STRATEGIC PLANNING FOR OPHTHALMOLOGY PRACTICES

Financial Disclosure

My Background

• Comprehensive ophthalmologist for 27 years
• President of Concord Eye Care, PC for 16 years
• Principal Founder and past Medical Director, Concord Eye Surgery, LLC
• MBA
• Founder, InSight Healthcare Solutions, LLC
Today’s Strategy

• Beginning steps
• Strategic Planning
  • COAST 3C Model
  • SWOT
  • PEST for external analysis
• Example: Solo practice

Strategy

• Originally a military term
• Ancient Greece – 10 “strategists” elected to guard city

What is Strategy?

• Find the answer to 3 questions
  • Where are we now?
  • Where do we want to go?
  • How do we get there?

Willingness to embrace change!

Sometimes change needs a little help...

*The Management of Strategy in the Marketplace, Cadotte and Bruce, 2008*
Change can be difficult!

Steps before developing strategy

• Mission Statement
  • 1 – 2 sentence statement why organization exists
• Values Statement
  • Core values
  • Reflects the culture
• Strategy must be consistent with Mission & Values statements

COAST & 3C’s Model

• Commit
• Objectives
• Analysis
• Strategy
• Tactics
• 3 C’s
  – Communicate
  – Contingencies
  – Control

COAST
• Commit to a strategic planning meeting
• Weekend or at least half a day
• No other distractions
• Facilitator helps

COMMIT
COAST  Key points to a strategic meeting

• Non-judgmental
• All responses written down – no negatives at early stages
• Lump common responses together
• Then eliminate while remaining positive

COAST  OBJECTIVES

• What are your priorities?
  – Make more money
  – Work less
  – Operate more
  – Retire
• Results to be obtained within a specific time period

COAST  ANALYSIS

• SWOT Analysis
  • Strengths
  • Weaknesses
  • Opportunities
  • Threats
• Look internal and external to organization

COAST  External analysis

• PEST analysis
  • Political
  • Economic
  • Social
  • Technologic
• Competitive analysis
  • Who are your competitors and what are they doing?
COAST STRATEGY - Options
- Keep Objectives in mind
- Keep SWOT analysis in view
- Come up with strategic options
- List all options before crossing out any
- Let your imagination run wild!

COAST STRATEGY - Define
- Pick strategy or few strategies from available options
- Strategy of higher level becomes objective of lower level
  - i.e.: Strategy of increased revenue to organization from optical becomes objective of optical shop

COAST TACTICS
- List of actions and operations to be taken
- Financial impact – Pro-forma statements
- Key: WHO IS DOING WHAT AND BY WHEN!
- Expected competitive reactions

Strategy or Tactics?
- Difference between strategy and tactics
  - Strategy is long-term perspective and large scope
  - Tactics are short-term actions with smaller scope
CCC                          THE 3 C’s

• Communicate
• Contingencies
• Control

CCC                          Communicate

• To owners
  • Keep to deadlines
  • Let them know where plans are at
• Staff
  • Need to be on-board
  • Obtain input from staff
  • Needs to be consistent to values and mission statement of the organization

CCC                          Contingencies

• What if? For all key assumptions
• Competitor response
  • What will they do to respond?
  • How will you respond to their responses?

CCC                          Control

• Measure effectiveness
  • Financials
  • Demand
    • Patient visits
    • Referrals
  • Satisfaction
    • Patient
    • Employee morale
• Modify strategies and tactics as needed
Example

Small Ophthalmology Practice
(2 Doctors)

Mission Statement
• To create an efficient medical practice that provides good medical care and creates substantial profit.

Values
• Efficiency
• Quality
• Thriftiness

Objective
• Grow profits through the next few years
Analysis - SWOT

- External
  - PEST
- Competitive
- Internal

PEST Analysis

- Political – Obamacare, ACO’s, new Medicaid eligibility
  - (New Patients)
- Economic
  - Insurance reimbursements going down
  - Potential of Medicare cuts
  - Economically distressed region
- Social – Increasing Medicaid population
- Technologic - EHR

Competitive Analysis

- Multiple other ophthalmologists in area
  - Solo practices and small groups (some difficult to deal with)
  - Large academic center group with heavy marketing
- All specialties available in academic center
- Many solo optometrists in area
  - Some refer
  - Some aggressive

