Optometric Business Planning in a New Age

By

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Introduction

With the downward spiral of the economy and the downsizing of corporations, many workers are driven to become private business owners. In optometry, many doctors choose to become private practitioners for many reasons. Some include job instability, difficult work hours, and other freedoms that only private business owners enjoy. It also does not hurt that property values are extremely low compared to previous years. This makes one of the biggest expenses in opening a practice, the building cost, more reasonable. Starting a business is a very complex and daunting task, but the rewards are often worth the risk. One of the key ingredients to creating a successful business is to have a business plan. There are only a few options available that offer specificity and familiarity with optometry. Consulting companies can be hired to write a business plan but this is one of the most expensive options. Books and manuals are other options available to help with the business plan, but this often requires sacrificing a good amount of time. First I will discuss the ideal features of a business plan, next I will offer some software that will help create the plan, and finally I will explain how to apply all of the above to creating a plan specific to optometrists.

The Business Plan

When starting a business, the most important aspect is planning the venture. Just as a person would not take a trip across the country without a map, planning is essential for success.[1] Without a detailed business plan, the business will most likely fail. The Small Business Association advises the consideration of four important questions before starting the plan:

1. What products or services will be provided and what needs do they fulfill?

2. Who are the potential customers for these products and services and why will they purchase from your company?
3. How will potential customers be reached?
4. Where will the funds come from to start and run the business?[1]

A good business plan is one that is a powerful overview of the company. It should include who you are, why you're in business, what you do and how you do it, where you operate, how profits will be generated, who the customers are, and why your business is important. [1]

Parts of a business plan:[1]

1. Table of contents: allows the reader to easily find a specific section of the document. The table of contents also gives organization to the document.
2. Executive summary: provides a compelling snapshot of the business; who you are, what you do and why. It should not exceed two pages. It is the most important part of the business plan because it is read first before all the other parts and summarizes how you intend to accomplish your business venture.
3. Business description and vision: sets the tone for the business by providing the mission statement and company vision. Specific and obtainable business goals and objectives are listed in this section, as well as a brief history of the business and a list of key company principals or owners. The mission statement should be a carefully thought-out brief statement describing the purpose of the business. It should strategically sum up who the company is and what it stands for. The company vision is a statement of what the company wants to be. It is necessary for the company to be focused on the future, and this statement should be compelling and memorable.

4. Definition of the market: describes your industry and your experience in that market. A description of the needs the company is satisfying and to whom should be described. It may address the lack of current availability for your product or services. The market segment should be defined to identify targeted customers. Developing a customer profile is important. Without knowing who your customers and potential customers are, you will not know how to reach them.
5. Description of products and services: describes price, competitiveness and product pricing. Pictures or brochures should be included here. This section might include the inventory of products that you will be selling, or the services you offer.
6. Organization and management: This describes how the company is organized and run, special certifications, required licenses and permits, legal form of ownership, and biographies of the key management team.
7. Marketing and sales strategy: This section should explain how and where the business owner will find his patient base. Market research is very important to determine the marketing strategy. This strategy shows that the business will make products available while making profits at the same time. This area should determine who the customers and potential customers are and if your product is what they want to buy and when or where they want to buy it. Also, where the customers live should be addressed here. The value, seen by the customer, should be consistent with pricing. Can the customers be better served by your business? Understanding of customer needs should be addressed to ensure that the company will be successful. This can also help with competitiveness in the industry. The

marketing strategy should address the four P's: price, promotion, products and place.[1]

8. Financial management: It lays out the financial structure of the business. It includes the balance sheet, income statement and cash flow statement. The balance sheet represents the basic balance equation: assets-liabilities=net worth. It measures business value and is a snapshot in time. The income statement measures the profit or loss for a specific time period. It is calculated by subtracting expenses from revenue to determine the profit or loss for a given period of time. This shows the company performance over the period. A cash flow statement shows how much cash the business has on hand at any point in time. This is used to project working capital availability and shortages. For a new business, the SBA suggests including specific financials including estimates of start-up costs, a projected balance sheet (1 year forward), projected income statement (1 year forward) and a projected cash flow statement (12 months forward). If applying for a loan, personal statements for each balance should be made for the prior year. Also, a federal tax return from the prior year is necessary.[1]
9. Appendices: add color and depth to your plan by including company brochures, resumes of key employees, list of business equipment, copies of press articles and advertisements, pictures of the business and location, information to support growth of the industry, key business agreements, and other exclamatory articles.[1]

