

# Benchmarking: A Tool to Enhance Optical Profitability

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Do you know how many eyeglass prescriptions your practice writes weekly? Monthly? Annually? Many of the principal factors in establishing and operating a profitable optical dispensary are based on the number of eyeglass prescriptions available for capture. Knowing this “magic number” allows doctors to project an appropriate inventory level, determine necessary staff requirements, estimate associated operating expenses, and estimate projected annual revenue. Knowing the approximate number of prescriptions written annually and utilizing this number in comparison to various optical benchmarks allows the doctor to determine what will be required to establish a financially successful optical operation. For the existing optical business, accurate prescription numbers offer the capability to evaluate the current level of business and determine if maximum potential is being achieved.

## Eyeglass Orders

To understand how annual prescription data is utilized, it is necessary to know the industry benchmark for patient retention, which is commonly referred to as the “capture rate.” For an ophthalmic-based optical facility, the national benchmark is around 60 percent.

- **BENCHMARK:** National Ophthalmic Capture Rate = 60%

The significance of this percentage and how it relates to the number of prescriptions written can be demonstrated by calculating the approximate number of “jobs” (job is a term used to reference a single eyeglass order) that should be sold annually. To determine the number of eyeglass jobs an ophthalmic-based optical facility should sell annually, multiply the retention percentage (60%) by the number of annual RXs written. The sum of this calculation will be the minimum number of jobs that optical should generate on an annual basis. To better demonstrate this procedure, (and other procedures in this article) 5,000 annual scripts will be used as a reference point.

## Determining Projected Sales

$$5,000 \text{ Eyeglass RXs} \times 60\% \text{ Retention} = 3,000 \text{ Projected Annual Jobs}$$

For the existing optical dispensary, identifying the minimum number of projected jobs that should be generated annually will allow for assessment of current productivity levels. For doctors developing a new dispensary, this figure can serve as an indicator to help monitor the progression of sales growth.

## Frame Inventory

Having identified the minimum number of jobs to be sold, it is now possible to determine the maximum number of frame units that would be appropriate for this projected sales level. To do so, it is essential to know two additional industry benchmarks that will apply to the equation. These include:

- **BENCHMARK:** Recommended Turn Ratios = 2.5 to 3 times
- **BENCHMARK:** Complete Jobs (Orders including both frame and lenses) = 75%

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## Determining Frame Units

5,000 RXs at a 60% Capture Rate = 3,000 Projected Jobs

Projected Number of Complete Jobs

3,000 Jobs X 75% Complete = 750

2,250 ÷ 3x Turn Ratio = 750

**750 units would be the maximum number of frames this office should inventory.**

Inventory levels should be based on the recommended turn ratio of annual frame units sold. Utilizing the projections established in this article and the additional benchmarks above, it is possible to calculate an appropriate frame count. For demonstration purposes, use the following illustration:

The calculated inventory count, as shown above, should be the maximum number of units considered to complete this inventory. When measuring true annual turn ratio, inventory cost must also be considered. The annual expenditure for frame purchases, as compared to the initial investment, should reflect the applicable ratio. To calculate an accurate ratio, the inventory investment must remain stable. This can be easily accomplished with a frame-for-frame reordering system. Implementing a reorder system will stabilize the initial investment, eliminate stock overages, and provide an accurate cost-of-goods percentage.

Please note that two additional factors – space allocation and patient demographics – can necessitate a lowering of the calculated frame count. If square footage allocated for optical sales does not provide adequate space to accommodate the maximum number of units, the unit amount should be lowered to accommodate the space. Do not inventory “back stock” or overstock. Overstock is wasted capital. With overnight or two-day delivery service now offered by most vendors, it is recommended that inventory consist of only what is needed for display.

For existing opticals that are not currently achieving the turn ratio benchmark due to lower patient volume, it is NOT suggested that frame boards be left empty as a means of achieving the recommended turn ratio. Reduction in stock levels can be achieved without compromising the presentation by eliminating free-standing vendor-provided displays and removing free-standing turnstile displays. As volume increases and a higher frame quantity is warranted, these types of displays can be reintroduced to the physical presentation.

