One additional break even concept important to optometrists is the concept of chair time. This calculation can come directly from information in the income statement and a personal decision of how much time you decide to work. First, take all expenses related to examination; this will include all examination equipment costs, pro rata rent and other expenses of the entire business. Second, decide how many hours you want to work giving examinations per month. Finally, divide the numbers of your exam hours into the overhead costs per month and you will have chair cost per hour. For example, overhead costs related to examination are determined to be $9,018 per month and you figure that you will work 5 days a week with 8 hours a day performing examinations.

Chair costs per hour = Overhead costs per month/Exam hours per month
Chair costs per hour = $9,018 / (8 X 250/12*) = $54.11
*250 work days per year/12 months per year = work days/month

Chair cost per hour will determine required revenue charged per hour, which can help you in budgeting and forecasting. Assuming all of your exam slots are booked; if you do 30 min. exams, you must charge $27.06 per exam to break even. If you do 1 hr. exams you have to charge $54.11 per exam to break even. Once you have determined your examination fee based upon chair costs, you can project revenue and make a break-even analysis of examinations using the exact same format as all other break even analyses.

Role of the accountant

Accountants are valuable to the manager of any business. To act as an accountant, a person must have education in accounting. To become a Certified Public Accountant, the rules are very strict and a very difficult test must be passed. States vary in the requirements to become a C.P.A., but most states require a bachelor's degree or higher in accounting, five years in public accounting, some other work requirements and passing all parts of the C.P.A. exam. A C.P.A. is an accounting professional, and should be the person we go to for help and advice in accounting problems. That is not to say that you cannot do your own accounting or that people with less training cannot prepare some financial information, it just means that the C.P.A. is the person certified by the state to give accounting advice.

A C.P.A. is often consulted for tax preparation, however they are able to do much more than that. When a C.P.A. certifies your financial statements, he or she are under legal codes to make sure that the statements are correct for any user of the financial statements. So, a C.P.A. certified financial statement
is considered true in fact and form. C.P.A.'s offer several levels of financial statement preparation. This varies from simply preparing the statements from data supplied by the business, to financial statements where the data has been audited by the C.P.A. to make sure the statements are a true representation of the business's financial position. Rarely will you find that businesses (other than very large companies and businesses in tax trouble) use the latter audited financial statements because of the expense of preparation. You will generally find that most businesses use unaudited financial statements.

The C.P.A. is the person to use if you feel that professional advice is required to set up your accounting system. Most small businesses are well equipped to set up the systems alone, however, the C.P.A. is there to advise you if you need this service.

Finally, the most important role of the C.P.A. is in the preparation of tax statements for use in all areas of tax reporting. You not only have to worry about your businesses income tax, but have to deal with payroll taxes (which can get complicated) in addition to reporting many other smaller tax liabilities. The tax laws are always changing and it is difficult for a lay person to keep up. It is the job of the C.P.A. to remain informed about these changes and to understand how these changes effect business. So, the C.P.A. is expected to use reporting criteria that is up to date when your tax reports are prepared. Also, the C.P.A. is there to explain how changing tax laws might effect your business.

There are many ways to use a C.P.A. They usually charge by the hour, for tax preparation, however most charge a monthly flat fee, if you use their services on retainer. If you make full use of C.P.A. services they will make all financial reports based upon your in-house bookkeeping, give advice on accounting systems to make sure your bookkeeping is correct, and prepare all tax reports.

**Taxes**

Taxes are paid to a governing body to pay for the expenses government. The government includes all levels from federal, state and local and all have the power to tax. In the preparation of your tax liabilities, you have to deal with any taxing body and you will also be responsible for preparing, reporting and paying your employee's withholding taxes.

The Internal Revenue Service is the agency of the federal government that is charged with the task of collecting the federal taxes and so it becomes the IRS
that establishes federal reporting procedure. All federal income tax reporting forms are available with instructions from the IRS. These instructions give line by line instruction of exactly how to prepare each reporting form. Included in the appendix, is a package of tax forms for most federal tax reporting requirements of a small business.

**Tax preparation**

There are no rules that say a specific person has to prepare your taxes. However, once you sign the forms, you and you alone, are responsible for any errors in that report. Most C.P.A. firms and tax preparation firms offer to pay for any financial penalties because of errors in reporting since they prepared the report. But you are always responsible for the taxes. Generally, the IRS will assign a penalty. In addition, the IRS charges interest on the taxes due as a result of the reporting error. So, if there is an error in tax preparation, you will owe the tax, a penalty, plus interest on the tax. It is important to know that the IRS can also impose criminal penalties in the form of jail time, so you want to make sure that your taxes are filed correctly and on time. The IRS routinely shuts down businesses and sells the assets of that business to pay back taxes owed by that business. They can do this without a courtroom trial if necessary, so don't mess up with the IRS, they are very powerful. Reporting of taxes, in this country, is based on forced compliance and that compliance is enforced through IRS penalties.

Routinely, the IRS will audit individuals, even if there is no indication of a violation in reporting. This random sampling is done to attempt to keep reporting honest. The IRS also looks for "Red Flags", or obvious errors, which will result in an audit. During the audit, you and your tax preparer, go to the IRS auditor and explain your tax form preparation. The auditor will request proof of the figures in the form of bank deposits, receipts and other items of proof. They usually look at income and expenses reported. If they ask you to prove a deduction, you are required to offer the proof. If the proof is offered and found to be correct, the tax deduction is allowed. If you cannot offer proof of a legitimate deduction, the deduction will be "disallowed" and taxes will be owed in addition to any interest and penalties. Very often, the tax laws are difficult to interpret and you, or your tax preparer, may interpret the tax rules differently. The IRS will consider your position and make a decision after review. This is the time you need a great CPA because if you cannot speak the same language as the IRS accountant, the IRS will usually win the dispute. Federal tax information is available from the IRS, your accountant and various publications such as the *RIA Federal Tax Handbook*, *Package X* from the IRS and *Tax Guide for Small Businesses* also from the IRS.
Since state and local income taxes vary from location to location, I cannot possibly offer information on the reporting criteria. State and local taxes may include income tax, transportation taxes and all sorts of tax liabilities that will apply to your business operation. Most taxing bodies offer tax preparation instructions which are available through the taxing body. Also, your accountant will be familiar with all applicable taxes.

REFERENCES and Suggested Reading;

Package X, Volume 1,2,3, Department of the Treasury, IRS, U.S. Government Publication, 1992
RIA Federal Tax Handbook, Research Institute of America, 1992

Role of the financial advisor

In the future, you will need to invest the money gained from operations of your practice for various reasons. You might need to invest for your personal retirement. The business and its employees have financial needs that also have to be met, and you are the one to meet those needs. You may require investments to overcome a future business expense such as a balloon payment on a loan. You may offer a managed pension plan for you and your employees. All of these areas are good reasons to invest, and you will need advice in making those investments.

There are many instruments available for investing. Bank accounts, insurance policies, annuities, real estate, mutual funds, stocks, bonds, commodities and many more are all available for your investment needs. Investment instruments usually offer greater yield, or income on investment, as risk is increased. As discussed earlier, bank accounts are generally based upon the cost of money by the bank, or the federal reserve rate. Since risk is low, yields are low on standard bank savings accounts. On the other hand, you can invest in stock of another company in hopes that the company's stock increases. In this example, the yield potential is higher, but the risk of loss is high also. When investing, risk has to be compared to reward.

The role of a financial adviser is to guide you so you make investments in a multitude of instruments designed to lower your risk and increase your yield. Professional financial advisers, or Certified Financial Advisers, charge a management fee based upon the amount of the total funds invested. Mutual funds are very similar in that they charge a management fee to
manage the funds. Now, it is impossible to discuss the risks and benefits of all financial instruments, however let me suggest the different places to call to find out about individual instruments.

The bank handles all bank accounts, CD's (Certificates of Deposits), annuities, and are often involved in Real Estate Investment Trusts (a kind of mutual fund for real estate called a REIT). Insurance agents offer insurance policies, annuities, and mutual funds. Stock brokers offer stocks, bonds, mutual funds, options, and futures, commodities, and real estate trusts. Real estate agents offer individual real estate offerings and some handle REITs. There are other sources of investment advice, but most of the financial people available to the small investor have been listed here.

Most of these professionals and agents work on some kind of commission or management fee. When I was a stock broker, most of my income came from commission on buy and sell orders. Usually, I was paid 2-4% on mutual fund investments with similar figures for insurance investments. I earned some money on management fees above commission. Our firm also offered new stock offerings and the commission was already in the price of the initial public offering. Bankers are usually salaried and get no direct fee. The fees come out of reduced yields and indirectly from earnings. Insurance agents are paid a large commission for new accounts, and gain smaller commissions with premium payments on existing accounts. As stated before, Certified Financial Advisers usually get a management fee, but may also receive commission on brokered trades or insurance commissions if they are registered brokers and licensed insurance agents (and most are). Real estate agents are free to the buyer, but generally get 5-7% of the selling price which is paid by the seller. I mention these fee structures, because it is important to understand the motivation of these financial advisors before investing any money. It has been my experience that most financial people are more interested in their own income that in the success of their clients. That is my personal opinion as a person that spent many years as a financial adviser.

In your business, the need for a pension offering may be the most important reason to seek the assistance of the financial community. A pension fund is a fund that seeks the investment of employer and sometimes the employee for the purpose having retirement income for the employer and employees. Now there are strict rules on pension fund management established to protect investors, however the overlying rules are fairly simple. Usually the fund manager makes contributions to the fund in the employee's name. This money comes from the employer and is a benefit to the employee above any regular paid income. The employee may be allowed to
participate with contributions of cash also. The fund is then invested into some combination of financial instruments and strict accounting is kept to make sure that the employee gets full credit for every contribution. Contributors are vested at some predetermined time which means that they have been in the fund long enough to be guaranteed rewards of the fund should employment ever terminate. The time to vesting is usually 3-5 years. If the employee leaves in that period, they are entitled to none of the fund, unless they have made cash contributions. The money invested for that employee is still retained in the fund and the employer receives the benefits because the employer made the contribution. I repeat, there are many restrictions, but a pension fund is well worth looking into for you and your employees.

**Purchase of equipment and inventory**

Aside from monthly rent and loan pay-back, the greatest expense of operating a business is in the purchase of the initial equipment, inventory and fixtures required to open the doors. The purchase of inventory and equipment may be the largest purchase of your life and you cannot know enough about it. Your budget and forecasts are geared around the initial purchases which will decide your loan principal amount. Purchasing may be done in several ways and the following is some information about the decision making process.

**REFERENCES and Suggested Reading;**

*Sound Purchasing Decisions*, Jerome A. Legerton, Optometric Economics, Volume 2, Number 1, Jan. 1992, p. 34

**Lease vs. purchase**

Purchase of equipment is usually fairly straightforward. There is a price, you try to negotiate for a lower price, you agree with the seller on a price and you pay for the item. The real decisions lie in deciding upon need and determining the terms of financing. We have discussed break even and cost/benefit analysis and we have discussed the terms of loans in earlier sections. Once the need has been determined and proper equipment/fixtures have been selected, you have to decide on how to pay for the item. There are several options available to you. You can pay cash for an item, the bank can loan you the money, the seller may be able to make financial arrangements, you can lease the item or you can rent the item. In addition, you may be able to join a buying group that offers a way to obtain products for your business in conjunction with other members,
that will allow for group discounts. Often the buying group is large and formal or it can be made up of a few people that make a deal together. Often the biggest decision is whether to buy or lease.

Leasing is a form of rental, but over a longer time frame and with some restrictions. A lease is an attempt to lower monthly payments, because the item is sold with a different cost structure. In a lease, an item has a present market value and another value based on the value of the item at the end of the lease period. For example, if you wanted a piece of equipment that costs $10,000, but you only expected to use it for 5 years. A lease would take the $10,000 and subtract the value of the item after five years and you would pay the difference in value. If this item was determined to have a value of $4,000 in five years, your lease amount would be the difference of $6,000. Now, ignoring interest for the moment, your monthly payments would be $6,000/72 = $83.34 while your monthly payment for purchase would be $10,000/72 = $138.89. That’s a difference of $55.55 per month ignoring interest charges. The big catch is, you don’t own the equipment at the end of the six years! If you are going to need the item at the end of six years, you have the option of buying it at either a predetermined price or at current market value.

A lease makes sense if you plan on eliminating that equipment at the end of the lease or if you expect that the model will be outdated and that you will need to update anyway. If you are buying a lensometer, you will need to consider a lease option differently than that of a field analyzer because, both the capital requirements are different, and the equipment has different life spans. You could make the argument that you will always need a lensometer, so you might as well buy it. But, the field analyzer is so technical, that in a few years your new field analyzer may be outdated. You would need to update it to stay current. In this instance a lease may be a great option both to lower the monthly payments and to eliminate old, outdated equipment in the future. You need to through each purchase with a similar decision making process. Leases pay for temporary purchases to gain lower monthly payments, but always keep in mind that purchase eliminates the need for future purchase.

When you purchase an asset, the IRS allows for the depreciation of that item. The IRS has tables that tell you the percentage of the original cost that the asset will retain at the end of it’s life. This value, called the "salvage value" is subtracted from the original purchase price. The IRS then allows you to depreciate the difference over the life of the asset. There are several methods that the IRS will allow you to use to depreciate the asset. Some methods include, "straight line", "sum-of-the-years-digits", and "double
declining balance". The most important thing about depreciation, is that you are able to add the amount of depreciation to the expense section of your income tax reporting. Say, for example, you purchase an expensive piece of equipment for $10,000. You discover in IRS tables, that the salvage value is $1,000 and it has a life of five years. From this IRS information and a decision to depreciate along a "strait line" method, you could calculate $9,000/5 = $1,800 expense deduction per year. This $1,800 a year expense is included in your cost of doing business and is fully deductible.

So, do you buy or lease?

Obtaining inventory

There are many sellers of inventory and equipment. I have offered some catalogs in the appendix to help you determine the needs of your practice, however, I cannot say that the prices listed will be competitive at the time you make your decisions. In this section, I will make reference to the needs of a new practice and list sources of those items, so that you will have an idea of where to go to get the things that you need.

REFERENCES and Suggested Reading;

How to Double Your Return on Investment, Ronald P. Snyder and Gary S. Appel, Review of Optometry, Volume 127, Number 11, Nov. 1990, p. 49

1. Exam equipment

Simply put, you need to purchase enough examination equipment to ensure that your examinations place you in a position to provide your patients with the accepted standard of care in the profession of optometry. You will also need any equipment that you feel is essential for you personally to be able to maintain an appropriate standard of care. I have listed examples of items required to perform visual examination of patients. The costs of these items may be found in catalogs in the appendix.
Minimum required equipment:

- Examination chair
- Phoropter
- Ophthalmoscopes
- Tonometer
- Trial frame
- Reading rod
- DPA's/TPA's
- Slit lamp
- Examination stand/light
- Snellen projector
- Retinoscope
- Lensometer
- Color test
- Dr.'s stool
- Keratometer
- Trial lens kit
- Stereo test
- Mirrors
- Occluders/pen light/cards/bulbs/etc.

Supplies for exam equip.

