



KEY METRICS

of New Independent Optometric Practices

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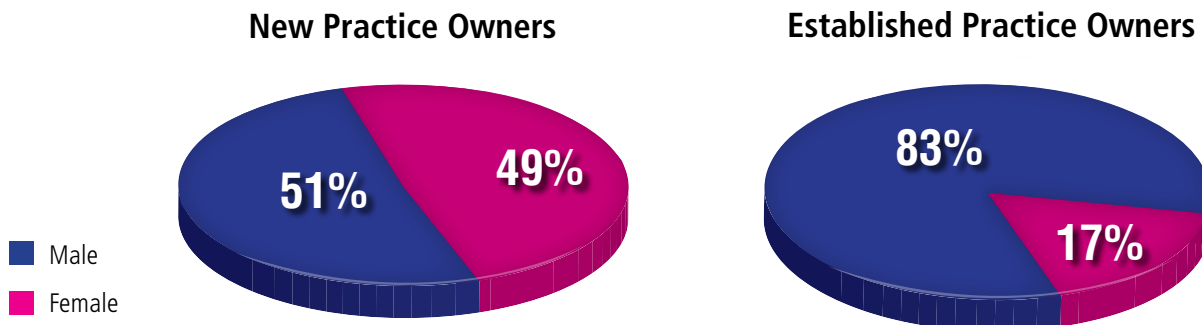


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Profile of New Independent Optometric Practice Owners

Although most established optometric practices in the U.S. are owned by men, 49 percent of new optometric practices are being formed by women. This reflects the fact that in recent years, women account for nearly two-thirds of the graduates of U.S. schools of optometry.



OD Employment Immediately Before Starting New Practice

Worked as associate OD for OD/MD owner	40%
Affiliated with retail optical chain	32%
Graduated from OD school	15%
Owned another independent practice	5%
Worked for HMO, military, other	8%

Relatively few new practices are formed by ODs immediately after they graduate from optometry school and are licensed. Most new ODs work for several years to pay off student debt before forming a practice – typically working as associate ODs for other optometrists or ophthalmologists or affiliating with a retail optical chain.

Year of Graduation from OD School of New Practice Owners

2007-2008	11%
2004-2006	28%
2001-2003	20%
1998-2000	17%
1997 or earlier	24%
Median year of graduation	2002

The median new practice owner graduated from optometry school in 2002. Three-fourths of new owners graduated within the past 10 years.

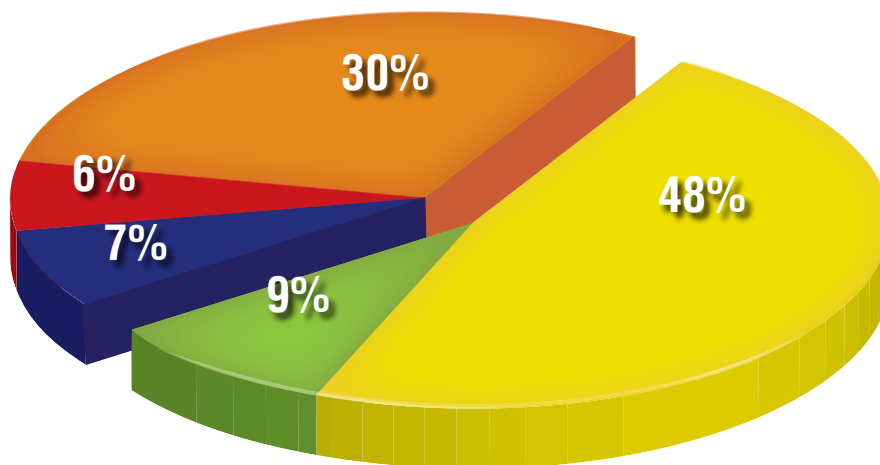
Profile of New Independent Optometric Practice Owners

New practices are more likely to be located in smaller communities. Sixty-six percent are located in communities of less than 100,000 population, compared to fifty-four percent of established practices.

Size of Community of Optometric Practice

Community Size	New Practices	Established Practices
Less than 10,000	10%	7%
10,000-24,999	18%	13%
25,000-49,999	20%	17%
50,000-99,999	18%	17%
100,000 or more	34%	46%

How New Practices are Started



Fifty-seven percent of new practices are started from scratch; thirty-six percent are acquired from previous owners or formed by a partnership with a previous owner.

