How to Buy a Practice for Free

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Decide on Location

- Look at MBKU website for real estate sites on sale, etc.
- Contact all doctors in the city who are over 63
    - License # 7000 for doctors around 63
    - Send out letters, go into office
- Search VSP website → look at license numbers for date of graduation
- Suggestions
    - Live where you practice and get involved in the community
    - Live in an area where there are not many optometrists

Evaluating a Practice to Buy

- Compare expenses to industry standards
- Evaluate profit-loss statements
    - Staffing costs should be 21%
    - Rent should be 8%
    - Cost of goods should be 28%
- Inherit what the last doctor negotiated when buying a high cost practice (located in the middle of malls, places with high traffic)
- Calculate revenue per patient (RPP)
    - RPP = One year gross income/ total refractive exams
    - Total refractive exams = does not include VF, optos, just refraction
    - RPP should be about $300

How to Improve the Practice's Yearly Net Income

Setting the Stage:

The previous practice owner makes a gross income of $600,000.
You will buy the practice for $400,000.
Finance that over 10 years → $50,000 a year.

Goal: You want to pay off the $50,000/year loan by improving your new practice's yearly net income. You can do so by making slight alterations in how the current practice is being managed.

Step 1: Decrease the cost of goods.

How

- Find a manufacturer that sells products for less
- Buy products in a larger bulk

Math

Cost of Goods		Current		New			Increase
	Gross	600,000		600,000			
	Cost of Goods %	31%		28%			
	Cost of Goods	186,000		168,000			**18,000**

Decrease the cost of goods from 31% to 28% and increase profit by $18,000.

Step 2: Decrease staffing costs.

How

- Reduce hours for full-time staff members who are assigned jobs that only require part-time
- Let go of staff members who are not productive
- Increase the efficiency of current staff members

Math

Staffing							
	Gross	600,000		600,000			
	staff % of gross	24%		21%			
	Staffing costs	144,000		126,000			**18,000**

Decrease staffing costs from 24% to 21% and increase profit by $18,000.

Step 3: Rent.

You can’t change much with rent, so take it as $0 in increased revenue.

Rent							
	can't really do much						0

Step 4: Improve revenue per patient (RPP).

How

- Train each optician to be better a salesman
- Have your opticians promote yearly supplies of contacts, high-end frames, and extra coatings on lenses

Math

Improve RPP	**How? See separate sheet**						
(revenue per patient)							
	Gross	**600,000**					
	Current patients / year	2,100					
	revenue per patient	286					
	New RPP	310					
	Current patients / year	2,100					
	New Gross	**651,000**					**51,000**

The current practice sees 2,100 patients a year with an average of $286 spent per patient. If you are able to increase RPP from $286 to $310, then you will increase profit by $51,000.

Step 5: Hire a recall service to increase the patient return rate.

How

- Hire a part-time employee whose sole purpose is to recall patients
- Use sites such as DemandForce or Solution Reach

Math

Hire Recall service	cost per year	6,000					
DemandForce		3,500					
Solution reach							
	total cost	**9,500**					
	Current pts / year	2,100					
	75 % returning	1,575					
	old pts/ week	30					
	Updated recall						
	old pts / week	33					
	change per week	3					
	revenue per patient	310					
	Weeks per year	52					
	Increase gross	48,360					
	Minus cost per year	9,500					
	Net increase per year	**38,860**					**38,860**

The current practice has 75% of last year's patients returning. If the patients per year was 2,100, then the returning patients per week would be 30. Say you hire an employee for $6,000 as well as use DemandForce which costs $3,500 a year. The total cost for these services will be $9,500. With the recall service, you're able to increase the amount of returning patients to 33 per week. The profit from the 3 additional returning patients will be $38,860.

Step 6: Add new vision insurance plans to the practice.

Math

Add vision plans							
	Current pts / year	2,100					
		%	pts/yr	RPP	Gross		
	Average % VSP	45%	945	290	274050		
	Average % Eyemed	18%	378	270	102060		
	Average % Spectera	**4%**	**84**	**260**	**21840**		**21,840**
	Average % Davis	3%	63	260	16380		

Say you add Spectera to your list of vision insurances carried by the practice. Out of 2,100 patients, 4% have Spectera. With their RPP as $260, the total profit from adding Spectera patients is $21,840.

Step 7: Update VSP fees.