The standard of care is to high to be without:

- Indirect ophthalmoscope
- Hand held diagnostic lenses (20D, 78D, gonio., etc.)
- Blood pressure kit
- CL scopes/gauges
- VT equipment
- Blood sugar analyzer

Now close to standard of care:

- Automated field analyzer with power assisted table
- Auto refractor/keratometer with power assisted table
- Diagnostic cameras (fundus/ant. seg.) with power assisted table
- Pachymeter
- Ultrasound A/B
- Contact lens alteration equip.
- Polaroid camera/film

2. Office/dispensary equipment and furniture

Office furniture varies based upon the design and style of your office/dispensary. Once the initial layout and construction of your office has begun, the costs are set for most items. Your initial design may include, for example, 11 matching chairs, 4 display cases, 3 counter tops, etc., all of which will be included in the initial proposal. Below are listed some common items found in any office/dispensary;
Dispensary:

Sinks      Mirrors     Pupillometer     Lens clock
Frame boards Display tables Cash register     mm. ruler
Counter top File cabinets Calculators     Chairs
Tables     Display shelves Frame adj. tools

Office:

Invoices     Stationary     Files     Typewriter
Copier       Telephone     Vacuum cleaner Waste baskets
Ladder       Rolodex       Business cards Rx pads
Office supplies-cash register paper/stapler/pencil sharpener/supplies
Cleaning supplies/toilet paper

Optional but suggested:

TV
Children's play area
Plants
Informational literature
Letterhead stationary
Telemarketing equip.
Standard tools
Wall art
Additional computer terminals
Promotional Gifts
2nd exam lane
CL flat packs
Ultrasound frame cleaner
Fax Machine

VCR
Stereo
Referral forms
Computer/printer
Answering machine
Microwave oven
Reference Books
Refrigerator (Pharm. agents)
Office uniforms/name tags
Coffee machine/coffee
Intercom
Computer discs
Heat disinfection unit for CL's

Ongoing costs:

Postage
Office supplies-paper/staplers/pens/pencils/supplies
Cleaning supplies/toilet paper
Dispensary supplies-marking pens/cleaners/
Credit card machine rental

The cost of running an office can add up to a sizable amount above the initial investment. You will be surprised at the cost of simple office supplies.
Included is a catalog from a large office supply company for help in determining the daily costs of running the office.

One of the most expensive items of day-to-day operations, is servicing accounts receivable. For example, when you tell a person that you will be happy to bill their insurance company and bill them later for anything the insurance company won't pay, your costs may include several items. Postage to the insurance company, postage to the patient, envelopes, forms, employee time to prepare statements are all examples of the costs associated with accounts receivable. These items add up very quickly. If you add it the costs of "uncollectible debt", you can see how servicing accounts receivable can become overwhelming.

3. Frames

The cost of frames may be separated into 3 categories. Initial inventory purchase, replacement inventory and special order inventory. The costs associated with frame inventory, aside from fixtures, is more than the frames themselves. First, there is the cost of the frames, usually between $40 to $100, then there is the shipping costs which varies depending on how you purchase the item (in bulk or as a single item - single item frame postage can be $2 - $3), finally, there is the cost of servicing the inventory (employee costs like stocking, cleaning, etc.). Listed below are some of the items required to maintain a frame inventory:

<table>
<thead>
<tr>
<th>Frames</th>
<th>Dispensary samples ( tints, PAL's, high index, etc. )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunglasses</td>
<td>Sport eye wear</td>
</tr>
<tr>
<td>Industrial eye wear</td>
<td>Frame parts ( nuts, screws, temple tips, etc. )</td>
</tr>
<tr>
<td>Cleaning solutions</td>
<td>Frame accessories ( chains, clip-ons, &quot;no-slip&quot;, etc. )</td>
</tr>
</tbody>
</table>

If you use a lab, the frame may be ordered from the lab's inventory which will reduce your inventory investment. The greatest cost involved with any inventory, aside from the cost of inventory itself, may be servicing the inventory. Annually you will perform an inventory, check models/colors/sizes in stock against your list of items that are supposed to be in stock. Performing the annual inventory can be expensive in employee time. Loss/theft/breakage are also costs and may become a higher cost if you are staffed with lesser qualified personnel. Additionally, the costs associated with double orders can add up. For example, if your customer chooses a particular frame style, but in a different color, your optician will be tempter to order the frame. Now, if you already have that frame located elsewhere, you have just incurred a redundant cost of the frame + shipping.
Believe me, this can add up over time. Patients will accept the shipping charges on a special order when it is properly billed.

4. Contacts

Contact lens costs are one area of inventory in which the Dr. has the most control. After deciding on the initial inventory requirements, reordering can be based upon patient records. If an item was fit from stock, have that order and other orders of the week, simply reordered to replenish stock. Orders out of stock have many variables. Some companies have return policies and you can order these lenses with refit guarantees. These programs require that you send in the undamaged lens within a certain period of time. Forgetting to return an item within a specified period of time, will make you the proud owner of an inventory item that may have limited possibilities for future sale. In addition to stocked contact lenses, you will need to have up-to-date trial sets on hand. These sets can become very expensive, so you have to purchase wisely. I cannot think of a better purchase to perform break even analyses on than a contact lens trial set. Another expense of contact lens inventory, is Dr. mistakes. In some instances you will need to refit, so make sure you are able to return an item. Below are some items associated with the contact lens inventory:

- Contacts
- Trial sets
- Vial "capper"/caps
- CL flat packs
- Solutions
- Storage/display cases

5. Computers

Today, in order to be competitive, your office needs to be as automated as possible. Office procedures should be computerized and also as much of the examination as possible should be computerized. I do not need to explain what a computer can do for an office, since the computer was originally developed for office use and most everyone understands basic computer storage and computation. The real question about computers is, first, when can I afford to computerize and, second, what hardware and software should I choose.

In those first few months of operation, you may not need a computer because gross sales will not support it's cost. However, you will eventually require the need for a computer, as gross sale increase. The bank will have no problem understanding the cost of computerization at some point in the initial business plan. In those first "pre computer" months, you will need to be careful to document properly for future data input. Included in the appendix is a catalog of many of the computers and computer programs available for
optometry. Additionally, in the appendix, the Frames guide has a section on computer programs available. Some things the computer will do:

<table>
<thead>
<tr>
<th>General Ledgers</th>
<th>Keep track of sales</th>
<th>Keep track of costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank reconciliation</td>
<td>Prepare fin. statements</td>
<td>Recall/referral</td>
</tr>
<tr>
<td>Basic bookkeeping</td>
<td>Limited accounting</td>
<td>Forecasting/budgeting</td>
</tr>
<tr>
<td>Store patient records</td>
<td>Billing</td>
<td>Check writing</td>
</tr>
<tr>
<td>Inventory control</td>
<td>Payroll</td>
<td>Word processing</td>
</tr>
</tbody>
</table>

With modem (telephone hookup):

<table>
<thead>
<tr>
<th>Bank transfers</th>
<th>Ordering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic transfer of third party co-pays</td>
<td>Information services</td>
</tr>
</tbody>
</table>

REFERENCES and Suggested Reading;

*Computerize Without Busting the Budget*, Michael D. Mortimer,
Optometric Economics, Volume 1, Number 1, Jan. 1991, p. 42

*Optometric Software: How 5 Programs Rate*, Joseph Maino,
Optometric Management, July 92, p. 41

6. Other costs that you might not think about that can really add up

Running a business is a complicated task and sometimes only experience can teach you about ways to operate most efficiently. I have included some items, not previously mentioned, that have costs that are easily forgotten, but can really add up. Some of these are:

<table>
<thead>
<tr>
<th>Subscription to Frames</th>
<th>Subscription to PDR</th>
<th>Remakes by staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breakage/Spoilage</td>
<td>Garbage collection</td>
<td>Association dues</td>
</tr>
<tr>
<td>Maintenance</td>
<td>Health Insurance</td>
<td>Bad debt</td>
</tr>
<tr>
<td>Postage/Shipping</td>
<td>Forms</td>
<td>Pilferage</td>
</tr>
<tr>
<td>Employee education</td>
<td>Bank card fees</td>
<td>Licenses</td>
</tr>
<tr>
<td>Subscription to Tyler's quarterly</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

•Mistakes - (refraction, lens measurements, poor CL's fits, etc.)
7. Choosing a lab

There are many optical labs to choose from. Included in the appendix is a listing of every laboratory that has membership in the Optical Laboratories Association (OLA) in the U.S. (as of Oct. 1992). Most labs are listed here. Choosing a lab can be difficult even though you have one in your back yard. A lab is in business to sell optical equipment and services. They usually offer many services to market their products, but they are in the business to make money, that needs to be understood. Labs go through periods of quality control problems, like all businesses and you will need to constantly monitor quality even with the "best labs". Additionally, it is important to note that some labs that are far away, offer services as quickly as the lab right next door, so you do not need to feel obligated to use your local labs. The Optical Laboratory Association is an association of optical labs dedicated to the members and to businesses requiring optical laboratory services. Use them. They can tell you a great deal about a specific lab. The OLA can be reached at:

Optical Laboratories Association
P.O. Box 2000
Merrifield, VA 22116-2000

Phone  (703) 849-8550
Fax      (703) 849-8554

The OLA has information to help you decide if you want to invest in an in-store lab, with a similar analysis to some of the points we have discussed in our business analysis. The OLA provides continuing education for lab owners, has meetings to discuss new products, equipment and supplies. It oversees industry standards and assists in compliance issues in addition to many other services.

Whatever labs you choose, and you may uses as many labs as you wish, the deciding factors will always be cost, speed, service and quality of work. Labs offer some services that are of great assistance to all optometrists. You can call contact lens labs and receive technical advice on difficult fittings. You can talk to representatives that can explain the differences in products that are available. Often they offer discounts on products that make an item less costly than regular suppliers. The bottom line is monitoring. You have to always monitor the labs for the key points of quality, speed, cost and service. I must add that there is some danger in dividing the work among to many labs because smaller volumes offer less incentive for quality work.
REFERENCES and Suggested Reading:

Ophthalmic "Make or Buy" Decisions, Deborah J. Hartzell, Optometric Economics, Volume 3, Number 6, June 1993, p 26
Should You Have An In-Office Lab?, Jerome A. Legerton, Optometry Today, March 93, p. 35
Today's Labs Adding Value For The 90's, Various Authors, 20/20, Nov. 93, p. 68-86

REFERENCES on Financial/Accounting Section;

Principles of Managerial Finance, Lawrence J. Gitman, Harper and Row, 1976
MARKETING

The basic role of marketing is to get customers in the door and then provide those customers with appropriate products/services which are well designed in price and packaging, once they have come through the door. Remember back to the marketing mix; product, price, place, promotion. These concepts are the role of marketing and the optometrist must attempt to manage all of these areas.

In this section we will determine some of the basic concepts that are required to produce a successful marketing mix.

Define the market with research

Like every field of endeavor, understanding the basic rules of the game requires research. However, unlike many other fields, where you can learn the terms and apply them to the situation and consider that the research is done, in marketing, the research has to be ongoing and requires alteration to every situation. In a nutshell, that means that for every market there are dynamic forces that are specific only to that market. Marketing research is designed to discover those forces. Questions on the market might include, for example, who are my customers, where do they live, where shall I locate my practice, what is my competition, etc., are all questions that must be answered before a successful marketing mix can be developed. So, how do we get a marketing research program off the ground.

There are thousands of questions concerning the marketplace. As with all business decisions, a cost/benefit analysis must be run in order to determine what questions need to be answered based upon available funds. No single author can tell you what questions should be answered for that is a personal decision. However, in the area of market research, there are a few items in the market which should be covered so that you know the basic make up of that market. These items usually begin with understanding the customer in any specific market.

Customers have two basic profiles and marketers have defined these as demographics and psychographics. Demographics, simply put, is the statistics of an area’s population. Demographic information includes such specifics as raw population numbers, number of households, income, age, sex, education, occupation, income and other pertinent information. Psychographics is a more aloof concept. Psychographics is the application of the market population’s individual characteristics as applied to the market.
Psychographic concepts include interest, life-style, attitude and other related topics. The combination of demographic and psychographic data will give you solid understanding of how a specific marketplace works.

Finding demographic data is easy and, for the most part, inexpensive because your tax dollars have provided a wealth of information in the form of the U.S. Census. The census is conducted every ten years and covers all basic demographic information such as sex, age, race, income, family size, marital status, occupation and most other areas of demographics. A part of the U.S. census is a system called TIGER (Topographically Integrated Encoding and Referencing) which cross references every basic demographic with a computerized map of every city block across the United States. Other areas of the census include Census of Manufacturers, Census of Retail Sales, Census of Wholesale Sales and the Census of Service Industries. These provide a rich source of basic demographic information and are easily obtained. The Bureau of the Census publishes a general catalog called Statistical Abstracts, which lists information available through their office. Simply call the Bureau of the Census and request the catalog to find what information is available on your specific market. The census will provide a rich source, but there are many other sources. A listing of business and professional groups is identified in the Encyclopedia of Associations and is usually found in the local library. This list of associations is a rich source of groups that compile, among other things, market information such as demographics. Some are private firms such as professional organizations and some are public offices such as local Chambers of Commerce. These two sources will lead to more sources and the specifics of any market demographics will fall into place.

Psychographic information is much more difficult to obtain because of the nature of the information. Usually, pure psychographic studies are developed by an independent marketing firm which produces a psychographic study for a specific client to answer a specific question on their specific market. These studies are closely guarded and only published after the data has lost its value. However, not to despair, there are many ways to develop your own psychographic data. Techniques such as questionnaires, interviews, literature research, survey panels all can be utilized to develop psychographic information. For example, if you were trying to develop a picture of the population that will be purchasing progressive add lenses over the next five years, you could do any number of things. You could call any of the manufacturers of progressive add lenses and request psychographic information, you could listen to the customers that are already purchasing PAL's, you could send a questionnaire to your customers that are wearing PAL's, and any number of other techniques spelled out in many texts on marketing research available in any library.
Obviously, psychographic information is more difficult to obtain, however, in an optometrist's office environment, it may not be as vital as demographic information. Users of major psychographic data are usually mass producers and distributors of huge quantities of products. For example, before GM develops a new mini-van targeted to mature mothers age 24-40, they would undergo a major psychographic (and demographic) study to understand the details of that group's buying patterns, attitudes etc. For the OD, such undertakings are not usually required because the costs of obtaining the information often outweigh the benefit of the information. However, in certain cases, you can easily develop specific psychographic data by simply asking for the information in some form such as, a questionnaire in new patient data sheet, mail-back cards, "take a moment to evaluate us" literature all of which is inexpensive and easy to develop.

There are many aspects to marketing research, but all seek to answer some question on some aspect of the market. The most useful information to an optometrist deciding on where to open a practice is the best example of the need for market research for an optometrist. Obviously, demographics are widely different between a Manhattan practice and a rural practice in Florida. However as you seek to get specific on that location in Florida, you might discover that over half your population are retired from the Manhattan area. How would that effect your psychographics?

Market research is vital to the success of a business in my opinion. All other marketing is based upon this base of information. Usually, small businesses use their manager's perceptions as to the need of the marketplace. Related to this is the fact that most U.S. small business fail in the first five years. A good base of market research can help you define and understand the market in which you operate and prevent numerous errors between what you think and what really exists in your market.

