How to Use Your Practice as a Personal Wealth Generator

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Course Summary

Learn how to fund the multimillion dollar investments to ensure superior exam quality and positive patient outcomes while increasing practice value and personal wealth.

Introduction:

Optometric practices must maintain high exam standards, completed treatment plans, with positive patient outcomes. This requires continually updating instrumentation, premises, and maintaining a clinically proficient OD staff given the evolving scope of practice.

The Plan to Generate Wealth

Become an owner

This is first step

Maximize practice profit

Increase practice revenue	Decrease practice expenses

Invest profit

Own businesses	Own real estate	Stocks & Bonds
Your practice is a business	Own your practice building	

Course Objectives
The attendee will …

1

Learn how to quantify the costs of equipment and premises.

2

Learn how to fund equipment, premises upgrades to balance cash flow and increase practice value.

3

Learn about the cost of associate and owner ODs in context of revenue generation and the financial requirements to attract and retain ODs into practice ownership.

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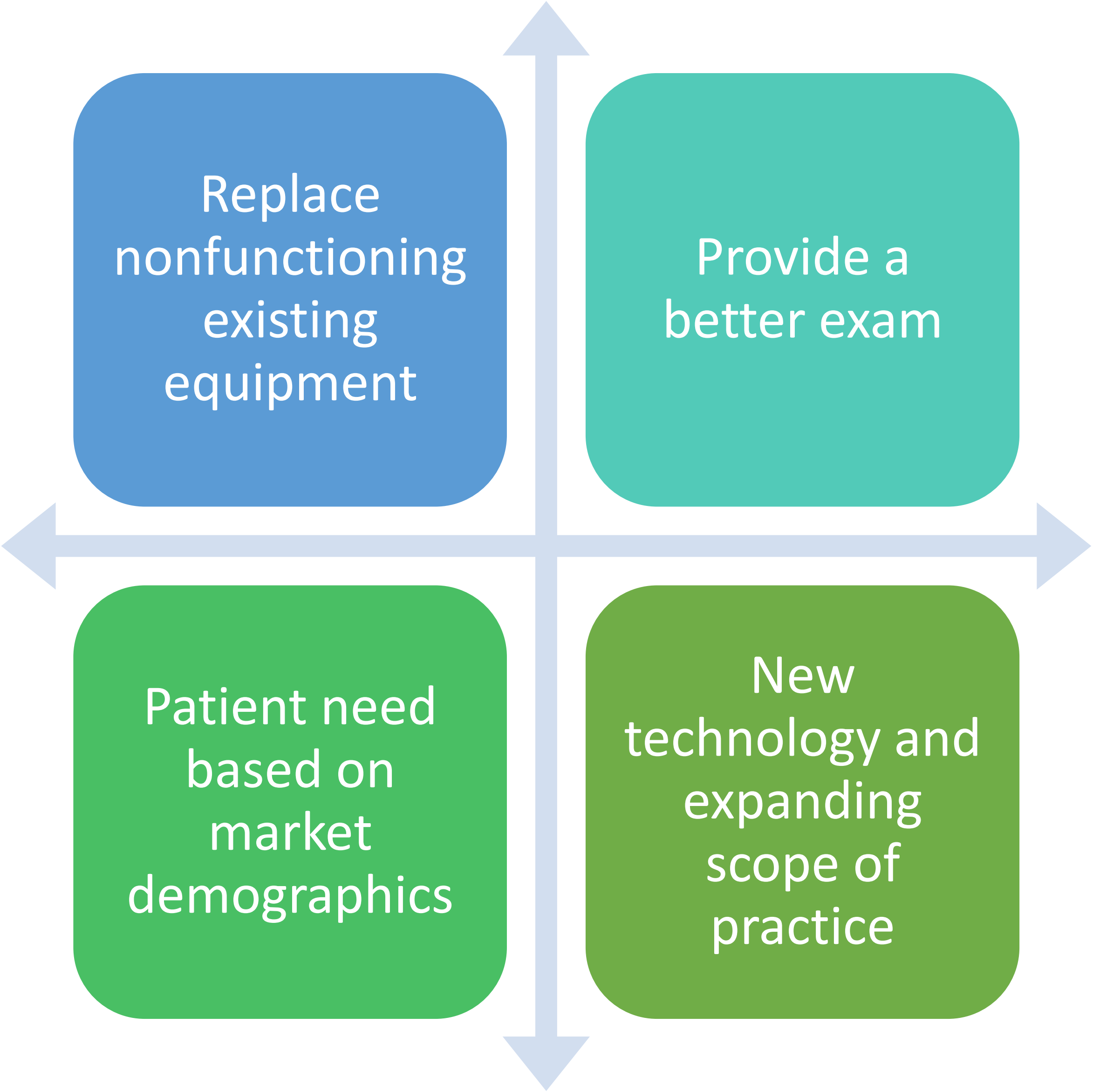
How to quantify the costs of equipment and premises

Over a 35-year career span, these costs represent a million dollar investment (+ or -) in the practice. Most practice owners do not have a financial plan for these costs.

Reasons for upgrades



Equipment cost range currently $5,000 - $90,000

Equipment purchase approximately every 4 years at an average price of $35,000.

Total cost approximately $300,000 over a 35-year OD career term.