Since the economic recession, many things have changed in regards to obtaining a business loan to start a practice. According to Indianapolis practice management consultant

Michael Brown, five years ago half a dozen banks would offer business loans to doctors without requiring more than their signature. [2] "The recent credit crunch has made it far more difficult for doctors to borrow money for diagnostic equipment, software, office remodeling, subsidizing a new doctor or buying out a retiring partner."[2] This means that there is a need for doctors to be able to prove to creditors that they will be able to pay loans. If a creditor sees that there is a likelihood that the doctor cannot pay for a loan, it will find it risky to offer loans to doctors. This means that a doctor has to prove that he will have enough cash flow to cover the payment of his loans.

Michael LaPenna, a practice management consultant from Kentwood, MI, says that "for doctors the credit tightening began about five years ago, when banks discovered that skimpy third-party reimbursements and rising costs were leaving many medical practices financially fragile." [2] He continued to say, "The days of automatic loans to any doctor are over. Banks are treating them like any other business." [2] Both Brown and Lapenna have seen credit lines pulled or reduced for doctors whose income has dipped. Doctors are being monitored like everyone else. "Unlike before, banks are no longer renewing these credit lines. Credit lines are being treated like brand new loans." [2] If a bank is willing to give a doctor a line of credit, it is telling the doctor that the bank sees value in his service and the products that he has to offer. This may give way to other means of capital such as private equity or additions of capital from partners.

Although there are many negatives, "a Federal Reserve study in January 2008 showed that one-third of banks had tightened lending standards for small and large businesses alike, the dollar value of commercial loans grew in the first quarter." [2] The credit crunch affects doctors differently. The banks want to lend money to doctors who are a good risk. They are stingier with doctors launching a new practice, compared to an experienced doctor with an income history and more assets. [2] Doctors have to prove that they will have a steady cash flow that covers all costs and will pay off all debt. Because a new practice owner has no financial history, he has to rely on his financial projections to prove that he will be able to pay off his loans.

Brown suggests important tips to help get funding. Keys to getting credit include relationship banking, good personal credit history, amass a practice nest egg, apply for an SBA loan guarantee and documentation.[2] Relationship banking means that you rely on all of your banking needs with one bank. Doctors usually have many types of accounts including checking, savings, investment accounts, safety deposit boxes, mortgages, credit cards and car loans. The bank has a better idea of the applicants overall financial health and is more comfortable lending money to them. [2] The bank will often give a competitive rate to keep all of your business with them. Perfunctory documents required by the bank include statements showing assets, liabilities, revenue, costs and income for the practice. If personal guarantees are required, three years' worth of individual tax returns is necessary. [2]

The most critical document is the business plan. Before the recent strict enforcement of lending practices, doctors could provide sketchy descriptions of their intent for the loan fund uses. This is no longer the case. Detailed plans and hard numbers are required by lending institutions. A long list of questions is asked to help the bank determine the amount of risk associated with the business proposal. The business plan must include a pro forma, which projects revenue, costs and income on a yearly basis. The banks want to see if you will be able to pay the loan beyond the first couple years. The business plan is often a 40-page document with many complicated formulas and financial projections. Creating one is a tall task. Some will hire a practice management consultant, craft the plan on their own, utilize the Small Business Association website or use books to help them through the process. Hiring a practice management consultant is very expensive and can range from $2,000 - $15,000 depending on the size of the business. Often entrepreneurs will use books and guides to write their plan. This is very time consuming and after the cost of the materials are added up, it is often more expensive than purchasing software that will take you through the process more easily and much quicker. A much quicker and less expensive option is business plan software, which I will explore below in more detail.

Business Planning Software

There are many different options for choosing software to create a business plan for funding. Good business plan software should have certain characteristics. The software should provide many examples of business plans similar to your type of industry or business. It should also give detailed financials by helping to put together meaningful projections and show graphs to help figure out break-even points.