REFERENCES and Suggested Readings:

*How I Did My Own Market Research*, John M.B. Rumpakis, Optometric Economics, Volume 2, Number 2, Feb. 92, p. 22
Setting fees and prices

Setting fees and prices is difficult. Thankfully we are in a profession that tracks fees very well and there is a good base of information from which to draw. Almost every optometric management publication has listed fees that they have been researched from O.D.’s across the country, usually in the form of an annual survey. Beyond that it is easy to research fees in your area by simply calling around and finding out what the competition is doing. Your lab and various lab associations can assist you in setting prices of frames and lenses. There is similar information on contact lenses by labs, contact lens associations and publications. So, you are not alone in your worry about setting fees and prices and there is ample assistance to help you.

Fees and prices are very important for the obvious reason that price determines your gross revenue. From gross revenues all costs have to be paid including your personal income. So setting fees and prices is more than agreeing with national standards or meeting the competition’s prices. Let’s look at setting the fees and prices in specific areas of operation an optometric practice.

REFERENCES and Suggested Readings:

State of the Art Marketing Research, A.B. Blankenship and George E. Breen, NTC Publishing, 1993
How Do You Measure Up, Stephanie K. Donoghue, Optometric Management, Oct., 92, p. 26
How to Figure Your New Medicare Fees, Carol Chase, Optometric Management, July 91, p. 26
Marketing: Strategic Foundations, Paul S. Busch and Michael J. Houston, Richard D. Irwin Press, 1985
Exam

Keeping the marketplace in mind, a specific strategy has to be formulated for the fees associated with the examination. You are in the business of examining patients and prescribing therapy that is based upon findings. You may also be in the business of providing services beyond examination, such as therapeutic drug intervention or vision therapy. Some businesses may be oriented toward selling frames and lenses only. Different businesses, unfortunately, use the examination as a means to sell other services. So, setting of the exam fee, will vary based upon the orientation of the business.

Basically, examination fees should cover your chair costs (discussed in the Financial Section) and provide enough profit to meet your preset goals considering your marketplace, that is, if your practice intends on having the examination section of the business stand alone as profit center. As mentioned before, some businesses use their examination simply as a way to sell lenses and frames. While looked down upon in our profession, it is a fact of life. What should be the fee for an examination based on the preface of only selling frames and lenses? Some businesses charge only a nominal fee and use the examination as marketing strategy for gaining access to patients and price their products high enough to cover the chair costs. Obviously this hurts our profession in many ways.

Setting examination fees is difficult and controversial. In my opinion, the best method is the one that suits your financial needs without compromising your professional ethics. As a brief guideline, I present fees published in the October 1992 issue of Optometric Management;

National Averages

<table>
<thead>
<tr>
<th>Type of Exam</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive Exam</td>
<td>$54.54</td>
</tr>
<tr>
<td>Intermediate Exam</td>
<td>$41.66</td>
</tr>
<tr>
<td>Limited Exam</td>
<td>$28.56</td>
</tr>
<tr>
<td>Office Call</td>
<td>$20.99</td>
</tr>
</tbody>
</table>

Note; all of these fees are broken down in the source by region, mode of practice, etc., if the reader wishes to pursue this information.

REFERENCES and Suggested Readings:

*Optometrists Report a Freeze On Fees*, Christine Winslow, Review of Optometry, Volume 128, Number 7, July 91, p. 37

*Will Medicare's New Fees Help Your Bottom Line?*, Barry J. Barresi, Review of Optometry, Volume 128, Number 2, Feb. 91, p. 46
Dispensary

Prices in the dispensary are equally difficult to set. Obviously, prices in the dispensary need to cover all costs related to the dispensary, those being costs of goods, fixed costs such as furniture and rent, salaries just to name a few. It has become an industry standard to present a mark-up of 2.5 times the cost of a frame. There is no source on this and comes from the days when optometry sprang from jewelry stores. This standard is changing and may not apply in the very near future. Again as a brief guideline, I present prices published in the October 1992 issue of Optometric Management;

National Averages

<table>
<thead>
<tr>
<th>Method used</th>
<th>Cost + Dispensing fee</th>
<th>% of responders</th>
</tr>
</thead>
<tbody>
<tr>
<td>(to price frames, % of responders)</td>
<td>Twice Cost</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td>2.5 X Cost</td>
<td>37%</td>
</tr>
<tr>
<td></td>
<td>3 X Cost</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>7%</td>
</tr>
</tbody>
</table>

Lenses

- SV $103.82
- BF $135.00
- TF $149.12
- PAL $212.10

Contacts

Varies widely based upon new vs. established patient; CL type; on or off CL service agreement; number of visits per year; initial fit vs. refit; and other considerations.

REFERENCES and Suggested Readings:

*Marketing Ophthalmic Lens Options*, Irving Bennett, Optometric Economics, Volume 3, Number 6, June 1993, p. 12

"How Much Are Contact Lenses", Arthur M. Copeland, Optometric Economics, Volume 2, Number 11, Nov. 92, p. 31


*5 Ways to Grow Your Contact Lens Practice*, Optometric Management, Feb. 1993, p. 29

*Shaping Up your Service Agreement*, Carol A. Schwartz, Optometric Economics, Volume 1, Number 11, Nov. 1991, p. 28

Vision Therapy

This section really is difficult. Vision therapists charge such a wide variety of fees that it is futile to offer numbers as with other areas of more standardized optometric care. Your fees should cover your costs with enough profit to make VT worthwhile. For example if you are charging $50.00 for a general examination that takes 45 minutes, you should collect at least that much in VT. However, VT is often packaged as a number of sessions for a particular disorder. I know of one practitioner in Georgia that charges over $2,000.00 per case with a vast majority of his patients involved in programs in reading disorders. I know other practitioners that charge nothing for prescribed home techniques and consider it advice paid for in the initial exam fee. Who's to say what is right.

Personally, I feel that VT is therapeutic and deserves charges higher than general examination and that difference should be reflected in the session fees. The question arises as to the value of assisting patients such as learning disabled children. Who is the competition then? Should our fees compete with psychology, reading clinics, LD instructors and other professionals? Should fees be representative of your personal success rate? What about fees for sports vision training?

I know of no reasonable standard for fees in the area of VT to present to the reader. More than any area of optometry, fees are widely varied.

REFERENCES and Suggested Readings:

Building a Sports Vision Practice, Donald S. Teig, Optometric Economics, Volume 3, Number 4, April 1993, p. 10

Competition

Competition is easy to assess in terms of marketing. However, professionally, competition should really be assessed differently since this is a health care profession and we are all colleagues. Setting this dilemma aside for the sake of discussion of marketing, we will consider "competition" as any business in our market offering similar products and services.

Assessing the number of competitors is very simple and comes from our basic market research. Any list of optometrists will give a fair representation of O.D.'s working in the area. Competition for our services also includes other professionals such as M.D.'s, while competitions to our
dispensary can include department stores and other sellers of similar products.

Many competitors have specialized approaches to the practice of eye-care, so pure numbers from lists won't work. For example, is an M.D. whom specializes solely in cataract surgery in competition with an O.D. practice that specializes in vision therapy? The mode of practice and any specialization of a practice has to be considered before listing the practice as a competitor. These are the concepts of perfect vs. imperfect competition and competition is the driving force of our economy. It is, therefore, important to determine competitors and potential competitors based upon projected changes in the market. Nothing in business is stagnate!!

After the careful analysis of the numbers of actual competitors, it is vital to learn from their successes and failures. Now no one is willing to offer a competitor the fruits of experience in the same market, however, competitors offer less direct signals. This provokes thoughts such as; why are all of the most successful practices in this market medical model when I am considering a more visible retail store front model; why have there been three OD failures in a dispensary location right across the street from my proposed location; why is everyone else offering such discounted prices on frames. If you can first pose the right questions and then find the answers to these questions, you may find a competitive edge.

Ways to learn about the competition are varied. Beyond basic market research, there are meetings of professional, social and economic organizations to attend. You can visit various locations of competitors. You can make telephone calls. One very insightful technique is to use a professional shopper. These people obtain the services and products of a competitor and report their findings to you.

This area of research on competitors obviously can drop below areas of personal and professional ethics, and it is important to not become over aggressive to fellow colleagues. We are professionals!

REFERENCES and Suggested Readings:

Marketing: Strategic Foundations, Paul S. Busch and Michael J. Houston, Richard D. Irwin Press, 1985
Practice physical layout and design

This one area of marketing receives more press that any other area that I researched in the periodicals. "Layout and design" directs attention to multiple aspects of any practice and deserves strict, careful management. First, layout and design is not inexpensive, and as with all areas of business, the larger the cost, the more careful the benefit analysis. Second, layout very often suggests to your patients and customers the quality and price of your products and services in a subtle and unconscious manner. Thirdly, concepts of efficient flow of patients and employees can undermine or enhance overall productive efficiency. Finally, the layout of each section of a practice should lend comfort and ease to everyone concerned as demanded in the concept of TQM.

Two of the key areas of office flow are the reception area and the waiting area, both of which create an image. In most practices, the first area of contact with the patient is the reception area. This area can set the whole tone of the patient and goes along with the old statement, "your first impression is lasting". This area needs to be designed in an efficient manner to allow for processing of patients. So, both the sides of the "counter" need to be given the proper attention. The receptionist needs ample space for equipment, ample desk space and easy access to the patient area and other parts of the office. The waiting area has similar requirements, however, the waiting area is the one location in the practice that patients will spend idle time. As far as efficiency, the waiting area needs to be located somewhere between the reception area and the examination rooms. In many practices, the reception area and waiting area can merge into a single area if the patient volume allows this merge. The waiting area can be used to provide information to the patient in the form of pamphlets and brochures. Many practices offer marketing related information in the waiting area, or place the waiting area in the same visual space as some products for sale. Most importantly, the waiting area needs to be comfortable for the patient and provide some distraction to the passing time. Many practices employ the use of televisions and VCR's in addition to the usual reading material. VCR's allow the presentation of both informational videos and entertainment videos. This can be useful to both the patient interested in a video on tinted contact lenses as well as entertaining a hyperactive child with a good Disney movie. In any case, the waiting area has many possibilities.

Obviously, design of office and dispensary has many variables including construction, square footage available, number of exam lanes, VT areas and a multitude of others. Because of this phenomenal amount of variations, it is often advisable to employ the assistance of a professional. In our industry,
there are multitudes of interior designers that can be found at any trade show or who advertise in many of our trade periodicals. Floor design of a practice is no small task and the variations are endless. One simple floor plan was offered as the cover to *Optometric Economics's* November 1991 issue and I offer a rendering of this design below as an example of good office design:

**REFERENCES and Suggested Readings:**

*Creating the "Look of the 90's",* Kenji Hamada, Optometric Economics, Volume 1, Number 2, Feb. 91, p. 34  
*That "State Of The Art" Look*, Kenji Hamada, Optometric Economics, Volume 1, Number 4, April 91, p. 45  
*Limited Office Space*, Laura Sachs, Optometric Economics, Volume 2, Number 2, Feb. 92, p. 33  
*The Case of the Homeless Perimeter*, Jack W. Melton, Optometric Management, June 1992, p. 25  
*Office Renovations*, Gretchen Lee, Optometric Economics, Volume 2, Number 11, Nov. 92, p. 10  
*Tracking Trends*, Henry S. Thomas, Optometric Economics, Volume 2, Number 11, Nov. 92, p. 15
Consumer Behavior

Consumer behavior is a behavioral science that falls within the marketing plan. A great deal of the information that is generated in a psychographic study fall under the principals of consumer behavior. Most aspects of consumer study involve gaining an understanding of the decision process of the consumer and how to use that process to make a particular product or service more attractive. There are, however, some basic principals of consumer behavior that are well researched and can be presented here. A simple diagram cannot possibly explain the intricacies of consumer behavior, however below is a flow chart that gives a good starting point.

![Flow Chart]

Each of the above areas effect the consumer decision making process and it is a study of all of these individual areas that creates an understanding of the consumer's behavior toward a particular marketing strategy.
The central "decision process" follows an understood path and includes the following:

1. Recognition of Need
2. Search for Information
3. Evaluation of possible alternatives
4. Purchase
5. Reevaluation based on Outcome of the purchase

"Environmental influences" are reasonably well researched and include:

1. Culture
2. Social Class
3. Personal influence
4. Family
5. Situation

"Individual differences" are items such as:

1. Consumer resources
2. Motivation and Involvement
3. Knowledge
4. Attitudes
5. Lifestyle
6. Personality
7. Lifestyle
8. Demographics

"Psychological processes" include:

1. Information processing
2. Learning
3. Attitude and behavior change.

Each of the influences on the consumer effect the consumer decision making process. To seek to alter any of the inputs to this process, will effect the outcome. Now, in some areas the marketer cannot effect a change (i.e. demographics, personality, etc.), but, on the other hand, there are areas that can be changed (i.e. attitudes, knowledge, motivation) with the tools of marketing.

Presented above is a partial list of the well researched influences of the consumer decision making process. I list the information as a base of
knowledge to explain how marketing effects purchase decisions. For example, if a patient were presbyopic, what influences their decision making process on the purchase of lenses? Setting individual differences aside, the patient might be influenced by a family member (as in the "Environmental Influences" section) or possibly ask questions to gain enough knowledge ("Knowledge" in individual differences section or "Learning" in the psychological processes Section). If a marketer knows the decision making process, a marketing strategy can be developed to enhance the processes that might influence the decision making process toward the purchase of their product/service. In other words, influencing a single factor, can change the process. So, if you wanted to offer progressive add lenses to the patient, having the patient educated (in the waiting room with information on PAL) or utilizing the patients family member already wearing PAL's, would make the decision to purchase PAL's easier.

It is the consumer that steers a market and understanding basic consumer behavior is knowledge well worth seeking.

REFERENCES and Suggested Readings:


Obtaining patients and customers

This section deals with that area of marketing which involves activities after a target market is identified. The previous topics in marketing are designed to identify those aspects of a target market for the purpose of developing a market strategy. Since marketing's primary function is to gear products and services to a market, a great deal of the effort of the marketing department is in putting out a message geared to that market. Putting the message out can take many forms and a few of the basic methods are included for discussion. Here we are looking at techniques of acquiring patients and customers.

Advertising

It is fully within your rights to advertise as an optometrist. The rights of the dispensary to advertise have rarely been questioned. So, tastefully advertise
your skills as an optometrist and advertise the offerings of the dispensary.
The only area to be careful about, is combining the message of products AND
services in the same advertisement. This may violate the separation of
optometry and opticianry concerning combining spectacle/exam price and
fee which is regulated.

Advertising is not simple and it is not what you may think it is. Advertising
strategy is a number crunching process that involves budgeting and
cost/benefit analysis. Most people believe that advertising involves putting
together pretty or funny ads and placing those ads in the various media.
While this technique is fun and easy, it is almost always wasteful and apt to
miss the target market. Some of the fun in marketing does lie in advertising,
however. This is one of the few areas of business that uses creativity and
style, once the message has been established. Establishing the message,
budgeting the funds and targeting media exposure are all preludes to the
creative end.

1. Cost/Benefit

The cost of advertising cannot outweigh the benefit of getting the message to
the market. This cost/benefit analysis is true in every section of business,
but particularly important to the area of advertising. The first step is to
establish an advertising plan. This plan comes from items obtained in
research and will include goals of the strategy and a budget for fund
allocation to different media. The plan will include items such as:

1. Identifying those areas of my research that I can influence
2. Positioning the ads to show that the practice meets some need
   of the market
3. Setting objectives
4. Determining a budget
5. Selecting media
6. Creating a message
7. Monitoring advertising to make sure it meets the established
   goals.

