Practice Management Workshop: Strategic Planning in Ophthalmology

Derek A. Preece, MBA
Principal and Executive Consultant
Update: Meeting, location, date
Chandra Adams, 4/27/2016
Derek A. Preece, MBA

Principal and Executive Consultant

Consultant to ophthalmology practices since 1987

Work with practices on strategic planning, practice management, mergers and acquisitions, shareholder compensation, financial benchmarking
What to do?

Your practice has 3 doctors, all very busy

One doctor wants to hire another physician to help carry the overhead burden

Another doctor wants to add two additional OCTs to improve efficiency

The third doctor has been pushing to open a satellite office in the town where he lives
Attributes of Successful Practices

- A “healthy” practice environment
- Exercise of financial discipline
- Service commitment to all stakeholders
What is Strategic Planning?

A process that produces a plan for how the practice will accomplish its goals

The beginning of implementation
Why a Strategic Plan?

- To expose and **reconcile** differing goals
- To be **pro-active** rather than reactive
- To help **prioritize** resources and choose between mutually exclusive goals
- To set **agreed-upon** objectives for practice administration
- To avoid **project whiplash**
- To set a foundation for department and individual employee goals
<table>
<thead>
<tr>
<th>Practice Vision &amp; Mission</th>
<th>Why do we exist?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Practice Goals</td>
<td>What goals will help us serve our mission?</td>
</tr>
<tr>
<td>Strategy</td>
<td>What is our plan for accomplishing our goals?</td>
</tr>
<tr>
<td>Tactics</td>
<td>What actions do we need to take to fulfill our strategy?</td>
</tr>
<tr>
<td>Assignments</td>
<td>Who is going to be in charge of which tactics?</td>
</tr>
<tr>
<td>Department &amp; Individual Goals</td>
<td>What can our employees do to help reach practice goals?</td>
</tr>
</tbody>
</table>
Strategic Questions

- Strategic Model
- Number & mix of providers
- Products and services offered
- Geographic reach and locations
- Positioning in the mind of customers
- Environmental factors that affect your future
- Actions required to maximize your practice opportunity

What do I want my practice to look like in the future?
Nine Basic Strategic Models

Comprehensive Solo

- Comprehensive Group
  - Multi-Subspecialty Group
    - Multi-Subspecialty Academic

Subspecialty Solo

- Subspecialty Group

Referral Center

- Multi-Specialty Clinic
- OD/MD Practice
### Fill Out Form 1

<table>
<thead>
<tr>
<th>Strategic Model</th>
<th>Which We Are Now</th>
<th>Which We Should Be in the Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive Solo</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Comprehensive Group</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Multi-subspecialty Group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multi-subspecialty Academic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subspecialty Solo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subspecialty Group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Referral Center</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multi-specialty Clinic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OD/MD Practice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>Which Services Do We Provide Now?</td>
<td>Which Services Should We Provide in the Future?</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-----------------------------------</td>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td>General Ophthalmology</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Cataract Surgery</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Refractive Laser Surgery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium IOLs</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>Retina</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Glaucoma</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oculoplastics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cornea</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pediatric Ophthalmology</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neuro-ophthalmology</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Fill Out Form 3

<table>
<thead>
<tr>
<th>Service</th>
<th>Which Ancillary Services / Products Do We Provide Now?</th>
<th>Which Should We Provide in the Future?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Testing</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Optical</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Ambulatory Surgery Center</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Employed MDs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed ODs</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Hearing Aids</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vitamins</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Number and Mix of Providers

Possible Reasons forAdding a Physician

- To optimize use of fixed expenses
- To capture additional patient flow
  - Underserved area
  - Underserved specialty
- To defend a geographic area
- To replace a departing or slowing physician
- Because a compatible doctor is available

Financial Feasibility

- Estimate revenues
- Estimate additional expenses
Possible Reasons for Adding an Office

- To capture patients from an underserved area
- To relieve overcrowding at main office
- To discourage other practices from locating there
- To solidify a relationship with a hospital
- As part of a merger or acquisition

Financial Feasibility

- Estimate revenues
- Estimate expenses
Positioning

“The process by which a practice tries to create an image in the minds of its target market.”
Positioning: The Battle for Your Mind

Which automobile brand pops into your mind?

- Safety
- Highest quality luxury cars
- Economical, practical, long lasting cars
- Cheap cars
Automobiles

Average Performance of Car Brands*

*Data represents 2001 image attribute scores, except for infiniti and Subaru data, which is based on 2002 scores
Source: Allison-Fisher Barometer of Automotive Awareness and Imagery Study; Booz Allen Hamilton
What position do you want lodged in the minds of your stakeholders?

- Caring, family atmosphere
- Highly skilled physicians
- Advanced technology
- “One stop shop”
- Leading edge treatment
- Place to go for difficult problems
- Specialist in one area of the eye
- Choice of other doctors
- Convenient locations/processes
- Cheapest care
### What positions are most compatible with which strategic model?