SWOT - STRENGTHS

- Good reputation
- Good office utilization
- Efficient, dedicated staff
- Efficient office
- Long waiting list (3 months)
- Profitable optical shop
<table>
<thead>
<tr>
<th>SWOT - Weaknesses</th>
<th>SWOT - Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Office space maxed-out</td>
<td>• See more patients</td>
</tr>
<tr>
<td>• Can’t schedule referred patients in timely manner</td>
<td>• Waiting list</td>
</tr>
<tr>
<td>• Need to send out for specialty care</td>
<td>• New patients through Obamacare</td>
</tr>
<tr>
<td>• Not enough cases for own ASC</td>
<td>• No ASC in town</td>
</tr>
<tr>
<td>• Hospital surgery center slow</td>
<td>• Subspecialties only in the academic center</td>
</tr>
<tr>
<td>• Office building not attractive</td>
<td>• Additional adjoining 1000 sq. ft. available</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SWOT - Threats</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Obamacare/ ACO’s - Academic center ACO</td>
<td>• Suggestions or Ideas</td>
</tr>
<tr>
<td>• Lower fees and increasing expenses</td>
<td></td>
</tr>
<tr>
<td>• EHR</td>
<td></td>
</tr>
<tr>
<td>• Losing referral sources (can’t always see patients in timely manner)</td>
<td></td>
</tr>
<tr>
<td>• OD’s keeping patients to themselves or referring elsewhere</td>
<td></td>
</tr>
</tbody>
</table>
Weigh Options

• Merge with other practices in town

• Grow
  – Add ophthalmologists
  – Add optometrists

• Hire more technicians to be more efficient

• Open up satellite office outside of town

• Look into an ASC
  • With other ophthalmologists in town
  • With other surgical specialists

Strategic Plan

• Short and Intermediate plan: Grow – Add doctors

• Long term goal: Create their own ASC

Tactics

Tactics – Options for Doctors

• Full-time or part-time ophthalmologists
• Comprehensive or subspecialists
• Optometrists
Tactics - Space

- Enlarge their office with adjacent space
- Move to a nicer building with more space
- Open up a satellite office in another community
- “Rent” space from an OD or other medical specialty
- No additional space, but open up office on evenings and Saturdays

Tactics – Space analysis

- Annex adjoining space and remodel (Option A)
- Move to a larger space (Option B)

Tactics - Doctors

- Immediate: Add full-time comprehensive or corneal ophthalmologist
  - Call any possible leads
  - AAO Website
  - Send out letters to members of corneal society
  - Headhunters
- 2-3 years: Add optometrist

Rent Calculation – Existing Location

<table>
<thead>
<tr>
<th></th>
<th>$/sq. ft.</th>
<th>Sq. ft.</th>
<th>$/yr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent: Existing Space</td>
<td>$</td>
<td>25</td>
<td>$3,000</td>
</tr>
<tr>
<td>Rent: New Space</td>
<td>$</td>
<td>25</td>
<td>$1,000</td>
</tr>
<tr>
<td>Total Rent</td>
<td></td>
<td></td>
<td></td>
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</table>
Renovation Calculation

<table>
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<tr>
<th></th>
<th>$/sq. ft.</th>
<th>Sq. ft.</th>
<th>$/yr.</th>
</tr>
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<tbody>
<tr>
<td>Renovation: Existing</td>
<td>$50</td>
<td>2,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Renovation: New</td>
<td>$100</td>
<td>1,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Total Cost</td>
<td></td>
<td>200,000</td>
<td></td>
</tr>
</tbody>
</table>

Loan Cost of Renovation

- Prime Rate: 3.25%
- Interest Rate/month: 4.75%
- Loan Amount: $200,000
- Life of Loan: 20
- # payments/yr: 12
- Total # payments: 240
- Payment per Period: $1,292.45
- Total Cost of Loan: $310,187.34

Rent Calculations: Existing Location

- Rent in 20 yrs: $2,000,000
- Cost of Renovations: $310,187
- Cost per year: $15,509
- Total Costs: $2,310,187

New Location

- 5500 square feet
- $28/sq. foot
- All renovations included
- Good location and parking
- 10 year lease with 2 five year extensions
Rent Calculations: New Location