Advertising budgets work like most budgeting and are usually based upon
the financial statements. In our industry, it is common to find expenses
related to direct advertising to comprise about 5.0% of gross sales. This figure
is imprecise and should only be used as a basic guideline to follow as a
probable place to begin the budget. If you have gross annual sales of
$200,000 then your entire advertising budget should begin with annual
expenditures of $10,000. It is important to note that expenditures of over 5%
per month need not be adhered to because you may advertise heavily some months and not advertise at all in other months.

2. **Cost/1000**

The costs of advertising, in all media, is broken down to the dollar cost of advertising to 1,000 persons aka "cost per thousand". In this way it is possible to compare the different media. For example, comparing TV, radio and television ad placement, cost per thousand is the only way to make dollar comparisons. The media sales representative will "sell" you a program based upon an alternative using this figure (if it is to their advantage, of course). So you may hear that a 30 second spot on the AM talk show will cost $64 to reach as estimated 53,000 listeners. Costs per thousand are then $64/53,000 or $1.21 per thousand. This can be compared with a 30 sec. TV ad that costs $697 but will reach 414,000. This cost per thousand is $1.68, so these are comparable proposals even though the media is different and the cash outlay is 10 times more for the TV spot.

Every medium has some method for determining the number of persons involved with their message. And, in fact, most media have individual programming or print offerings that have individual monitoring. This is the purpose of the Nielson ratings in TV. The research into these numbers are usually compiled by independent sources to prevent the media from fudging their numbers. It is important to know the source of these numbers, as some media is so small in some markets that they don't subscribe to the independent researchers. Finally, media purchase, especially, broadcast media, will offer a package of media spots. For example, instead of buying a single 30 sec TV spot, they will offer a package that says that they will guarantee 12 30 sec. spots over a broad range of programming and will guarantee one single spot on one single TV show. Radio and newspaper will do the same. Still, the figures should all be broken down to cost per thousand.

**REFERENCES and Suggested Readings:**


*Building A Successful Professional Practice with Advertising*, Irwin Braun, AMACOM, 1981
3. Monitoring performance and message

OK, so you advertised and you want to make sure that you advertised effectively after the fact. This is the hard part and the only part that tells you that you are on target. Monitoring advertising effectiveness must take several forms. When several methods are used, correlation's can be made.

First, use financial data. This simply involves a look at the financial statements and in particular the entries in gross sales in a period during and immediately after advertising placement. If sales are up, it might mean your advertising worked.

Second, ask the customers. In our profession, this can be done easily as a simple entry in existing forms or a quick question over the phone. Questions such as, "Where did you hear of our practice?" or "Why did you choose to purchase your spectacles here?" can be asked on any form in the office. When patients call for an appointment, similar questions can be asked and a log of responses can be kept. Obviously, if a great number of new patients call to make appointments and mention that they read your ad, this helps establish the ad's effectiveness.

Third, you can ask your customers that did report seeing your ad, what they thought of it. This is a gross technique, but in our business, this is usually the only method to monitor that the proper message was received by the market. More message monitoring techniques include, panel discussion groups and market research, but do not apply to the budgets optometrists are working with.

A final method useful to optometrists is the collection of coupons offered in the ad. The more coupons returned, the more the ad was utilized to stimulate action on the market. Be careful not to let your staff give out coupons at point-of-purchase.

When all of these methods are put together, a great deal of the data will tell you how your ads are doing. Adjustments can then be made to make the response to your ads even better.

REFERENCES and Suggested Readings:

* State of the Art Marketing Research, A.B. Blankenship and George E. Breen, NTC Publishing, 1993
* Building A Successful Professional Practice with Advertising, Irwin Braun, AMACOM, 1981
4. Ad agencies

Ad agencies make their money from the media when they place your ads. In this way, you do not pay the agency directly, nor do you pay more for your advertising. Use ad agencies whenever possible. These agencies can assist you in every aspect of your marketing plan as these people are professional marketers. They are best at advertising, of course, but they can help you budget, select media, take care of purchasing, and are great at the creative end of the picture. Ad agencies can assist you in developing techniques to help in monitoring your advertising and they are great for finding co-op money within our industry. Only one caveat; they don't make money if you don't place ads, so there is always pressure to spend more money on ad placement. However, they are also looking to keep you as a customer and part of that is staying within your budget. Just be careful.

5. Media Availability

a. Print

Print advertising is advertising that is read by the market. Such an obvious statement seems unnecessary, until you think about how people read. People in the U.S. read, from left to right, enjoy short messages and like visual stimulation, hence the concepts of message design in print media. A good message will indoctrinate the reading style of the target audience in the message layout. For example, an ad might have the most important message in the largest print type. The message might have the most important message at the beginning or at the end of the entire message. There might be a great deal of "white space" to make the printed message more prominent and thus more obvious to the reader. All of these concepts are important in print media and are used in the creative part of print advertising layout.

1. Newspaper

Newspapers comprise the largest media in the United States based on advertising expenditures. It is interesting to note that newspapers developed as the back page to posted advertising several hundred years ago. The concept that advertising spawned newspapers surprises many people.

Newspaper ads are sold by column inch and this regulates the ad size. Different newspapers have different print type that can cause a few problems. It is nice to know that your suppliers usually have art available for you, if you want to include it in your message. Most newspapers have
their ad rates printed in every issue, but if not, you can simply call and a salesman will come out and tell you more than you will need to know about their newspaper. More often than not, they will come to you anyway, whether or not you call. In any case, finding prices for newspaper advertising is easy.

2. Magazines

The main advantages of magazines over newspapers comprise three concepts:

1. magazines are higher quality and offer crisp color.
2. magazines stay around the home longer and are read more fully.
3. magazines can target an audience better than most newspapers.

These advantages are significant in certain areas of our business. Suppose you want to talk about the beauty of the new tinted contact lenses? Magazines offer color, they will be around the home awhile for the person to discuss with family/friends and you can reach a specific market segment directly because there are magazines dedicated to almost every lifestyle and activity imaginable. Magazines offer targeting, that is their niche.

3. Direct Mail

Direct mail may offer better targeting still. You can obtain bulk mailing rates per zip code from the post office and target a population directly around your location. Bulk mail rates are lower than standard first class. Direct mail firms are abundant and can include your message in bulk mailings with other clients. Cost per thousand is often higher, but the thousand you target is highly specific to your market. Direct mail is great for offering coupons or discounts to your specific market only.

4. Yellow Pages

This is a marketing tool that is vital to optometrists, since most optometrists utilize the yellow pages to advise our services.
A few points about yellow page advertising.

1. The yellow pages are organized alphabetically, so businesses beginning with "A" are listed first. This is why businesses have names such as "AAA Plumbing". You will be placed according to the alphabet.
2. There are three print colors available, black on yellow, red on yellow, and black and red on yellow. Red is believed to stand out more.
3. The ads are placed annually and there are no changes permitted after printing, so you better be sure your ad is correct.
4. You can pay for name (and address/telephone) only, name only in bold, name with short message, or full ad in bordered box. This ad-in-box will usually appear in another location than your name listing, so precautions are to list your name/address/phone in the boxed ad with your message. Prices will depend on ad size and colors used.
5. You want to list general information about what is offered in your practice. It is permissible to list both optometric and dispensary services in this ad. You should include anything vital to your business in the ad such as directions, slogans or specialties.

b. Broadcast

Broadcast media comprises TV and radio. TV offers visual and auditory signal, while radio only offers auditory messages. This type of advertising cannot offer the market any form of printed information, so the message has to be fully contained in the allotted time. However, many broadcast media messages refer to printed media for more information. Both media charge prices based upon time of the ad and placement on particular programming. Both media offer single program placement such as a single TV show, or program packages such as 10, 30 sec spots in a time slot during "drive time" between 6:00 - 9:00 PM or 4:00 to 6:00 PM. Single placement is much more expensive, but insures that your message will air at a particular time. As with most things in business, the more you spend, the lower the costs. Also, both media are good about making customized programming packages if you choose to place several advertisements on their programming.

1. Radio

Radio requires great creativity because your only tool is sound. Humor is a great tool in radio. References can be make to other ads such as coupons in the newspaper, so it is a great media for grabbing attention of the market. You can easily change your message without a great deal of expense. The major fault with radio advertising is targeting. While there are many
specialized radio stations, the market is broad and spreads over the entire signal area of the station.

2. TV

TV is effective, but has many problems. The market is poorly targeted, costs are high and changing your message is very expensive. TV offers beautiful color imaging and can be great for those products that would be enhanced by such imaging. However, for most single location small businesses, TV is just too expensive because of production costs and poor targeting. One excellent area of TV however is the placement of tags after nationally placed ads on products offered by your practice. These tags follow TV ads and list your practice as one of the locations where the advertised product can be purchased. Talk with the product marketer for information about buying tags.

c. Telemarketing

Telemarketing is the use of the telephone in the marketing strategy. There are only two ways to use the phone, and that is calling in and calling out. Telemarketing can be used to educate the consumer as to new products/services or can enhance the knowledge of existing product/service information. For the optometrist, promoting new services over the telephone would involve a "cold-call" campaign, wherein staff would call lists of individuals and offer information as to the availability of product/services at your location. The use of this method is unlikely due to the nature of our business. But the offering of services over the phone is still used. You can have staff call patients that have a particular need and inform them that you now offer a new product that might assist them. (i.e. new color availability in a particular contact lens, vitamins packaged especially for ARMD patients, offering of new diagnostic services, etc.).

Most optometrists depend on the phone for incoming calls for scheduling patients or other product related information by the consumer. Telemarketing includes everything from personal selling over the phone to on-hold messages, so the role of the phone is not to be underestimated. It is advisable to send all staff members that talk to patients/customers to a course on proper telephone usage. Many basic techniques are taught in courses from basic telephone courtesy to "cold-calling", and every staff member, including the doctors can benefit.

Using the phone for recall is well accepted and simply involves reminding existing patients that they need to schedule an appointment or to remind
them that they have an appointment scheduled. On-hold messages is another well used telemarketing technique by our industry. Many companies offer on-hold message systems that are installed into your telephone system. These companies have charges based upon many variables such as existing equipment, number of messages required, installation fees, etc. These companies all advertise in the yellow pages.

REFERENCES and Suggested Readings:

*Reach Out and Grab Someone*, Ronald Snyder, Optometric Management, Oct. 92, p. 21

*On-Hold Messages*, Jeffrey M. Ekery, Optometric Economics, Volume 2, Number 2, Feb. 92, p. 37

6. Co-op

Co-op advertising is not a technique or medium. When a product is advertised by the manufacturer, they need to make sure that there is an outlet for the consumer to find their product. In advertising, many manufactures will help you pay for advertising that lists or shows their product. So, when you promote a product through advertising, it is quite possible that the manufacturer will reimburse part of the costs. This is co-op advertising. The amount of reimbursement usually depends on how many of their product the retail advertiser has purchased. With multiple suppliers, this can be difficult for a manufacturer to ascertain, however co-op may be available and is well worth looking into.

REFERENCES and Suggested Readings:

*Available, But Unused*, Kenji Hamada, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 40

Promotions

Promotions differs from advertising in that their is no paid message. Promotion may encompass the same message, but there is no dollar payment to get the message out. Promotion costs include many high cost items such as labor costs and discounts, so it cannot be thought of as free. But, there is a difference between advertising and promotion.
REFERENCES and Suggested Readings:

*Patients for The Asking*, Harold Katz, Optometric Management, Sept. 91, p. 20

1. "Sales"

Offering products at a discounted price is commonly referred to as having a sale. And, as every shopper knows, it is better to buy something "on-sale" than at retail price. In fact "sales" have become so common, that many marketers consider the retail price to be the "sale" price and any moneys collected over the "sale" price is just great!

"Sales" can provide many services for the business manager such as,

1. Quick reduction of inventory for cash flow problems.
2. Quick reduction of unwanted inventory.
3. Act to persuade customers to come into a business.
4. Provide a quick boost to revenue.

Having a "sale" may be one of the most effective ways to get new people to try out your business. Sales can be announced with advertising and promoted within the store. "Sales" of certain items may generate interest in other items, so "sales" require a strategy and a mini-marketing mix of their own. Product, price, place and promotion all come into play within an individual sale.

2. **Point-of-purchase**

Point-of-purchase displays are advertisements at the location where possible purchase decisions might be made. These ads usually offer bold information designed to add that last persuasion or the may be detailed information about the product. POP ads come in many forms and can be designed around a particular grand promotion. These POP's are often in conjunction with "sales" and can be effective last effort promotion. The actual ads are usually available from manufacturers or labs and they will give them to you, just ask.

3. **Special discounts/offers**

This applies to any promotion that offers a discount to a particular segment of the market. For example, if you offered discounts to senior citizens,
Special discounts are designed to promote your products/services to a special segment of your market and act to stimulate business. It is important to know that laws concerning special promotion are designed to prevent discrimination, so make sure your special discounts are careful not to offend or place anyone at a disadvantage.

Public appearance/Community outreach

For the services end of the practice, I cannot think of a marketing tool that has better cost/benefit than personal appearances, assuming the person appearing has the tools to make an effective presentation. Our special training will put us in demand for such public displays as speeches, forums, association memberships and all other areas of group get-togethers. Associations are always looking for a new speaker, and eye-care is of interest to everyone. Without mentioning anything about your practice, simply speaking to others establishes you as an authority in your area and those listening to you speak will seek you out when they have a problem.

Every community has civic organizations. P.T.A.'s, Lion's clubs, Elk clubs, Rotary, professional and trade organizations and labor union locals are all examples of organizations that have regular meetings that offer guest speakers. All you have to do is call any of these organizations and offer to speak at the next meeting. Of course, you need to prepare an effective, interesting topic which is well presented and geared to the audience. Within optometry, there are so many possible topics that there should be no group for which you can't find something of interest to talk about. The AOA has a great deal of information available for the development of media presentation and is available for the asking. Just call the AOA.

REFERENCES and Suggested Readings:

A Civics Lesson., Walter A. Mayo, Optometric Economics, Volume 2, Number 11, Nov. 92, p. 28

The Rewards of Hospital Privileges., Mark E. Holliday, Optometric Economics, Volume 2, Number 11, Nov. 92, p. 42
Recall and referral program

For many successful practitioners, recall is the extent of their marketing efforts. Once there is an established patient base, simple annual recall may provide enough patients to sustain a practice. Recall strategy varies and with the new computer programs available, should be hassle free.

Recall usually includes the mailing of a reminder card mailed at a predetermined interval. The computer can be used to not only keep up with patient recall timing, but can generate an individualized attractive recall mailing. Some offices use a personal follow-up in the form of a reminder telephone call. Some systems use multiple mailings to the same patient until an appointment is generated.

Referral is a concept of simply asking patients to recommend the practice to others. One happy patient can generate many referrals. Some practices aggressively seek referrals in the form of special offerings/discounts to patients (or other professionals) that refer a certain number of patients to the practice. For those less aggressive, a simple statement posted in the waiting room such as "We appreciate patient referrals" may do the trick.

Whatever method used, a system of recall and referral is vital to the success of any optometric practice. It is cheaper and easier to keep a customer than find a new one.