How

- Due to the increased cost of living and inflation, VSP plans will increase their coverage occasionally. However, they do not notify the practice when they do so. It is up to you to periodically ask for updated VSP fees

Math

Update VSP fees							
	Current VSP 92014	78					
	Updated fees	89					
	Difference	11					
	VSP pts / year	945					
	Increase Gross / year	**10,395**					
	Not all vsp can adjust	60%	can't adjust some vsp plans				
	Adjusted increase	**6,237**					**6,237**

The current VSP coverage is $78. After contacting VSP, you find that their updated coverage is $89. If the amount of VSP patients per year is 945, then your increased gross per year is $10,395. However, not all VSP plans can adjust, so we will say the increased gross per year will be roughly $6,237.

Step 8: Add Glaucoma management to your practice.

How

- Add OCT and other retinal imaging equipment

Math

Add Glaucoma							
	rough example						
	Gross	600,000					
	estimated Glaucoma income	14,000	OCT, retinal, office visits, etc				0
	Recommending waiting on this until you can afford equipment						

We do not recommend adding glaucoma management to your practice until you have a steady, increased income. This is because the equipment required for glaucoma treatment will cost nearly the same as the estimated glaucoma income.

Step 9: Add Optos

How

- Not only does Optos help you become a better and more thorough doctor, it is also a good marketing tool to change people's perspective of what optometrists do.

Math

Add Optos							
	Cost of Optos	80,000					
	Cost per year for 5 years	15,000					
	Patients per year	2,100					
	% have Optos done	50%					
	Number that have Optos	1,050					
	Charge per Optos	30					
	Gross	**31,500**					
	Yearly lease	15,000					
	Net income	**16,500**					**16,500**

The Optos costs $80,000, which is $15,000 per year. If you see 2,100 patients per year, 50% of patients decide to use the Optos, you charge $30 per Optos, your profit will be $16,500.

Step 8: Add an in-house edger.

Add in house edger							
	I would recommend later						
	Saves about 2.25 % of gross						0

We do not recommend adding an in-house edger until your new practice is more established. This is because you have to pay for the equipment and train your staff. It would cost about

$25,000-$30,000 to buy equipment and train staff. If the staff is not skilled enough, they may make several mistakes and cost your practice because of the re-dos.

Step 9: Replace low reimbursement insurances with higher ones.

How

- Organize your appointment schedule so that there is a high proportion of patients with high reimbursement insurances than patients with low reimbursement insurance. For example, if VSP reimburses at a higher rate than Spectera, you will want your weekly schedule of patients to include a ratio of 10:1 VSP to Spectera patients.

Math

Replace low							
reimbursement							
insurance							
with better							
	reimbursement per pt	low		better			
	reimbursement / patient	55		300			
	patients per year	200		200			
	Gross per year	11,000		60,000			**49,000**

Step 10: Use social media to increase incoming patients.

How

- Yelp: Good yelp reviews will bring in more patients
- Facebook/Instagram: Posting useful/interesting content will increase the range of patients coming to your office as well as bring in the younger generations.
- Google: Putting key-marker words into your website will help your website pop up on Google towards the top of the webpage. For example, include “optometry”, “optometrist”, “eye doctor”, and the location of your practice.

Math

Social Media	Yelp, Website, Google, Geospatial marketing						
	Current pts / year	2,100					
	% new patients	20%					
	Current new pts / year	420					
	% from Social media	20%					
	Total pts from Social media	84					
	average RPP	310					
	Increase gross	**26,040**					**26,040**

If you’re able to get an additional 84 new patients to your practice by using social media, you will increase your profit by $26,040.

Summary

Adding all of the net increases from each step, you will profit by $211,667. The cost of buying your practice will be about $50,000 per year. You will only use roughly 25% of your net increase to pay for the yearly loan. Remember that you can do this sort of evaluation on your practice every year, thus increasing your net profit every time!

Summary	
Cost of Goods	18,000
Staffing	18,000
Rent	0
Improve RPP	34,210
Hire Recall service	21,840
Add Vision plans	21,840
Update VSP fees	6,237
Add Glaucoma	0
Add Optos	16,500
Add in house edger	0
Replace low reim.	49,000
Social Media	26,040
Net increase	211,667
50%	105,834
25%	**52917**

Cost to buy practice		
	Gross	600,000
	% Gross purchase	60%
	Purchase price	360,000
	excess capital	40,000
	total loan	400,000
Yearly loan payment		**50,000**