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<td>Rent: New Location</td>
<td>$28</td>
<td>$5,500</td>
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<tr>
<td>Total Rent in 20 yrs</td>
<td>$3,080,000</td>
<td></td>
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Comparisons

- New location:
  - Larger space: 5500 vs. 4000 sq. ft.
  - Higher rent:
    - $154,000/yr. vs. $100,000 (Rent) + 15,509 (Renovations) = $115,509
  - More attractive building and office
  - Room to grow

Financial Impact (Pro-Forma)

Year 1

- Costs
  - Rent
  - New doctors salary + benefits
  - Additional personnel costs
  - New equipment (amortize)
  - Additional supply costs
  - Additional marketing costs

Financial Impact – Year 1

- Revenues
  - Average revenue per patient in office
    \[ \times \]
  - Expected additional number of patients seen
    \[ + \]
  - Average surgical revenue per patient
    \[ \times \]
  - Expected additional surgeries
Financial Impact

- Profit:
  Revenue – Expenses
  Could include optical profits

- Are you in the black or red for year 1?
- How about years 2 and 3?
- If still in the red in year 3, is it something you really want to do?
  - Part of growth strategy
  - Allow for ASC development

Communicate

- Hold office meeting with staff at appropriate time

Contingency Plans

- What if pro-forma is not positive?
  - Make do with less space
  - Look for part-time help or OD first
- What if can’t find the right doctor?
- What if the new doctor is not busy?
- Response by competitors
  - Other local ophthalmologists
  - Academic center
Control

- Watch financials – Am I on course?
- Is my new doctor
  - Busy?
  - Performing quality work?
  - Efficient?
  - Happy?
- Are my referral sources happy?
- Are the patients happy?
- Is my staff happy?

Example

Solo comprehensive ophthalmologist

Mission Statement

- To make a reasonable profit while providing excellent care for the community

Values

- Caring
- Professionalism
- Efficiency
Objective

- Make more profit in 2014 and beyond without working more hours

Analysis - SWOT

- External
  - PEST
  - Competitive
  - Internal

PEST Analysis

- Political – Obamacare
- Economic – Potential medicare cuts, need to pay higher wages
- Social – More elderly moving into the area, more emphasis on looking younger
- Technologic – Computerized records, more oversight by payers

Competitive Analysis

- One other group of ophthalmologists in town
- Retina doctor in that group not especially liked
  - Availability limited
  - Not always pleasant
- No ophthalmic plastic specialist in town
- Good optometric referral base
- Don’t get referrals from other ophthalmologists
**SWOT - STRENGTHS**

- Good reputation
- Good office utilization except for Wednesdays (day off)
- Excellent staff
- Pleasant office environment
- Lots of OD referrals
- Excellent cataract surgeon

**SWOT - Weaknesses**

- Small player in the market
- Dependence on OD referrals
- Need to send out for specialty care
- Hospital surgery center slow

**SWOT - Opportunities**

- No one in town doing ophthalmic cosmetic procedures
- Retinal specialist not liked by referral sources
- Local hospital buying practices
- Local ASC

**SWOT - Threats**

- Obamacare/ ACO’s
- Lower fees and increasing expenses
- EHR
- Risk of hospital buying other group or bringing in their own
- Losing OD referrals
### Options

- Suggestions or Ideas

### Weigh Options

- Sell-out: Hospital or other practices
- Grow: Take in partners
- Fill Wednesday with specialists
- Hire more technicians to be more efficient
- Look into an ASC
  - With the other ophthalmology group
  - With the non-ophthalmologic local ASC

### Strategic Plan

- Try to fill Wednesdays with other ophthalmic specialists
  - Retina
  - Plastics

### Tactics

- Start discussion with ophthalmic plastic specialists in outlying city within a month
- Talk with retinal specialists within a month
- Count number of specialty cases sent out every month
- Estimate staffing and other costs for specialist within 6 weeks
- Create pro-forma within 2 months
- Specialists start in 4 months
Communicate

- Hold office meeting with staff at appropriate time

Contingency Plans

- What if no specialist is interested?
- What if pro-forma is not positive?
- Response by competitors
- Response by hospital
- What if the specialist is not busy?

Control

- Watch financials – Am I making money?
- Are my patients happy?
- Are my referral sources happy?
- Are my part-time specialists busy and happy?
- Is my staff happy?