REFERENCES and Suggested Readings:

The Professional Way to Ask For Patient Referrals, Gray Sass,
Optometric Management, June 1992, p. 32

Direct mailings

Mailings are made up of informational or advertising material mailed to specific individual customers. They are usually in the form of regular mailings like billings or special mailings like requests for information from the customer. These mailing are excellent ways to communicate with the patient. Simply including promotional material along with the desired material is very effective and cost efficient.
Promotional items that can be included might be:

1. "Sale" announcements,
2. Special offerings,
3. Newsletters or updates on changes in the practice,
4. Announcements.

It is important that the material does not conflict with other parts of the mailing. It would be embarrassing to offer a special discount in the mailing along with a bill that does not reflect the discount on a recent purchase of the same item.

**Personal Selling**

Personal selling is a learned skill that requires knowledge of honest techniques that work for any product or service. The basic concepts require;

1. an understanding of why people buy,
2. communication of pertinent information,
3. non-verbal communication,
4. having an effective delivery in presentation,
5. satisfying the customers fears, uncertainty and doubts (FUDs),
6. learning techniques of closing, and
7. following up the sale.

With these tools, your sales presentations will become smooth and effective without compromising personal integrity and without doing a disservice to the patient. Most optometrists are knowledgeable about their products and services. Optometrists are trained in personal communications and non-verbal language as we learn to deal with patients. Understanding why people buy can be learned from books on the subject and from the generated market research that was done when developing the marketing plan.

The other areas require a little work. Learning to satisfy fears, uncertainty, and doubts (FUDs) requires the understanding of a customers personality and their individual motivation. This is the area of marketing that can only be satisfied through interpersonal communication. Picking out FUDs requires skill in gaining enough of the confidence of the patient so they will share their FUDs. It is then a matter of answering the FUDs in a manner that satisfies the customer. This is tricky, because new FUDs surface as old ones are satisfied, so skill is involved in not allowing a person to spend too much time to dwell on their FUDs. Learning about closing techniques is best
accomplished in a personal selling seminar which are available everywhere. Mentioned below are a few popular closing techniques that I have personally experienced.

1. The alternative choice close.
   Involves simply pointing out that the alternative to not purchasing is not as good as purchasing.

2. The assumptive close.
   You simply assume the close and begin working on the paperwork.

   Revisit the benefits.

4. The continuous "Yes" close.
   Establish a line of questions that have no possible answer except "yes". The customer is used to saying "yes" and so the last question in the sequence is the request for the sale.

5. "T" spreadsheet close.
   Have the customer make a spreadsheet of reasons to buy and reasons not to buy. Assist them in making the list of reasons to buy. Allow them to list the reasons not to buy without any assistance from you. The reasons to buy will always outnumber the reasons not to buy.

6. The final objection close.
   Ask what is the main objection. Ask if you could satisfy this last objection, would they buy. Determine if the objection could be satisfied, then satisfy the objection. Remind them of their commitment.

It is important to point out that these closing techniques are utilized to help the customer make a purchase decision, when the decision is in their best interest. People often need a little help with any decision. Finally, in personal selling, it is important to follow-up the sale with questions of satisfaction sometime after the sale. At times there is a problem that you need to resolve. Most of the time, there is no problem and the customer appreciates the attention.

The idea in personal selling is to help a customer make a purchase decision. No rational technique of personal selling involves twisting words or lying about a product. Personal selling, properly used, is a marketing technique that will benefit the patient.
REFERENCES and Suggested Readings:


Personal Selling: How to Succeed in Sales, Charles Futrell, Business One Irwin Press, 1992

REFERENCES and Suggested Reading - Marketing Section

Marketing: Strategic Foundations, Paul S. Busch and Michael J. Houston, Richard D. Irwin Press, 1985
State of the Art Marketing Research, A.B. Blankenship and George E. Breen, NTC Publishing, 1993
Building A Successful Professional Practice with Advertising, Irwin Braun, AMACOM, 1981
Personal Selling: How to Succeed in Sales, Charles Futrell, Business One Irwin, 1992
LEGAL

Forms of Business Operation

It is a legal requirement to determine the form of business operation. The major components in deciding on the form for a business is tax and personal liability reasons. The operation of a business does not significantly differ among the major forms of business, but different forms of doing business have different tax consequences. For example, in a corporation, it is possible to become taxed twice on income derived from the business. Personal liability is another issue. In corporations, the corporation is a legal entity independent of the personnel that makes up its employees. In the case of credit, loans to a corporation that defaults does not require that the management is personally responsible for payment. In the case of small businesses, that is not really true however, as we will learn soon.

Sole proprietorship

A sole proprietorship consists of one person engaged in business for themselves only. The entire operation is under their individual name only with financing and all legal obligations of the business in their name. The proprietor retains all of the profit and accepts all of the liabilities. Since proprietors are independent of others, they have individual responsibility for the operation. Employees and paid consultants (i.e. CPAs, Attorneys, etc.), can be utilized to divide the load, but the ultimate responsibility is the proprietor's.

One of the largest disadvantages of sole proprietorship is the incidence of tax liability. All income is reported as personal income taxes even if funds are needed for the business's expansion. The proprietor cannot take advantage of tax deferral programs, other than Keogh, such as pension and profit sharing plans. Another large disadvantage is the liability for business operations. As a sole proprietor, all claims against the business such as debt and liabilities from operation are all legally tied to the proprietor. This means, as a sole proprietor, you are responsible for all claims against the business and if your business cannot cover the claims, the proprietor is personally liable. In the event of death, the entire business operation, including debt, becomes the property of the proprietor's beneficiaries.

One nice advantage of sole proprietorship is that the proprietor only pays taxes once on the business's income (unlike corporations). Also, if you like taking on the business operation yourself with no interference, sole
proprietorship may be for you. There are less regulatory problems and often lower business operation fees in proprietorship. Sole proprietorships are less expensive to start up compared to corporations and partnerships. Also, sole proprietorships are easily dissolved with sale of assets and payment of liabilities.

**Partnership**

A partnership is an association of two or more individuals jointly engaged in business operation for profit. There are two types of partnerships; general and limited.

A **general partnership** is an association of two or more individuals jointly engaged in an ongoing business operation, with each partner sharing rights of management and control with a proportionate share of profits and losses. Partnerships are valued on a percentage basis, usually based upon individual ownership of the capital investment. For example, if you and your partner both invested $100,000 to form the partnership, you would both become 50% partners. If you invest $150,000 and your partner invested $50,000, you would be 75% partner and your partner would be 25% partner. The share of the profits are based upon percent ownership. So, if your partnership earned $200,000 net profit from operations, the money would be split based upon percent ownership ($100,000 each for 50% partners, $150,000 for you and $50,000 for your partner in the second example).

Most states have adopted statutes on partnerships known as the Uniform Partnership Act, which sets rules for governing the relationships of creditors with partnerships. Usually, the business operations are guided by agreements among the partners concerning control, deciding upon a managing partner and voting rights. Partners usually have entitlement to inspection of accounting documents and proportional participation in financial decisions. This is usually accomplished at a partnership meeting. Partners are also liable for claims against the business, however detailed partnership agreements usually dictate the degree of personal liability. Assignment of power in the event of death will be spelled out in the partnership agreement, however assignment of income and distribution may become the property of a deceased partner’s beneficiary. Partnership insurance is covered in the insurance section. Partners may act as agents of the partnership, subject to the terms of the partnership agreement, which has implications to the assignment of obligations acquired by acts of a partner acting as an agent. A partnership will hold all partners liable in the event of a lawsuit and that suit may name each partner separately. There are specific rules concerning the dissolution of a partnership and the legal and tax implications of those rules may be significant. In a general
partnership, the partnership files one report with the IRS, but each partner files separate income tax reporting forms from which the taxed amount is determined. In this way, the IRS obtains the taxes from each partner separately, yet knows what the partnership earned.

**Limited partnerships** are a special statutory creation combining some attributes of a general partnership and a some attributes of a corporation. Unlike general partnerships, limited partnerships do not have unlimited liability for all partners, yet has unlimited liability on a single partner known as the general partner. Limited partners only have limited authority and may not have any entitlement to all accounting. As with general partnerships, limited partnerships have adopted rules known as the Uniform Limited Partnership Act. These rules are now adopted by most states. These rules state, among other things, that a limited partnership must have one general partner, a certificate of limited partnership showing contributions of each partner, and a stated amount of the limited partner's liability. Tax liability is often difficult to determine in a limited partnership. Most people invest in a limited partnership rather than a corporation because they desire to recognize gains (or losses) based upon depreciation and other deductions directly as partners, rather than indirectly as shareholders in a corporation. The IRS has developed the concept of "Association Taxable as a Corporation", which allows the IRS to treat a limited partnership as a corporation for tax purposes if they desire. So, in a limited partnership, the IRS has the right to determine how you will be taxed.

Partnerships can become difficult to set up legally. Matters such as division of income, dissolution of the partnership, contractual obligations, and many other items make for sticky legal problems as all partners vie for their fair share. Despite these problems, in the optometric industry, partnerships are the most popular form of business with higher net incomes and lower hours worked as compared to other modes according to Optometric Management's July 1993 article, *Where Do You Weigh In?*.

In setting up a partnership, several issues need to be addressed. This information is reprinted (in part) from *Legal Aspects of Optometry*, p. 455-456;

1. Legal and tax requirements must be determined
2. Notification of third party providers
3. Insurance coverage must be appropriate
4. Naming the partnership
5. Determining any existing legal requirements
6. Determining the status of the individual partners such as % ownership, hours of work per partner, etc.
7. Duration of the partnership
8. Determining the capital requirements per partner
9. Determining benefits
10. Determining the division of income
11. Ownership of records

**Corporation**

The essential components of corporation are as follows;

1. **FORMAL CHARTER.** Sets rules called Articles of Incorporation which must comply with state laws. Fees are paid to the state where that corporation is chartered.

2. **SEPARATE ENTITY.** A corporation acts as a separate entity. It exists legally independent of the personnel that deal with it's management.

3. **TERM OF EXISTENCE.** The corporation exists beyond the death of it's employees, unlike a partnership. A corporation has perpetual existence, unaffected by changes in shareholders, officers, directors or employees.

4. **CONTROL BY OWNERS.** The control of business operations is determined by the shareholders by creating a board of directors. The board is elected annually by the shareholders. The chairman of the board is usually in control of business operations.

5. **LIMITED LIABILITY.** Shareholders of a corporation are only liable to the corporation for the amount paid to purchase shares.

In the real world, small business has a tough time gaining all of the advantages of incorporation. For example, it is doubtful that any bank will loan you large sums of money without personal guarantees. This almost negates the limited liability for a small corporation owner. Smaller creditors may accept corporate liability however. There are no rules to determine how many stockholders are required, so you may assume total control over a corporation by owning all of the shares of stock. Unfortunately, the IRS taxes the corporation and taxes the shareholders separately. In most cases, this results in double taxation for shareholders. If, for example, your corporation earned $100,000 and was taxed 30%, income to a single shareholder would be only $70,000. Then that $70,000 would be taxed an additional 30% and
you would only receive $49,000. There are many ways to circumvent this problem, however double taxation is a real problem associated with incorporation. Another problem is in the formal charter and the filing fees associated with incorporation. In some states, incorporating is very expensive.

There are other forms of incorporation. Two are mentioned here;

**Professional Corporation (PC)** - These special corporations arose from problems of earlier IRS rules banning professionals from incorporating. Now, a special entity exists for professionals with certain restrictions and limitations. Some of the rules include minimum malpractice insurance, restrictions on sale of shares and license requirements within the state. Generally, a PC stems from income from services being over 25% of gross income. If you're over 25%, you are a PC. For most optometrists, PC is the best form of incorporation. Current federal income tax rate for PC is 35%

"**Subchapter S**" Corporations - This is very similar to a regular corporation except in tax requirements. "Subchapter S" corporations are taxed based upon "subchapter S" of the tax code. Basically, "subchapter S" corporations are not taxed directly and allow the income from business operations to filter down to a single person. There are many requirements and restrictions that determine your ability to form incorporation under the "subchapter S" code. The main advantage is to avoid double taxation and to gain the ability to offer pension/profit sharing plans.

**REFERENCES and Suggested Reading:**

*Principles of Managerial Finance*, Lawrence J. Gitman, Harper and Row, 1976
*Legal Aspects of Optometry*, John Classe, Butterworths, 1989
*Notes from OPT 862, Optometric Economics and Practice*, John Rumpakis, Jan 94
Contracts

When you sign any agreement, that agreement becomes a legal contract. Contracts involving the bank agreement for your loan, any credit agreements, the lease for your location and any insurance contracts are all legal documents. It would be my advice to obtain the council of an attorney before signing any contract to make sure the terms are to your advantage.

Contract Law

One of the many things that attorneys learn in law school is the law of contracts. "A contract is an agreement, upon sufficient consideration, to do or not to do a particular thing". There are three basic elements of a contract:

1. Mutual Assent (or offer and acceptance)
2. Consideration (which usually determines method of payment)
3. Capable Parties (determines laws governing who is capable to enter into contract, i.e., insanity, drunkenness, minor)

*Contracts and Contract Remedies, J.P. Dawson and W.B. Harvey, Foundation Press, 1969

Bank agreements

The loan agreements with your bank should be reviewed from time to time to determine if refinancing is possible. As interest rates change, you might find it beneficial to obtain a new loan (with the same or with another lender) to take advantage of lower rates or changes in your financial position. Terms of your loan are spelled out including payment schedule and actions available for both parties upon violation of the terms. It is one of the simpler legal documents. This is an agreement with great room for negotiation.

Lease/ownership agreements

In addition to the lease for your location, there are many other items that you may choose to lease such as office equipment, optometric equipment, etc. All of these leases will be held under contract law. Lease agreements, under contract law, provide not for transference of ownership, but transference of possession.
Basic components of a lease for real property (lease for your location) would include:

1. Identification of the parties
2. Description of the lease property
3. Term of the lease
4. Option to renew
5. Lease rental
6. Covenant of free title
7. Lessor's right to enter the premises
8. Right to sublet or assign
9. Responsibility for repairs
10. Cost of utilities
11. Insurance
12. Termination of lease due to casualty loss
13. Terms of improvements
14. Failure to pay rent within a required time
15. Notice required in writing

Agreements to form associateships, partnerships, and professional corporations

Employment and ownership agreements may be the most difficult legal agreements that the optometrist may come across. Terms of the contract need to be spelled out in great detail and address, in writing, every aspect of the agreement so that all parties understand exactly what is involved in the contract. Really, it's a document of communication between all parties as to the terms of the contract.