Premises configured properly allow for a functional flow within the practice and provides the patient with the ability to complete the recommended treatment onsite in most cases via the dispensary

Practice premises on average are upgraded every 7 years

Over a 35-year career, the practice will upgrade 5 times

Renovations cost between $50,000 and $250,000 depending on practice size and the scope of the work

Using an average of $100,000 per renovation, the cost over 35 years is $500,000

Practice expansion with additional equipment may cost $250,000 or more per project

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Equipment – established means of finance are loans and leases

Loans are more transparent than leases

Leases generally do not disclose hidden costs

- Pre-payment penalties
- Interest Rates

Residual payments

- Obscure total cost of the purchase
- May jeopardize the section 179 tax deduction

Return on Investment ROI (cash to cash)

Net revenue derived from the new investment (equipment, premises, etc.) should equal or exceed the monthly loan payments

This helps ensure the investment contributes to increased practice value

Exception to the ROI rule – if the equipment is essential to a high-quality exam, regardless of billing opportunities, it should be purchased as a "cost of doing business"

Premises upgrades are essential for a good patient experience. The onsite presentation and sale of frames and corrective lenses provides a higher probability of completion of treatment for most patients. It also provides the cash flow needed for ongoing investment in the practice.

Most ODs finance premises upgrades but do not look at the projected impact on practice cash flow and return on investment

A <u>good</u> <u>banker</u> will understand the cash flow requirements of the practice and customize terms to balance practice cash flow to loan payments

Without Balance, Cash Flow May Decrease Which…

May reduce owner compensation

Could limit ongoing practice investment

May impact patient care

Return on Investment for Premises Upgrades

Revenues tend to increase 0%-15% range; 5%-10% average

Assess the impact on cash flow

- Expected revenue less additional operating costs
  - Additional staff
  - Lease rate changes for expansion
  - Cost of Materials if increased revenues are generated thru the dispensary
  - Loan payments
- Practice value fluctuates based on cash flow changes, before debt payments

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Associate ODs

The cost of an OD associate averages $400 per day which equals $104,000 per year plus taxes and benefits.

Assuming a total average cost of $120,000 per annum (with tax & benefits) the cost over a 35 year career is $4.2 million. More if you include salary increases.

Return on Investment

Associates working full time, on average generate $650,000 per annum collected practice revenues from all sources. The range is $400k - $1.0+ million.

The ROI calculation for an Associate OD is based on the efficiency of the OD to produce revenue and the efficiency of the practice (operating margins).

OD associates should be self-funding with a positive return on investment. If not, then the practice needs to increase OD efficiency or Operational efficiency.

Operational and OD efficiency are the two drivers of practice value.

Return on Investment – Associate OD

Cash Flow Impact - OD and Operating Efficiency	Low OD Production		High OD Production	
Additional Revenue from New Associate	400,000	400,000	1,000,000	1,000,000
Operational Efficiency*	30%	22%	30%	22%
Incremental EBITDA pre OD compensation $	120,000	88,000	300,000	220,000
OD Compensation	120,000	120,000	120,000	120,000
Additional Cash Flow $ to the Practice	-	(32,000)	180,000	100,000
* Operational Efficiency is EBITDA pre OD compensation expressed as a % of revenue				
EBITDA is Earnings before Interest, Taxes, Depreciation & Amortization				

OD Practice Owners

OD providers have a key role in exam quality and positive patient outcomes.

Continuity of the practice is dependent upon the commitment of the ODs. Owner ODs are generally more committed to the practice than associates.

OD practice owner's compensation

Average $135,000 per year

The range is $50,000 to $400,000 per year

Using $200k annual compensation = $7 million over 35 years, before increases

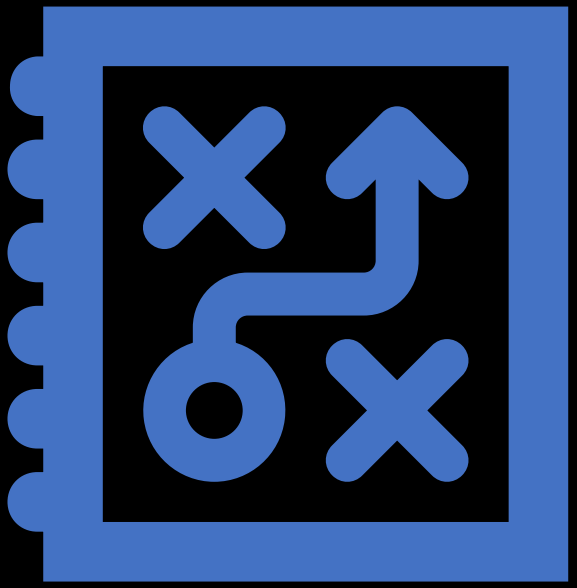
Is that all it takes to attract an OD into ownership?

The key to attracting and retaining OD practice owners is the **ability to build wealth** in addition to adequate compensation

Which group provides more wealth building opportunity?
Private Practice Optometry
Commercial Optometry

Ways to build wealth for practice owners

- Use the practice as the source of all OD wealth building
- Increase practice value
- Invest in practice real estate
- Invest in qualified deferred tax savings accounts (401k, etc.)



Conclusion:

The future of independent optometry depends on …

- The ability to practice as you choose and provide high quality eye care

The practice must generate the needed cash flow to …

- Fund the investments in premises and instrumentation needed to remain current
- Fund compensation for staff and professionals
- Allow owner ODs to develop the wealth needed to meet or exceed retirement funding goals

There is a strong correlation between excellent patient care and the financial soundness of a practice. To be sustainable, a practice must act as the source of cash flow and wealth to meet all required practice investments.


Q&A

Thank You!

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