Practice-specific patient demographic ranges can impact inventory count. For example, if the majority of a patient base is more than 50 years of age, or if the practice specializes in pediatric care, a reduction in frame count will likely be warranted. In these situations, displaying a wide variation of age appropriate frame styles would not be necessary. For example, if patients are primarily 50+, it would not be cost effective to invest in a large number of styles that appeal to the 18- to 35-year-old consumer.

### Staffing Requirements Per Projected Revenue

To reach targeted productivity benchmarks, it is necessary to assess the staffing level required to meet these desired projections. Achieve this by incorporating the same RX data used for previous projections. The first step in this process requires estimating annual revenue. To facilitate this step, it is important to know the average revenue per sale benchmark.

### Example: Estimating Projected Annual Revenue

$$\begin{array}{r} 3,000 \text{ (Projected Annual Jobs)} \\ \times \$250 \text{ (Average Revenue per Sale)} \\ \hline = \$750,000 \text{ (Estimated Annual Revenue)} \end{array}$$

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## Example: Estimating Hourly Employee Production

$$\begin{aligned} & \$ 750,000 \text{ Estimated Annual Revenue} \\ \div & 2080 \text{ Average Annual Hours per FTE} \\ & = \$360 \text{ Per Hour} \end{aligned}$$

- **BENCHMARK:** Average Revenue Per Sale = \$250

To estimate projected annual revenue, multiply the projected number of jobs (refer to eyeglass orders) by the average revenue per sale figure listed above.

For this location, the estimated annual revenue should be approximately \$624,000. To compute the hourly production required to meet this projection, divide the estimated revenue by the average working hours per one full-time equivalent (FTE).

- **BENCHMARK:** Employee Production = One FTE per \$125 per Hour

The benchmark for employee production is one FTE per \$125 per hour. Therefore, achieving this level of production would require three FTEs. The projected \$125 per hour per employee is a reasonable and achievable goal. At \$125 per hour, one FTE would need to produce an average of \$1,000 in sales per day. With an average revenue per sale of \$250, this equates to approximately four eyeglass sales per day.

### Cost of Goods Sold

Knowing the number of eyeglass prescriptions written annually — and how that number relates to other optical benchmarks — is essential to developing a productive and profitable optical business. Careful management of inventory and employee production are two key success components. There are, however, several factors that can dramatically minimize or reduce profits if not carefully managed.

Even the most efficient and productive optical can realize a loss in profit if the costs of goods are not managed effectively. The benchmarks for maximum cost of goods sold are:

- **BENCHMARK:** No On-site Lab = 40-42%
- **BENCHMARK:** On-site Finishing = 30-32%
- **BENCHMARK:** On-site Finishing/Surfacing = 25-27%

(Note: In-house labs are not the norm for private practice facilities as they can be quite costly if not managed carefully.)

An inability to achieve and maintain recommended maximum costs-of-good levels can be due to any or all of the following factors: *Mark-up calculations lower than recommended; numerous remakes and errors; inventory overstock; theft.* Not achieving a percentage appropriate to the applicable service capabilities demands careful analysis of the above elements to determine the source(s) of the problem.

### Summary

Optical services can be a worthwhile and profitable addition to almost any practice. Statistics show that private optical facilities are rated higher by patients than large retail chain environments. An efficient, well-managed optical can dramatically increase overall patient satisfaction levels and result in loyal, repeat customers who continue to purchase eyewear for years to come. Unfortunately, many private facilities add optical to their menu of services and do little to promote and manage these offerings. This is usually the result of not knowing the basic benchmarks required to operate a successful optical. Equipped with the benchmarks described in this article, it is now possible to evaluate existing levels of business and make the necessary adjustments to achieve maximum potential.

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For more information, contact BSM Consulting at 1-800-832-0609.