1. Associateships

This is an employment contract where the employee holds no ownership in the business. Factors of significance;

1. Scope of duties
2. Exclusive service
3. Professional standards
4. Term of employment
5. Compensation
   - Basic salary
   - Bonuses
   - Fringe benefits
6. Malpractice insurance
7. Use of office facilities
8. Ownership of records and files
9. Any fees due to the employer
10. Vacation terms
11. Provisions of illness and disability
12. Covenant not to compete
13. Termination
   - Reasons for
   - Voluntary
   - Severance pay provisions

2. Partnerships

This is an agreement to enter into partnership among two or more individuals. Items to consider would include;

1. Philosophy of the practice
2. Capitol contributions
3. Division of partnership income
   - Percentage
   - Productivity
   - Combination
4. Division of partnership expenses
5. Benefits
6. Transfer of partnership interests
7. Provisions for retirement
8. Insurance
9. Buy out agreement = "Entity-Purchase Plan"
10. Agreements upon the death of a partner
11. Disability
12. Accounting records
13. Covenant not to compete
14. Dissolution
15. Obligations

3. Corporations

Corporations, as explained above, have many reporting procedures to develop separate legal entity including registration, issuance of stock, etc. Some important factors of incorporation;
1. Articles of incorporation
   Have to be drafted by an attorney and filed with the state.
   Addresses
   - purpose of incorporation,
   - address of the principal, officers and directors,
   - duration of the corporation’s existence,
   - statements pertaining to
     1. any licensure of the principals and
     2. adherence to the laws of the state
   - stock outstanding and issuance value
   - original capital requirements

2. Corporate bylaws
   Guidance for the day-to-day operation
   Relationships among shareholders, directors, etc.

3. Employment contracts

4. Stock purchase agreements

5. Election of Section 1244 of the IRS code for stock sold at a loss

6. Description of pension/profit sharing plans

**Insurance**

In order to run a practice, you will be required to have certain types of insurance. However, the requirements for insurance may vary depending upon your mode of practice. Generally, you are required to have professional liability insurance covering every mode of your practice. You will also need some form of protection for your office contents and office liability even if you are leasing space from a chain store. Other forms of insurance may be considered optional, however, it is prudent to have coverage in most of these areas.

**Life**

Life insurance pays money to a beneficiary that you name, upon the event of your death. It should really be called death insurance. Life insurance requires the payment of regular premiums and will pay a stated amount if you die under certain circumstances. Life insurance is very useful to cover any personal liabilities that would be payable in the event of your death, such as practice liabilities (esp. in a partnership), your student loan, in addition to allowing your beneficiaries money to live on since your income will cease. There are four forms of life insurance: term, whole life, endowment and universal life.
**Term life** insurance is usually the least expensive and only covers you for the term of the contract, usually one to five years. The insurance has to be renewed at the end of the term and that may require new application and qualification. There are usually no additional benefits beyond the death benefit. Term life premiums are based upon the dollar amount of the benefit, age, sex and overall health. With each new application, the premiums will increase mostly due to the increase in your age. Consider term life insurance short term life insurance to meet a specific short term need.

**Whole life** is designed to cover a person for their "whole life". Generally, whole life has premiums that are set for life and paid in regular installments. Whole life offers two benefits; the death benefit and the annuity benefit. The premiums paid into the policy are higher than that amount needed to cover the cost of the actual life insurance. The additional amount acts like a savings account; the longer you hold the insurance, the greater the cash value of the policy. When you are talking to an insurance agent, the agent will show you an annuity table showing each premium, the value of the life benefit, a stated rate of interest and the cash value for each period. The agent will generally show you an expected interest rate, but you will also want to see the minimum interest rate. It is important to note that you can borrow the cash value of your policy, at a stated rate of interest, should you ever need it. Also, since whole life is an asset, you may use it as collateral for obtaining loans.

An **endowment** policy is permanent insurance purchased for a specific period of time. The basic difference from whole life is that the policy face value is redeemable at the end of the term if the policy holder has not died. Premiums are usually high and endowment life insurance is not often purchased.

**Universal life** is the newest form of life insurance. It combines term insurance with cash-value accumulation in a fund. Usually the terms of universal life policies allow the investment of the cash value portion into higher yielding markets, so the value of the cash balance accumulates faster. This make universal life more of an investment with life benefits.

Your life insurance should be reviewed from time to time as your life changes. At this point in your life, you may only have a huge student debt that needs to be covered (which, by the way, is covered in case of your death in money you paid in fees from the loan amount). Later in life you may own a home, have a spouse, kids in college, own larger assets, etc., all of which may require changes in your life insurance.
Disability

Disability insurance covers you and/or your business in case you are disabled for any reason. The chance of disability is high in the United States. According to Legal Aspects of Optometry, there is a 90% chance that one in three persons age 25 will become disabled for at least three months before reaching age 65. When deciding on disability coverage you should consider the following questions:

1. How long must the disability last before insurance coverage begins?
2. How long does the disability coverage continue?
3. What types of disabilities are covered?
4. What is the cost of the policy?*

* List reprinted from Legal Aspects of Optometry, p. 638

All of these questions must be covered with your insurance agent to gain a true assessment of the policy coverage.

There are many avenues available for you to obtain disability coverage and some depend on your mode of practice, whether you are an employee or employer, and if you are the member of any groups eligible for disability compensation. Often you will find disability benefits included in your overall health insurance plan.

You can obtain coverage for disabilities to pay your personal expenses and you can obtain coverage to cover your business expenses. Personal disability insurance will guarantee your income for a specific period of time, beginning at a certain date (usually called the "waiting period" which usually starts at 90 days). Personal coverage may require the purchase of several riders such as cost of living adjustments, partial or residual disability and guaranteed acceptance. Business coverage during your disability is called Basic Overhead Expense insurance or "BOE" insurance. It covers the fixed expenses for your business, for up to one year and has a shorter waiting period (of usually 30 days).

Professional and Personal Liability

Also known as malpractice insurance or "errors and omissions" insurance, professional liability coverage handles injury to patients that stem from malpractice because the doctor either:
1. caused injury to a patient and/or
2. did not perform to the "standard of care".
The coverage has two available types; "per occurrence" and "aggregate". You will generally obtain a one million dollar per occurrence and three million dollars aggregate. The aggregate will determine the maximum the insurance company will pay for multiple suits in a specified period of time. Coverage will handle any awards and legal fees up to a stated amount. Generally the payment of damages is at the insurance company's discretion. If they feel that it is not worth the cost of defending you, they may settle the suit without your input. The cost of the policies vary. One quote from State Farm® for per occurrence professional liability insurance was $285.00 for one million dollars coverage (it was also stated as $145.00 for an optometrist as a rider to an overall business liability policy). Optometrists have history of limited exposure to malpractice, so, at the present, premiums for this type of insurance for optometrists are small.

Personal liability insurance covers items such as defamation of character, product liability, personal injury, negligence, etc. In other words, if you or your business cause harm to another person, personal liability coverage will handle any awards and legal fees up to a stated amount. Again, the payment of damages is at the insurance company's discretion. If they feel that it is not worth the cost of defending you, they may settle the suit without your input. This type of settlement may act to imply that you were negligent when you were not!

If you cause injury to a patient with an instrument during testing or misdiagnose an ocular condition, you will be covered in your malpractice insurance. If a patient feels that you caused injury to their character, your personal business liability will cover you and the business. Generally all lenders will require some personal liability insurance for you in the form of malpractice insurance and for the business as personal business insurance.

**Legal Basis for Malpractice**

As a guideline on what is and what constitutes malpractice, I offer some basic information on malpractice from *Legal Aspects of Optometry* by John Classe;

Malpractice is governed by the Law of Torts which defines a tort as;

1. a civil offence (not a crime)
2. that it is based upon legal wrongdoing other than a breach of contract
3. and that, if a tort is proven, damages can be awarded
As offered in *Legal Aspects of Optometry*, the basic elements of malpractice are:

**Negligence**

"Conduct which falls below a standard established by the law for the protection of others against an unreasonable risk of harm"

**Legal Duty and the Standard of the Reasonable Person**

"Proper qualities demanded of a good citizen...to protect a person from unreasonable risk of harm"

**Failure to Provide Due Care**

"Expected to treat a patient with at least reasonable skill, care and diligence and to possess a minimum degree of knowledge"

**Proximate Cause**

"Some connection has to be made between the act or omission and the damages suffered by the patient"

**Injury**

"For a plaintiff to receive compensation from a court of law he must show the court not only that there was a breach of the duty of due care, but also that the breach of duty was the proximate cause of an actual, physical injury...which includes injury of the mind"

**Property, Product and Premises Liability**

Property liability includes damage as a result of fire, theft, injury to others caused by your property or by products that you sell. For example, if a person trips and falls in the dispensary and sustains an injury, premises liability will cover this claim. If a fire starts in your office and destroys everything in your office, property insurance will cover the loss. If a person is injured by a product that your office sold them, product liability will handle the claim.

You have many riders available in the basic policy to allow coverage of:

- Natural disasters such as earthquakes & floods
- Business interruption - pays overhead until repairs are finished
- Money and securities
- Accounts receivable - pays for reconstruction of acc. rec. records
- Valuable papers and records - pays for reconstruction of records
- Employee theft/dishonesty
- Computer insurance
- Business owned auto
- Others
See the appendix for information concerning the basic business policy as offered by State Farm® Insurance Company.

**Partnership Insurance**

What happens if your partner dies? Partnership insurance covers losses as a result of the loss of a partner. Basically, partnership insurance is life insurance that covers all partners. This benefit is usually paid to other beneficiaries of the deceased partner in order to buy out their inherited part of the partnership. It also insures that the deceased partner's beneficiaries receive the benefits of the deceased's years of work. All claims upon benefits and the specified use of the benefits will need to be worked out in the partnership agreement in addition to the policy itself to avoid future legal problems.

**Personal**

Finally, you will need insurance for your personal life outside the business in the form of health, home property, home liability, mortgage and auto insurance. Health and life insurance may be part of the business benefit package and therefore tied to the business. Business riders may also cover personal autos and even some personal property. Make sure that you review all coverages with your insurance agent on a regular basis to avoid missed coverages or double coverages. Insurance companies will not pay you double for losses even if you have double coverage.

**Health** insurance covers the cost of Dr.'s fees, hospital expenses, prescriptions, outpatient services and other medically related expenses. Usually, policies have a deductible on each claim that the insured has to pay, however the deductibles may accumulate to an annual maximum. Persons over 65 years of age, some disabled persons and others may be covered with Medicare and may have additional supplemental insurance beyond that. You want to make sure that your policy covers catastrophic illness such as cancer, because the expenses are so high that they can run into millions of dollars. Most insurance companies offer maximums on catastrophic coverage, so make sure your policy fits your needs. Health insurance is usually purchased by a group for economic reasons, and coverage may include just you, you and your spouse, or you and your spouse and kids. Policies are usually limited to immediate family members, which means your live-in aunt will have to find coverage on her own.

Your home will be covered by a homeowners policy that covers personal liability and loss due to certain causes. Very similar to policies discussed
earlier, homeowners insurance has riders available also. Mortgage lenders will require mortgage insurance.

Auto insurance is the insurance that you may be most familiar with. The premiums depend on policy benefits, your driving record, type of automobile, amount of deductible, miles to work and geographic area of use. Your policy covers you for liability as a result of injuries caused by you and the car. Additionally, you can purchase coverage for loss of the car called collision insurance. Each claim will have a deductible of a few hundred dollars. Every person on the policy will be issued a premium based upon age and driving record, however there are discounts for entire family coverage. You will also need auto coverage for any business vehicles. This insurance can be purchased separately or as a rider for the overall business policy. Usually, auto riders on business policies do not use personal driving records to determine premium.

A few final notes on insurance in general. Check to see if you have any life riders on other policies and adjust your life coverage accordingly. Ask for information concerning double indemnity. Double indemnity will pay double the stated face value if you die in a certain manner. You may find that you have double indemnity on your life policy in case of accidental death. For young people, the chance of death from accidental causes is greater than for older persons. Also check the tax implications of each policy. Depending on how you pay the premiums, the benefit may or may not be taxable. Also check coverage from governmental agencies. For example, workman's compensation pays for injury to employees while at work. Your policies must be adjusted to reflect coverage from other sources.

REFERENCES and Suggested Reading:

*Are You Covered If You Are Sued?,* James C. Sawran, Review of Optometry, Volume 128, Number 8, August 1991, p. 33
*Watch Out For These Malpractice Traps,* Nicky R. Holdeman, Review of Optometry, Jan 1993, p. 66
*Nine Ways To Avoid Therapeutic Malpractice,* James Rosenwasser, Optometric Management, July 91, p. 41
*Malpractice: Managing the Risks,* D. Leonard Werner, Optometric Economics, Volume 1, Number 2, Feb 91, p. 37
*Gimme Shelter,* G.S. Mack, Optometric Economics, Volume 3, Number 6, June 1993, p. 37
Prescriptions

Spectacle

The Federal Trade Commission (FTC) regulates trade in the United States. In 1978 the FTC issued the Eyeglasses I rule which has had important implications for optometric practices. The Eyeglasses I rule states;

1. The doctor must offer the Rx to the patient at the end of the exam
2. The doctor determines if no Rx needs to be written
3. The Rx must be offered even if there is no change from present Rx
4. The Rx must contain certain information
   - Sphere power
   - Cylinder power
   - Cylinder axis
   - Prism power and orientation
   - Signature of the Dr.
5. The Dr. may receive a fee for writing the Rx if all patients are charged the fee
6. An expiration date can be placed upon the Rx
7. A fee can be charged to verify spectacles supplied by another provider
8. No disclaimers can be placed upon the Rx

There are many implications of the Eyeglasses I rule for contact lenses prescribing also.

1. The CL Rx must be offered to the patient at the end of the exam
2. The CL Rx must include minimum information;
   - Sphere power
   - Cylinder power
   - Cylinder axis
   - Material or manufacturer if necessary
   - Signature of the doctor
3. A fee can be charged for writing if same fee is applied for all patients
4. The Rx may include an expiration date
5. Fees to verify lenses from another supplier may be charged

Violations of the Eyeglasses I are punishable by a fine of up to $10,000 per occurrence. Additionally, the FTC commissioners in 1988 decided not to enforce the Eyeglasses II ruling. However, Eyeglasses II rulings effected Eyeglasses I rulings to show the above stated rules. Eyeglasses II rulings also limited commercial practice of optometry by limiting state laws, however
since it is not enforced, it has little implications to the practice of optometry today. Eyeglasses II still exists however, even though it's not enforced.

**Pharmaceutical Agents**

In terms of writing prescriptions for pharmaceutical agents, the Dr. is expected to have competence in the use of particular drugs. Here is a list of things, regarding the prescription of drugs, that the Dr. is expected to know:

- Expected to understand the *properties* of a drug
- Expected to choose a drug that is *suitable*
- Expected to determine if an *allergic* reaction is likely
- Expected to warn patients of *side effects*
- Expected to *monitor* the patient

**Misc. legal issues**

There are many other legal matters involving the set-up, operation and dissolution of a business. Additionally, there are legal aspects of the practice of optometry which vary from state to state. I cannot possibly discuss every legal aspect of the practice of optometry, however I have attempted to discuss in some detail those aspects related to business operation. I will offer a brief list of these other considerations and suggest that additional reading should be done on most of these considerations.

**Ethics**

- FTC standards for interstate drivers, pilots, etc.
- Individual State laws on business and optometric operations
- Tax reporting requirements
- Clinicolegal issues and the Dr.-Patient relationship
  - Duty to report glaucoma, tumors, retinal detachment
  - Liability
    - Removal of foreign bodies
    - Ophthalmic materials
    - Pharmaceutical agents
    - Reporting vision to DMV
    - Requirements for legal blindness
- Records
  - SOAP (Subjective findings, Objective findings, Assessment, Plan)
  - Sharing
  - Ownership
- Employee rules and regulations
- Occupational Safety and Health Association (OSHA) standards
American National Standards Institute (ANSI) Standards
Business license requirements, professional licence requirements
Collection of account receivables
Record keeping and documentation
Civil court procedures
Regulatory agencies

**AOA Code of Ethics**

This code of ethics is listed on the back of every AOA member's identification card.