- From scratch – solo owner
- From scratch – with partner
- Other
- Partnership with previous owner
- Acquisition from previous owner

Profile of New Independent Optometric Practice Owners

Characteristics of New Practices Started from Scratch vs. Acquired

GENDER OF OWNER	Started from Scratch	Acquired
Male	48%	52%
Female	52%	48%

COMMUNITY SIZE	Started from Scratch	Acquired
Less than 10,000	11%	12%
10,000 - 24,999	18%	19%
25,000 - 49,999	21%	18%
50,000 - 99,999	19%	16%
100,000 or more	31%	35%

Productivity of New Independent Optometric Practices

Productivity of New and Established Optometric Practices

	New Practices		Established
	Started from scratch	Acquired	(\$600M gross)
Gross revenue	\$286,000	\$502,020	\$580,659
Annual complete exams	841	1,850	2,000
Annual medical eye care visits	208	396	NA
Exams per OD Hour	0.55	0.86	1.01
Gross revenue per exam	\$322	\$288	\$287
Gross revenue per OD hour	\$189	\$257	\$270
Gross revenue per staff hour	\$93	\$82	\$79
Gross revenue per square foot	\$168	\$246	\$305
Gross revenue per active patient	\$155	\$126	\$127
Pharmaceutical Rxes per month	16	25	30

For new practices started from scratch, median size and productivity are considerably below those of acquired new practices. This is a result of the much lower patient traffic in new practices started from scratch. These practices have not yet accumulated a patient base of sufficient size to keep their appointment calendars fully booked. The typical size and productivity of acquired practices is similar to established practices of comparable size.

The median new practice started from scratch had prior year gross revenue of \$286,000 – conducting just 841 complete eye exams and providing medical eye care services to 208 patients. By comparison, the median acquired practice conducted 1,850 eye exams and had 396 medical eye care patient visits.

The median practice started from scratch conducts just 0.55 complete exams per OD hour, suggesting that ODs in these practices have many idle minutes each day when no revenue is being generated. The median new practice started from scratch generates \$189 in gross revenue per OD hour, well below norms for established practices. The hourly number of exams conducted by new owners of acquired practices was 0.86 – also below norms for established practices.

Sources of Revenue

Sources of Revenue of New and Established Practices (% of gross revenue)

	New Practices		Established
	Started from scratch	Acquired	(\$600M gross)
Professional fees	36%	38%	39%
Eye exams	21%	26%	24%
Medical eye care	15%	12%	15%
Product sales	64%	62%	61%
Eyeglasses	48%	42%	43%
Contact lenses	13%	15%	16%
Other	2%	5%	2%
Total	100%	100%	100%
Managed care	41%	50%	43%

Sources of revenue for new practices are much the same as for established practices. Over 60 percent of new practice gross revenue comes from product sales and over 40 percent from sales of eyeglasses.

Hours Worked in New and Established Practices (median)

	New Practices		Established
	Started from scratch	Acquired	(\$600M gross)
Annual OD hours	1,560	1,900	2,168
Annual staff hours	2,550	5,430	7,125
Staff hours per OD hour	1.6	2.9	3.3

In established optometric practices with gross revenue of \$600,000 annually, staff works 3.3 hours for every hour worked by an OD. By contrast, in new practices started from scratch, just 1.6 staff hours are worked for every OD hour. This suggests that to control expenses, new practice owners perform many testing and administrative tasks themselves, rather than add staff.

Exam Fees

Exam Fees of New and Established Practices (median)

	New Practices		Established
	Started from scratch	Acquired	(\$600M gross)
Non-contact lens patient	\$109	\$109	\$115
New spherical contact lens patient	\$175	\$170	\$198
Existing contact lens patient/no-refitting	\$145	\$135	\$144

The exam fees charged by new and established practices are similar.

Product Dispensing by New Practices

The product dispensing habits of new practices do not vary significantly from those of established practices. New practices started from scratch dispense antireflective lenses to a higher proportion of eyeglass wearers than do established or recently acquired practices.