The leading seller of business planning software is Palo Alto Software's Business Pro Plan 11.0. "Anyone familiar with Business Plan Pro knows that it is the best software on the market for bringing a business plan to life," said Sabrina Parsons, CEO of Palo Alto Software. [3] "We have completely rewritten this year's offering from the ground up, placing an emphasis on making it very intuitive and even more user friendly than previous versions. We've built features into this version that make it easier than ever to customize the way the finished plan looks and works -- to fit the user's specific business needs. We are excited to bring this version of Business Plan Pro to market. We know our long-standing customers, as well as our new customers will find the new Business Plan Pro helpful and relevant."[4] Business Plan Pro 11.0 offers a "keep it simple" option which can help create a business plan within hours. A new secureplan.com option allows the user to easily publish their business plan on the internet. Version 11.0 can be utilized in Spanish and several additional resources are included in the purchase. Small-business owners and entrepreneur can produce professional business plans quickly and easily with the Business Plan Pro 11.0 Standard Edition. The Premier Edition provides a financial management dashboard to assist with managing business plans month-to-month and year-to-year.[4] This helps to ensure that profits stay up and cash flow stays positive. Business Pro Plan Premier keeps the plan alive by supporting "the multi-year planning and implementation process with easy year-end archiving and roll-forward features. Now you can keep your plan alive, month-to-month and year-to-year with our unique management tools."[3]

PC World has compared two major software products. Palo Alto Software's well established Business Pro Plan software 11.0 was compared to Plan HQ, a newer web-based program.[3] According to PC World review author Richard Morochove, "Business Plan Pro 11.0 helps you create polished, professional business plans backed up by solid financials you can take to the bank. PlanHQ, meanwhile, is more of a diamond in the rough; its emphasis is on managing the planning process."[3] PlanHQ offers a collaborative feature in which the main operator can send invitations to join into the planning. This could include investors, employees and other interested parties. Goals can be assigned, along with specific actions to help achieve those goals. Members can rate whether the goals were met or not. The graphics and color scheme are very inviting but its priorities are skewed. An example would be that the first question asked is whether a logo has been created.[3] Also, PlanHQ financials are not professional enough to bring to the lender.[3] According to Morochove, Business Pro Plan 11.0 assumes that one person is planning the business. A prepared business plan is not necessary to utilize their software. It is set-up to follow step-by-step instructions. Different levels are available that offer a simple business description, a standard plan, a detailed business plan or a plan with financials only. The simple plan has a single financial statement. The standard plan offers multiple topics and linked financials. The detail business plan is geared toward a larger company that has more complex financials. The step-by-step instructions range from 15 steps in the simple plan to about 70 steps in the detailed plan. More than 500 sample business plans can be browsed with the purchase of Business Pro Plan 11.0. A novice can utilize these to see what has worked for others in their respective field. A well-written manual is included with the software for additional resource. Two editions are available; the standard edition ($100) and the premier edition ($200). The premier edition is for a more established business and it can import a plan from Microsoft Excel while comparing actual results to planned results.[3]

Application to Optometry

The delivery of optometric services requires up-to-date equipment, frame and contact lens inventories, classy fixtures and furnishings. This places a heavy financial burden upon the optometrist.[6] Additional expenses are added when one thinks of operating costs which must be met. These include rent, taxes, utilities and salaries. The optometry school graduate must seek financing for these capital assets and operating expenses. The creditor often will have to lend more than there will be collateral. This requires the borrower to carefully plan every detail of their business proposal. This proposal helps the creditor feel more secure about lending the funds.[6]