"It shall be the Ideal, the Resolve, and the Duty of the Members of the American Optometric Association:

TO KEEP the visual welfare of the patient uppermost at all times;
TO PROMOTE in every possible way, in collaboration with this Association, better care of the visual needs of mankind;
TO ENHANCE continuously their educational and technical proficiency to the end that their patients shall receive the benefits of all acknowledged improvements in visual care;
TO SEE THAT no person shall lack for visual care, regardless of financial status;
TO ADVISE the patient whenever consultation with an optometric colleague or reference for other professional care seems advisable;
TO HOLD in professional confidence all information concerning a patient and to use such data only for the benefit of the patient;
TO CONDUCT themselves as exemplary citizens;
TO MAINTAIN their offices and their practices in keeping with professional standards;
TO PROMOTE and maintain cordial and unselfish relationships with members of their own profession and of other professions for the exchange of information to the advantages of mankind."

Adopted by the AOA in 1944.

**Role of the attorney**

Finally, when should you use an attorney? Obviously, you will need the services of an attorney whenever a legal suit is brought against you. You should also seek the advice of an attorney for any important agreements that you are considering, such as leases, employment contracts, etc. If you choose to incorporate, you are required to use an attorney to draw up the articles of
incorporation. The least used role of an attorney is that of consultant. The attorney can assist you in making decisions, setting up recording forms, negotiation, determining insurance requirements and setting in place methods to avoid malpractice.

REFERENCES for section on Law:


*Legal Aspects of Optometry*, John Classe, Butterworths, 1989

Notes from OPT 862, *Optometric Economics and Practice*, John Rumpakis, Jan 94

Notes from OPT 761, *Public Health Optometry*, William Bleything, March 93

*The Business of Optometric Practice*, Marc Provencher, Advisory Enterprises, 1975
Section V
Purchasing an existing business

There is a great deal involved in the purchase of an existing business. This decision can be approached from different ways. As a new graduate, you can enter into a complete buy-out, a partnership buy-in arrangement or an associate leading to partnership buy-in arrangement. All of these ways of purchasing a business will build an equity in the business either by a one time cash outlay or payment over time. The first important decision is which business to buy.

There are several things to consider in determining your decision on which business to purchase.

Determining your preferences

Everything begins with you. In the section on management you will find a section on goal setting. Once you know your goals, you will know where you are going. You need to find a business for sale that will allow you to fulfill your goals.

The location of your new business, may have a great deal to do with whether or not you are interested in it's purchase. For myself, I can't imagine living in an area where I have to deal with cold weather all the time. The overall geographic location is important, but also the practice's specific location may govern your decision as to whether you are interested or not. Do you want to work in a mall, in a medical office setting, is the neighborhood nice, can you find comfortable housing nearby are all questions that need to be answered before serious investigation begins.

Finally, lifestyle must be considered. Are you the 9-5 type or do you want flexible hours? Do you want to live in an area that meets a recreational need such as boating, skiing, windsurfing, etc.? Are there other important factors such as nearness to family, attractiveness of the area to your spouse, etc. to consider? As you can see, lifestyle is a major consideration when deciding on a practice location.

After you have determined the type, setting and location of the kind of practice you want to own, the time comes to evaluate a practice's potential for ownership.
Evaluating a practice

Once you have decided upon purchasing a practice, you will then need to find one that is for sale (or looking for a partner). There are many sources available in finding practices for sale including the AOA and other associations, trade journals, trade shows, word of mouth and simply asking the current owner. After you find several potential practices for sale, there are many factors to consider:

Mode of Practice
- Does it match your desired mode of practice

Location
- How long has practice been in that location?
- Is the area growing?
- Is the practice assessable to patients?
- Is parking readily available?
- Is the office upstairs or downstairs?

Community
- Demographics/Psychographics (discussed in marketing section)
- Do you want to work in this community?
- Current zoning in and around your location
- Tax codes, associations, crime, etc.

Competition

Real estate lease vs. purchase of real property

Existing lease - see section on law for information on leases
- Time left on lease
- Rental price
- Restrictions
- Renewal terms

Furnishings/office design
- Is it a good work environment?
- Money required for repair/redesign?
- Proper valuation of assets

Instruments and equipment
- Good condition
- Proper valuation
- Money needed to convert to your needs

Ophthalmic material selection and supplies
- Nice dispensary or out-of-date?
- New style frames or outdated?
- Proper valuation
Personality of the seller/Philosophy of the Practice
-how much are you going to have to change
-you will inherit their patients and staff, a personality
assessment may have great importance

Staff
-Need to hire/fire
-Changes in job description
-Will they fit into your management style?

Working hours
- Are you going to be able to set your own hours?
- Staffing costs to meet lease agreement of hours of operation
- Retail locations have different hours from medical office locations

Patients
-Pediatrics/family/geriatric?
-VT/CL/Primary care?
-Can you match your patient population
-Any sociological issues important to the area-racism, poverty, etc.?

After you have decided upon buying a practice you will need to decide on several more factors:

Terms of buyout
- Associateship to full partnership to buy out?
- Owner financing available?
- Bank loans and other sources of financing
- See section on accounting/finance

Financial analysis of you
-Can you come up with the capital?
- Can you cover existing debt, i.e. school loans,?

Financial analysis of the practice
-Analysis of the practice's financial records
  -Income statements
  -Balance sheet
  -See section on accounting/finance
- Account receivable of the practice
  -decrease $0.90 per dollar for accounts under 30 days old
  -Every 30 days, over 30 days, drops value another $0.10 to $0.20

Independent appraisal of the practice
-make sure the valuation on financial records agrees with actual value
-seek professional help

Covenant not to compete
Growth Rate
-has the business been growing? Why and why not!
- AOA suggests 1,200 to 1,500 exams per year for a healthy practice

Goodwill
-The amount of the business over and above the tangible assets that is asked by the seller.
- Important tax consequences. Goodwill is amortized on future taxes!

Maintaining continuity of service
- Will the old patients stay!
- Will the seller practice for a fee that allows for a smooth transfer
- Will the seller be cooperative after the contract is signed?

Tax considerations/form of business
(proprietor, partnership, corp.)

In purchasing an existing optometric practice, many things have to be considered. Help is available from CPA's, attorneys, and consultants. They are worth the money. Only you can decide the personal matters such as mode of practice, livability of location, etc. The section on accounting and finance discusses in great detail how to read financial and accounting information. The section on management will help you determine your goals and help you set appropriate goals to fit your needs. The section on marketing will assist you in marketing research so that you can assess a location's marketability. The section on law will help you to work through pertinent legal matters such as insurance and forms of business operation.

REFERENCES and Suggested Reading:

*Pathways in Optometry*, seminar by Allergan, AOSA, AOA, Association of Schools and Colleges of Optometry, presented September 13, 1992

*Be Your Own Broker*, George Elmstrom, Optometric Economics, Volume 1, Number 4, April 91, p. 42

*Practice Value vs. Living Expenses*, Peter G. Shaw-McMinn, Optometric Economics, Volume 2, Number 11, Nov 92, p. 23

*Practice Modalities: A 10-Year Survey*, Gary L. Moss, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 18

*Making it Work*, Gene Mitchell, Optometric Economics, Volume 1, Number 1, Jan 1991, p. 14

*Measuring Up*, Robert Koetting, Optometric Economics, Volume 1, Number 1, Jan 1991, p. 25

*Is Solo Practice Your Best Option*, Christine Winslow, Review of Optometry, Volume 128, Number 6, June 91, p. 44
Partnership - Part 1, Marc J. Lane, Optometric Economics, Volume 1, Number 10, Oct 1991, p. 37

Partnership - Part 2, Marc J. Lane, Optometric Economics, Volume 1, Number 11, Nov. 1991, p. 17

Find The Right Person, Heil Gailmard, Optometric Management, June 93, p. 23

Foster a Successful Relationship, Alan Cleinman, Optometric Management, June 93, p. 33

I'm Working My Way to Practice Independence, Kim Even, Review of Optometry, Volume 128, Number 9, September, 91, p. 31

The Practical Way To Find A Partner, Christine Winslow, Review of Optometry, Volume 128, Number 7, July 91, p. 32

An OD-MD Practice That Works., Anthony B. Clark and Demetrice T. Clark, Optometric Economics, Volume 3, Number 5, May 1993, p. 34

Office Sharing, Randall N. Reichle, Optometric Economics, Volume 1, Number 10, Oct 1991, p. 31

Why My Franchise Went Bust, G. Daniel Glass, Optometric Management, July 92, p. 16

A Break From The Chains Helped My Practice, Roger Trudell, Review of Optometry, Volume 128, Number 7, July 91, p. 27

Are The Chain Stores Out Of Tricks?, Larry Borska, Review of Optometry, Volume 128, Number 3, March 91, p. 26

Partnership and Practice Sale From Two Perspectives, Irving Bennett, Optometric Economics, Volume 3, Number 4, April 1993, p. 18

Notes from OPT 761, Public Health Optometry, William Bleything, March 93
Section VI
Modes of Practice

You may enter into practice many different ways. There are many options available, but you will be either an employer or an employee. If you choose not to open or purchase an established practice, you will be looking for a position as an employee.

Associateship
In this arrangement, the associate is employed by another O.D. directly for base salary, bonuses, and fringe benefits. An associate may work towards partnership. Discussed in detail in section III.

Academia
Optometrists may become employed by the Colleges of Optometry and for any other academic setting.

Government/military
All branches of the U.S. Military use optometrists and employ O.D.s as either commissioned officers or as civilians. The U.S. Government also employs O.D.s in the U.S. Veterans service and the U.S. Public Health Service.

HMO
Health-maintenance organizations provide health care for their paying members. O.D.s may be employed on a full-time or part-time basis.

Ophthalmologist/Medical Clinic
This arrangement works well for ophthalmologists that are more surgically oriented and wish to employ an O.D. for non-surgical eye care. O.D.s also work as directors of clinics for these ophthalmologists.

Corporate
Many large corporations are in the eye-care picture often in the form of chains. If you are employed directly (not as a leasee of space) you are an employee of that corporation. Check your state's laws concerning employment directly by a corporation.

Industry
Large industries use optometrists in research and development, as marketers, consultants and other non-clinical employees.

If you choose to go into business for yourself, you will in one of a few settings;

Solo practice
This is the classic optometric office, owned and operated by the O.D. This can be in the form of a proprietorship or corporation.
Shared-expense
In this arrangement, two professionals share the expenses of running the office without actually entering into business together. There may be a problem however with liability in a shared-expense setting.

Partnership
Two or more individuals joining forces to work together for a shared profit.

Group
Three or more optometrists work together without sharing ownership for obtaining the benefits of larger volume. Volume purchasing and multidisciplinary referrals might be the reason for joining a group practice. Similar to a shared-expense practice only more doctors.

Merger
This occurs when two or more entire practices combine resources. Dr.s often retain operating rights to their own location, but are merged with the other practice locations.

Franchise owner
Larger companies, such as Pearle, sell franchise rights to O.D.s. Your franchise is operated under the rules of the franchisor. You pay a fee, usually tied to revenue, and the franchisor usually does the mass marketing.

Each option has advantages and disadvantages. Listed below is a reprint from the Pathways in Optometry career planning workshop workbook

<table>
<thead>
<tr>
<th>Career Option</th>
<th>Major Advantages</th>
<th>Major Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Associate</td>
<td>Income security</td>
<td>Average income</td>
</tr>
<tr>
<td></td>
<td>No start-up costs</td>
<td>Minimal equity</td>
</tr>
<tr>
<td></td>
<td>Minimal management</td>
<td>Dictated office policy</td>
</tr>
<tr>
<td></td>
<td>Partnership potential</td>
<td>Minimal independence</td>
</tr>
<tr>
<td></td>
<td>Building equity</td>
<td>No equity</td>
</tr>
<tr>
<td>Academia</td>
<td>Good Benefits</td>
<td>No equity</td>
</tr>
<tr>
<td></td>
<td>Average income</td>
<td>Additional study</td>
</tr>
<tr>
<td></td>
<td>Research opportunities</td>
<td>Limited opportunities</td>
</tr>
<tr>
<td></td>
<td>Teach and practice</td>
<td>Limited independence</td>
</tr>
<tr>
<td></td>
<td>Speaking opportunities</td>
<td></td>
</tr>
<tr>
<td>Military</td>
<td>Excellent benefits</td>
<td>Average income</td>
</tr>
<tr>
<td></td>
<td>Good working conditions</td>
<td>Frequent relocation</td>
</tr>
<tr>
<td></td>
<td>Reduced cost of living</td>
<td>Limited scope of practice</td>
</tr>
<tr>
<td></td>
<td>Minimal management</td>
<td>Minimal independence</td>
</tr>
<tr>
<td>Government</td>
<td>Good income</td>
<td>Often remote location</td>
</tr>
<tr>
<td></td>
<td>Excellent benefits</td>
<td>Limited locations</td>
</tr>
<tr>
<td></td>
<td>More primary care</td>
<td>Dictated office policy</td>
</tr>
<tr>
<td></td>
<td>Minimal management</td>
<td>Minimal independence</td>
</tr>
</tbody>
</table>
HMO
Higher starting income
Good benefits
Good working conditions
Minimal management
No equity
Limited locations
Dictated office policy
Minimal independence

O.D./M.D.
Generally good income
Work directly with M.D.
Good working conditions
More primary care
Minimal control
Dictated office policy
Limited independence

Industry
Good income
Good benefits
Upper mgt. potential
Building equity
Limited positions
Travel
Job security
Minimal independence
No equity

Vision care chain
Initial higher income
Generally good benefits
Minimal management
Marketing provided
Image with colleagues
Dictated office policy
Limited security
Minimal independence
No equity

Referral Center
Good income
Good benefits
Minimal management
Marketing provided
No equity
May require residency
Limited sub-specialty
Minimal independence

Solo, shared
expenses, partner-
ship, group, merger
or franchisee
Higher potential income
Greater equity potential
Control of destiny
Primary care options
Own optical dispensary
Independence
Build equity
Lower starting income
Higher start-up costs
Management responsibility
Marketing responsibility
Competitive challenges
Greater financial risk
Slower start

Looking at income statistics might help in determining some advantages/disadvantages of some modes of practice. The following statistics come from Where Do You Weigh In? by Frank Irving in Optometric Management's, July 1993 issue;

<table>
<thead>
<tr>
<th>Net Income per optometrist</th>
<th>Year</th>
<th>Non-salaried</th>
<th>Salaried</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>$82,800</td>
<td>$75,234</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>$91,230</td>
<td>$81,911</td>
<td></td>
</tr>
</tbody>
</table>
Gross income per O.D. (non salaried)

1991 $268,470
1992 $304,078

How was income earned?