Product Dispensing of New and Established Practices

Spectacle Lenses (% of Rxes)	New Practices		Established
	Started from scratch	Acquired	
Progressive (% of presbyopic)	70%	59%	66%
High index	10%	11%	10%
Antireflective	65%	50%	52%
Photochromic	15%	24%	20%
Eyewear Rxes per complete exam	0.46	0.68	0.62
Percent of eyeglasses patients buying multiple Rxes	5%	10%	10%

Contact Lenses	New Practices		Established
	Started from scratch	Acquired	
Daily disposable	10%	10%	8%
Soft torics	20%	20%	21%
Colors	4%	5%	5%
Soft multi-focal	5%	10%	10%
Silicone hydrogels	67%	60%	58%
Percent of active patients wearing contact lenses	30%	31%	30%
Percent with soft lens inventory	41%	55%	67%
Average boxes in inventory	128	222	232

Frames	New Practices		Established
	Started from scratch	Acquired	
Pairs in inventory	600	600	630
Annual frames turnover	0.7	1.7	1.4
Median wholesale cost	\$60	\$60	\$59

The mix of contact lenses prescribed by new practices mirrors overall industry norms. But new practices fit a higher proportion of their patients with daily disposable and silicone hydrogel lenses than do established practices.

Fewer new practices inventory soft contact lenses than do established practices. The median number of frames stocked by new practices is similar to that of established practices with annual gross revenue of \$600,000. New practices started from scratch typically stock 600 frames, but achieve an annual frames turnover of just 0.7 because of their lower patient traffic. The average wholesale value of frames stocked is comparable in new and established practices.

Expenses and Net Income of New Practices

Expenses and Net Income of New and Established Practices (average percent of gross revenue)

	New Practices		Established
	Started from scratch	Acquired	(\$600M gross)
Cost-of-goods	30.8%	27.1%	30.3%
Staff salaries/benefits	16.7%	18.8%	18.9%
Occupancy	16.8%	8.7%	8.0%
Equipment	2.7%	4.1%	2.3%
Marketing	6.4%	3.3%	1.8%
General overhead	7.6%	5.9%	8.0%
Interest	4.2%	1.6%	1.3%
Repair/maintenance	3.4%	2.2%	0.5%
Insurance	0.8%	0.6%	0.8%
Net Income	10.6%	27.7%	28.1%
OD compensation (median)	\$56,599	\$96,915	\$134,400

Although the cost-of-goods and staffing expense ratios of new practices are similar to those of established practices, new practices spend a higher share of revenue for occupancy and facilities expenses and for marketing than do established practices.

Typical new optometric practices started from scratch are not as profitable as established practices or acquired new practices. The median practice started from scratch had a net income ratio of just 10.6 percent of gross revenue and paid a median of \$56,599 in compensation to ODs working in the practice. The net income ratio for acquired new practices was 27.7 percent, comparable to the 28.1 percent net income norm for established practices with annual gross revenue of \$600,000. The median compensation paid all ODs working in acquired new practices was \$96,915.

**Characteristics and Management Processes
of New and Established Practices**

	New Practices		Established
	Started from scratch	Acquired	(\$600M gross)
Average number of ODs	1.2	1.8	1.4
Average number of staff	2.7	4.7	4.9
Square feet of office space	1,720	1,800	2,000
Active patients	1,586	3,500	4,539
Percent of exams for new patients	75%	31%	23%
Percent with practice web site	92%	71%	78%
Percent with written practice budget	22%	18%	22%
Percent with written job descriptions	53%	47%	55%
Percent performing annual performance appraisals	39%	43%	46%
Percent conducting staff meetings monthly or more frequently	61%	52%	64%

The median office square footage of new practices is somewhat smaller than established practices with gross revenue of \$600,000.

New practices started from scratch are more likely to have a practice web site than are acquired or established practices. In several areas of financial and staff management, the internal processes of new and established practices are similar.

**About the
First Practice
Academy**

The First Practice Academy™ (FPA) was launched by CIBA VISION and Essilor in 2008 as an extension of the sponsors' acclaimed Management & Business Academy™ (MBA). FPA is designed to educate new independent optometric practice owners during their first three years in operation about advanced management strategies and techniques. FPA conducts live, by-invitation-only seminars, hosts a web site (www.firstpractice-ce.com) and publishes a "best practices" manual called *How to Achieve Optometric Practice Excellence*. Both the MBA and FPA programs are endorsed by the American Optometric Association.

Each attendee of an FPA seminar completes a detailed "Confidential Practice Profile" questionnaire – reporting details of financial performance, practice characteristics and processes. As of December 2009, over 250 new practices are included in the FPA database. Data about new practices in this report are based on responses of FPA participants. Data for established practices are drawn from the MBA database, which includes detailed information on more than 1,250 independent optometric practices.