When drafting a proposal for an optometric venture, one must consider several important steps. The five steps recommended by Business Aspects of Optometry have many similarities to the steps recommended by the Small Business Association. The first step is to calculate the fair market value for all items that need to be purchased. This includes the cost of the exam lane, furniture, computers, and any other items of substantial expense. Frame inventory values must be negotiated. [6] The next step is valuing key expenditures. All costs that may arise need to be comprehensively included. "These expenditures include repayment of student loans, repayment of the loan proposal, an office lease, modifications or improvements to an office, salaries for office staff, social security payments and unemployment compensation taxes for office staff, utilities for the office, premium costs for insurance coverage-life, disability, personal property and professional liability. Other expenditures which need to be included are laboratory bills for optical lenses and contact lenses, inventories for frames, lenses, and supplies, income for the practitioner and taxes on the practioners income."[6] These expenditures, along with the cost of purchases, equals the 'overhead of the practice'. Step three is drafting the projections. Once the information is compiled it should be organized in a clear and concise format. Usually the first year projections are month-by-month and then yearly for the second and third years. Overhead costs should include rise in costs anticipated for each year. Step four is projecting income. This is often the most difficult section, especially for a new graduate. Utilizing other practitioners in the area can help gauge these numbers. If other sources are not available, it is necessary to provide projections on the number of patients needed to seen in order to pay the overhead or make a certain level of profits. The first year should include the daily number of patients with the specific gross income attributed to each. Cold calling can be utilized to find out exam fees for one's local area. The number of contact lens assessments, medical examinations and other types of services should be individually calculated and included in the project income. These projections are especially challenging in a cold start optometry practice versus a purchase of an existing practice.[6] It is also important to include the loss of patients each year and the number of new patients should be determined and used as a goal. The last step is calculating the bottom line. The previous step's information regarding income and overhead should be determined for the profit and loss. Within the year a monthly profit should be expected. "The bottom line calculations are the goals against which the practice's actual performance is to be measured. If the calculations are inaccurate, they can be adjusted to reflect the actual financial circumstances of the practice and a new set of goals can be created."[6] Supporting documents which need to be included are a personal financial statement, the income tax return for the past year, a copy of the office lease, and an insurance list describing policies and premium costs.

Few companies and products exist which focus specifically on optometric business planning. One company, Williams Group, specializes in optometry practice planning and development. For the new practice, they offer a Fast Start Program which consists of multiple phases.[7] The first step includes a comprehensive analysis including population, trends, competition comparisons and costs to develop. In essence they create a business plan in phase I. The cost of all phases of the Fast Start Program is $16,900.[7] According to a Williams Group Associate, these fees are usually rolled into the business loan. For phase I only, the fee is $1,500, with no obligation to continue the process.[7]

Williams Group recommends using Matsco, a division of Wells Fargo, specialized in lending funds for start-up medical practices. During an interview, Jeff Connor, Manager Matsco, stated that a business plan is not absolutely necessary.[8] "The underwriters specifically look at the cash flow analysis and really no other business plan items." [8] This statement strongly contrasted all of my previous research which emphasized the great importance of an excellent business plan. Mr. Conner also stated that only a very small percentage of optometrists actually defaulted on their loans and that optometry in general is a good risk for lenders. [8]

Gary Gerber, O.D., owner of The Power Practice, recommends starting with a great business plan. His suggests being very specific, including everything down to the "colors of the office, color of the uniform, types of patients and specific models of equipment."[9] Other recommendations include separating your business by "not doing what everyone else does."[9] If a new business owner has a unique concept it is likely that both private equity and banks will want to work with him to fund the new business venture. Banks are unlikely to lend to a business that has no new concept and will probably fail within the first year of ownership.[9]

Conclusion

The loan proposal is the key portion of the practice plan. Accurate and supportable data is extremely important. Attainable goals that are specific and measurable should be modifiable to change with certain circumstances which are an inevitable part of the practice.[9] New business owners have a hard task ahead of them. They need to be able to receive funding, overcome the current market situation, and at least cover all of the costs of business and break-even in his first year of operations. A thorough business plan reinforces that the new owner will be able to make it through his first few business years and that he will overcome all obstacles that lie before him. Only solid financial projections will prove creditors that the practice owner will be able to pay creditors and all costs of business. The business plan is a document that not only proves to creditors that your practice will be able to pay off the loan, but it also is useful to receive funding from other sources and it is a way to set a goal for the future financial performance of the practice.[10] Future years of performance can be compared to the initial projections. This tool will show the owner of the business which or his services and products bring him money.

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