Exams 45%
Frames 35%
Contacts 20%

Income and Hours Worked By Practice Type

<table>
<thead>
<tr>
<th>Type</th>
<th>Net income($)</th>
<th>Gross income($)</th>
<th>Net/gross</th>
<th>Hrs/wk</th>
<th>Net/hr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solo</td>
<td>84,121</td>
<td>280,972</td>
<td>29.9%</td>
<td>39.2</td>
<td>41.27</td>
</tr>
<tr>
<td>Emp by OD/MD/HMO</td>
<td>82,285</td>
<td>266,102</td>
<td>30.9%</td>
<td>40.2</td>
<td>39.36</td>
</tr>
<tr>
<td>Partner/Group</td>
<td>111,338</td>
<td>368,439</td>
<td>30.2%</td>
<td>38.9</td>
<td>55.04</td>
</tr>
<tr>
<td>Franchise or Retail Emp</td>
<td>79,207</td>
<td>281,480</td>
<td>28.1%</td>
<td>37.1</td>
<td>41.06</td>
</tr>
</tbody>
</table>

Net income by # of Years in Practice

<table>
<thead>
<tr>
<th># of Years</th>
<th>Net income ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-9</td>
<td>$75,782</td>
</tr>
<tr>
<td>10-19</td>
<td>$104,399</td>
</tr>
<tr>
<td>20-29</td>
<td>$96,440</td>
</tr>
<tr>
<td>over 30</td>
<td>$81,182</td>
</tr>
</tbody>
</table>

Given these statistics, you might be able to determine the best mode of practice for you. Obviously, new graduates will be in the 0-9 category as far as number of years in practice, but the new graduate will have control over the other categories. Highest income is in the "partnership or group practice" category. This group also has the most income per hour worked. "Franchisee or retail employee" has the lowest net income, but also the lowest number of hours worked per week. It seems clear that non-salaried O.D.s have higher incomes than salaried O.D.s. This income was earned in three distinct
categories: examination fees, frames and lenses, and contact lenses. These
categories are going to differ based upon your mode of practice.

Deciding on your mode of practice may be difficult. One nice thing about
optometry however, is the fact that you can alter the work environment of
your profession. For example, you may spend a few years in the military,
followed by twenty years in private practice and ending with a few years in
academia. You can choose the mode of practice to fit your lifestyle
requirements. (I believe that the variety of options available to me was one
of the most important factors as to why I chose to be an optometrist.)

REFERENCES and Suggested Readings:

Where Do You Weigh In?, Frank Irving, Optometric Management, July 1993,
p. 24
Notes from OPT 761, Public Health Optometry, William Bleything,
March 93
Pathways in Optometry, seminar by Allergan, AOSA, AOA, Association of
Schools and Colleges of Optometry, presented September 13, 1992
Bibliography

Books

*Principles of Managerial Finance*, Lawrence J. Gitman, Harper and Row, 1976
*Building A Successful Professional Practice with Advertising*, Irwin Braun, AMACOM, 1981
*Personal Selling : How to Succeed in Sales*, Charles Futrell, Business One Irwin, 1992
*Contracts and Contract Remedies*, J.P. Dawson and W.B. Harvey, Foundation Press, 1969
*Legal Aspects of Optometry*, John Classe', Butterworths, 1989
*The Business of Optometric Practice*, Marc Provencher, Advisory Enterprises, 1975
Periodicals


How To Be Productive 8 Hours A Day, Christine Winslow, Review of Optometry, Volume 128, Number 2, Feb. 91, p. 38

Total Quality Optometry, Carol A. Schwartz, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 12

Despite Tough Times, O.D.'s Prosper, Stephanie K. Donoghue, Optometric Management, July 92, p. 29

Is Your Planning On Target?, Kenneth A. Lebow, Optometric Economics, Volume 3, Number 6, June 1993, p. 30

Hourly Vacations, Stephen O. Sherburne, Optometric Economics, Volume 3, Number 2, Feb. 1993, p. 38

Setting the Ground Rules, Paul Farkas, Optometric Economics, Volume 3, Number 2, Feb. 1993, p. 40

Keeping The Doors Open, Pamela J. Miller, Optometric Economics, Volume 2, Number 2, Feb. 92, p. 35

In Everyone's Best Interest, Ronald L. Hopping, Optometric Economics, Volume 2, Number 3, April 91, p. 40

How to Delegate Tear and Color Vision Testing, James Dombach, Optometric Management, Sept. 91, p. 60

How To Delegate Visual Acuity Testing, James Dombach, Optometric Management, July 91, p. 40

Hand Over Your Medicare Hassles, David Mills, Review of Optometry, Volume 128, Number 2, Feb. 91, p. 91

How to Delegate Keratometry, James Dombach, Optometric Management, Aug. 91, p. 31

Meeting Responsibilities, Melvin Lilly, Optometric Economics, Volume 1, Number 2, Feb. 91, p. 26

How to Keep Star Performers, Mark Silverman, Optometric Management, Oct. 92, p. 37

The Profit Builder: How To Unclog a Congested Practice, Christine Winslow, Review of Optometry, Volume 128, Number 8, Aug. 1991, p. 43

Profit Builder: These Steps Avoid an Inefficient Office, Christine Winslow, Review of Optometry, Volume 128, Number 9, Sept., 91, p. 48

Put Pretesting In Your Practice, Chris Thumann, Review of Optometry, Volume 128, Number 9, Sept., 91, p. 57

Train A Technician You Can Trust, Christine Winslow, Review of Optometry, Volume 128, Number 3, July 91, p. 26

The Chairside Assistant in Primary Care, Neil B. Gailmard, Optometric Economics, Volume 1, Number 11, Nov. 1991, p. 12
Delegation = Survival, Irvin M. Borish, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 30

Making The Best Use Of Technicians, Robert Koetting, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 32

Make or Break Your Practice, Wilbur W. Linville, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 36

Make Every Weekend Four Days Long, Richard Shuldiner, Optometric Management, May 92, p. 26

Total Recall, Richard Shuldiner, Optometric Management, July 91, p. 14

Beyond the Postcard, Richard S. Hubler, Optometric Economics, Volume 1, Number 2, Feb. 91, p. 12

Room For Improvement, Denise Osburn, Optometric Economics, Volume 1, Number 10, Oct. 91, p. 28

What Does Your Reception Area Say About You, Jack Persico, Optometric Management, July 92, p. 33

Reducing Accounts Receivable, Linda L. Miles, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 23

Controlling Credit and Collections, John Muellerleile, Optometric Economics, Volume 1, Number 2, Feb. 91, p. 17


Turn the Tables on Insurance Hassles, Kerry Beebe and Robert Carter, Optometric Management, May 92, p. 30

Medicare 1992, Harvey P. Hanlen, Optometric Economics, Volume 2, Number 2, Feb. 92, p. 41

Keeping Them In Your Chair, Gilbert D. Weger, Optometric Economics, Volume 1, Number 4, April 91, p. 29

Is Your Medicare Carrier Shortchanging You?, Steve Everett, Review of Optometry, Volume 128, Number 2, Feb. 91, p. 49

Professional Courtesy, Laura Sachs, Optometric Economics, Volume 1, Number 11, Nov. 1991, p. 39

The Golden Fleece, Judith Silverstein, Optometric Economics, Volume 1, Number 2, Feb. 91, p. 25

When Credit Fails, John Muellerleile, Optometric Economics, Volume 2, Number 1, Jan. 92, p. 25

Do-It-Yourself Market Research, Andrea Gross, Optometric Economics, Volume 2, Number 2, Feb. 92, p. 12

How I Did My Own Market Research, John M.B. Rumpakis, Optometric Economics, Volume 2, Number 2, Feb. 92, p. 22

The Trends Of The 90's, Lewis Coopersmith and Irving Arons, Optometric Economics, Volume 2, Number 3, March 92, p. 23

The 1990's: A Decade For Ophthalmic Lenses, Irving Bennett and Farrell Aron, Optometric Economics, Volume 2, Number 10, Oct. 92, p. 17

How Do You Measure Up, Stephanie K. Donoghue, Optometric Management, Oct., 92, p. 26

How to Figure Your New Medicare Fees, Carol Chase, Optometric Management, July 91, p. 26

Optometrists Report a Freeze On Fees, Christine Winslow, Review of Optometry, Volume 128, Number 7, July 91, p. 37

Will Medicare's New Fees Help Your Bottom Line?, Barry J. Barresi, Review of Optometry, Volume 128, Number 2, Feb 91, p.46

Marketing Ophthalmic Lens Options, Irving Bennett, Optometric Economics, Volume 3, Number 6, June 1993, p. 12

"How Much Are Contact Lenses?", Arthur M. Copeland, Optometric Economics, Volume 2, Number 11, Nov 92, p. 31


5 Ways to Grow Your Contact Lens Practice, Optometric Management, Feb. 1993, p. 29

Shaping Up your Service Agreement, Carol A. Schwartz, Optometric Economics, Volume 1, Number 11, Nov. 1991, p. 28

Market Report: Frame Prices Up As Metals Lead The Way, Greg Filiano, 20/20, March 93, p. 100

Building a Sports Vision Practice, Donald S. Teig, Optometric Economics, Volume 3, Number 4, April 1993, p. 10

Creating the "Look of the 90's", Kenji Hamada, Optometric Economics, Volume 1, Number 2, Feb 91, p. 34

That "State Of The Art" Look, Kenji Hamada, Optometric Economics, Volume 1, Number 4, April 91, p. 45

Limited Office Space, Laura Sachs, Optometric Economics, Volume 2, Number 2, Feb. 92, p. 33

The Case of the Homeless Perimeter, Jack W. Melton, Optometric Management, June 1992, p. 25

Office Renovations., Gretchen Lee, Optometric Economics, Volume 2, Number 11, Nov. 92, p. 10

Tracking Trends., Henry S. Thomas, Optometric Economics, Volume 2, Number 11, Nov. 92, p. 15

Make Your Office Larger Than Life., Stan Herrin, Optometric Management, March 1993, p. 33

Can Your Dispensary Pass This Quiz?, Carol Chase, Optometric Management, July 91, p. 33
My Tiny Office Gets Big Results, Kevin Berg, Review of Optometry, Volume 128, Number 6, June 91, p. 33

Reach Out and Grab Someone, Ronald Snyder, Optometric Management, Oct. 92, p. 21

On-Hold Messages, Jeffrey M. Ekery, Optometric Economics, Volume 2, Number 2, Feb 92, p. 37

Available, But Unused, Kenji Hamada, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 40

Patients for The Asking, Harold Katz, Optometric Management, Sept. 91, p. 20

A Civics Lesson., Walter A. Mayo, Optometric Economics, Volume 2, Number 11, Nov 92, p. 28

The Rewards of Hospital Privileges., Mark E. Holliday, Optometric Economics, Volume 2, Number 11, Nov. 92, p. 42

The Professional Way to Ask For Patient Referrals, Gray Sass, Optometric Management, June 1992, p. 32


A Better Way To Use Financial Statements, Joseph Gekoski, Optometric Management, Oct 92, p. 32

O.D.'s Fight To Hold The Line, Christine Winslow, Review of Optometry, Volume 128, Number 6, June 91, p. 44

Sound Purchasing Decisions, Jerome A. Legerton, Optometric Economics, Volume 2, Number 1, Jan 1992, p. 34

How to Double Your Return on Investment, Ronald P. Snyder and Gary S. Appel, Review of Optometry, Volume 127, Number 11, Nov. 1990, p. 49

Computerize Without Busting the Budget, Michael D. Mortimer, Optometric Economics, Volume 1, Number 1, Jan. 1991, p. 42

Optometric Software: How 5 Programs Rate, Joseph Maino, Optometric Management, July 92, p. 41

Ophthalmic "Make or Buy" Decisions, Deborah J. Hartzell, Optometric Economics, Volume 3, Number 6, June 1993, p 26

Should You Have An In-Office Lab?, Jerome A. Legerton, Optometry Today, March 93, p. 35

Today's Labs Adding Value For The 90's, Various Authors, 20/20, Nov. 93, p. 68-86

Gimme Shelter, G.S. Mack, Optometric Economics, Volume 3, Number 6, June 1993, p. 37

Are You Covered If You Are Sued?, James C. Sawran, Review of Optometry, Volume 128, Number 8, Aug.1991, p. 33
Watch Out For These Malpractice Traps, Nicky R. Holdeman, Review of Optometry, Jan. 1993, p. 66

Nine Ways To Avoid Therapeutic Malpractice, James Rosenwasser, Optometric Management, July 91, p. 41

Malpractice: Managing the Risks, D. Leonard Werner, Optometric Economics, Volume 1, Number 2, Feb. 91, p. 37

So, Tell Me Then..., Jerome A. Legerton, Optometric Economics, Volume 1, Number 4, April 91, p. 32

How Busy Should You Be, Michael D. Mortimer, Optometric Economics, Volume 1, Number 4, April 91, p. 37

Set The Right Price, Terry Hawks and Greg Besler, Optometric Management, June 93, p. 28

Gauge Your Potential, Jerry Hayes, Optometric Management, June 93, p. 17

Be Your Own Broker, George Elmstrom, Optometric Economics, Volume 1, Number 4, April 91, p. 42

Practice Value vs. Living Expenses, Peter G. Shaw-McMinn, Optometric Economics, Volume 2, Number 11, Nov. 92, p. 23

Practice Modalities: A 10-Year Survey, Gary L. Moss, Optometric Economics, Volume 2, Number 9, Sept. 92, p. 18

Making it Work, Gene Mitchell, Optometric Economics, Volume 1, Number 1, Jan. 1991, p. 14

Measuring Up, Robert Koetting, Optometric Economics, Volume 1, Number 1, Jan. 1991, p. 25

Is Solo Practice Your Best Option, Christine Winslow, Review of Optometry, Volume 128, Number 6, June 91, p. 44

Partnership -Part 1, Marc J. Lane, Optometric Economics, Volume 1, Number 10, Oct. 1991, p. 37

Partnership-Part-2, Marc J. Lane, Optometric Economics, Volume 1, Number 11, Nov. 1991, p. 17

Find The Right Person, Heil Gailmard, Optometric Management, June 93, p. 23

Foster a Successful Relationship, Alan Kleinman, Optometric Management, June 93, p. 33

I'm Working My Way to Practice Independence, Kim Even, Review of Optometry, Volume 128, Number 9, Sept. 91, p. 31

The Practical Way To Find A Partner, Christine Winslow, Review of Optometry, Volume 128, Number 7, July 91, p. 32

An OD-MD Practice That Works., Anthony B. Clark and Demetrice T. Clark, Optometric Economics, Volume 3, Number 5, May 1993, p. 34

Office Sharing, Randall N. Reichle, Optometric Economics, Volume 1, Number 10, Oct. 1991, p. 31
Why My Franchise Went Bust, G. Daniel Glass, Optometric Management, July 92, p. 16

A Break From The Chains Helped My Practice, Roger Trudell, Review of Optometry, Volume 128, Number 7, July 91, p. 27

Are The Chain Stores Out Of Tricks?, Larry Borska, Review of Optometry, Volume 128, Number 3, March 91, p. 26

Partnership and Practice Sale From Two Perspectives, Irving Bennett, Optometric Economics, Volume 3, Number 4, April 1993, p.18

Making the Most of Professional Meetings and Shows, Barbara A. Fischer, Optometric Economics, Volume 3, Number 2, Feb. 1993, p. 10


Other Publications

Package X, Volume 1,2,3, Department of the Treasury, IRS, U.S. Government Publication, 1992

RIA Federal Tax Handbook , Research Institute of America, 1992


Notes from OPT 862, Optometric Economics and Practice, John Rumpakis, Jan 94

Notes from OPT 761, Public Health Optometry, William Bleything, March 93

Pathways in Optometry, seminar by Allergan, AOSA, AOA, Association of Schools and Colleges of Optometry, presented September 13, 1992


Developing an Employee Handbook For The Optometric Practice, Professional Enhancement Monograph, AOA Publication,1984