<table>
<thead>
<tr>
<th>Strategic Model</th>
<th>Positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solo Comprehensive</td>
<td>Caring, family atmosphere</td>
</tr>
<tr>
<td>Group Comprehensive</td>
<td>Caring, family atmosphere, highly skilled doctors</td>
</tr>
<tr>
<td>Solo Specialist</td>
<td>Specialty care, choice of other doctors</td>
</tr>
<tr>
<td>Group Specialist</td>
<td>Specialty care, advanced technology, choice of other doctors</td>
</tr>
<tr>
<td>Multi-Subspecialty</td>
<td>Advanced technology, “One Stop Shop”</td>
</tr>
<tr>
<td>Referral Center</td>
<td>Surgical specialist, choice of other doctors</td>
</tr>
<tr>
<td>Academic</td>
<td>Place to go for difficult problems, highly skilled doctors</td>
</tr>
<tr>
<td>Multispecialty Clinic</td>
<td>“One Stop Shop”</td>
</tr>
<tr>
<td>Strategic Model</td>
<td>Positions</td>
</tr>
<tr>
<td>-------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Solo Comprehensive</td>
<td>Caring, family atmosphere</td>
</tr>
<tr>
<td>Multi-Subspecialty</td>
<td>Advanced technology</td>
</tr>
<tr>
<td>Academic</td>
<td>Highly skilled doctors</td>
</tr>
<tr>
<td>Feature</td>
<td>Which position do we have now?</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>Caring, family atmosphere</td>
<td></td>
</tr>
<tr>
<td>Highly skilled physicians</td>
<td></td>
</tr>
<tr>
<td>Advanced technology</td>
<td></td>
</tr>
<tr>
<td>&quot;One stop shop&quot;</td>
<td></td>
</tr>
<tr>
<td>Leading edge treatment</td>
<td></td>
</tr>
<tr>
<td>Place to go for difficult problems</td>
<td></td>
</tr>
<tr>
<td>Specialist in one area of the eye</td>
<td></td>
</tr>
<tr>
<td>Choice of other doctors</td>
<td></td>
</tr>
<tr>
<td>Convenient locations/processes</td>
<td></td>
</tr>
<tr>
<td>Cheapest care</td>
<td></td>
</tr>
<tr>
<td>Other position</td>
<td></td>
</tr>
</tbody>
</table>
Geographic Scope

- Where do current patients live/work?
- What shifts in population are occurring?
  - Age, location
- Are there opportunities to capture more patients with a different or additional location?
- Will the additional location cannibalize current patient flow?
- Are there strategic reasons to move or add a location?
- Should the additional location be stand alone, shared space, joint venture?
- What does a new location feasibility analysis tell us?
The typical metropolitan/suburban general practice gets about 75% of its patients from about a 6 mile radius.

Rural practices might have a 60 mile radius.

Urban practices (NYC) might have a 6 block radius.

You can determine your own radius.
Geographic Scope

- Population centers are like magnets for medical care; the larger the population, the more patients tend to go there for care.
- Larger magnets tend to have a stronger attraction.
- Patients avoid natural barriers such as bridges.
- Patients tend to go in the same direction as they do for other activities such as shopping.
## Fill out Form 5

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Poor</th>
<th>Adequate</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location – Convenience for Patients</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location – Surrounding Properties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Appearance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Configuration – Appropriate Space &amp; Layout</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Coverage</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Understanding the position your practice has with your patients is easier if you also understand how other practices in your community are seen by area residents.
## Competitive Analysis - Form 6

<table>
<thead>
<tr>
<th>Topic</th>
<th>Your Practice</th>
<th>Competitor 1</th>
<th>Competitor 2</th>
<th>Competitor 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location(s)</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Capacity</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Community Awareness</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services Provided</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ancillary Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Optometric support</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MD support</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subspecialties covered</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refractive services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cataract surgery</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appeal to patients</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Points:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Rank each practice in each category; enter a “1” for the top practice in each category a “2” for the second practice, etc.
SWOT Analysis

Positive

Internal | Strengths

External | Opportunities

Negative | Weaknesses

| Threats
## SWOT Examples

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Aging Providers</td>
<td>Build Out Space</td>
<td>Loss of Key Contract</td>
</tr>
<tr>
<td>Reputation</td>
<td>Office Appearance</td>
<td>Add Subspecialists</td>
<td>New Competitor</td>
</tr>
<tr>
<td>Staff Experience</td>
<td>High Debt</td>
<td>Expand Optical</td>
<td>Closing of Surgical Facility</td>
</tr>
<tr>
<td>Control of Managed Care Contracts</td>
<td>Underutilization of physical Space</td>
<td>Open Second Office</td>
<td>Hospital backed Practice</td>
</tr>
<tr>
<td>High Market Share</td>
<td>High Expenses</td>
<td>Acquire Retiring Physician’s Practice</td>
<td>Merger of Competitors</td>
</tr>
<tr>
<td>Referral Network</td>
<td>Poor Systems</td>
<td>Build Surgery Center</td>
<td>Loss of Referral Source</td>
</tr>
<tr>
<td>Experience Management</td>
<td>Chaotic Processes</td>
<td>Add New Services</td>
<td>Multi-Specialty Practice adding Ophthalmology</td>
</tr>
</tbody>
</table>
### Fill out Form 7

<table>
<thead>
<tr>
<th>Category</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practice Model</td>
<td>Change to:</td>
</tr>
<tr>
<td>Services</td>
<td>Add these services:</td>
</tr>
<tr>
<td>Ancillary Services / Products</td>
<td>Add these services/products:</td>
</tr>
<tr>
<td>Competitive Analysis</td>
<td>Improve these areas in our practice:</td>
</tr>
<tr>
<td>Position</td>
<td>Change position to:</td>
</tr>
<tr>
<td>Offices</td>
<td>Make these changes to our office/location:</td>
</tr>
</tbody>
</table>
To establish and retain a position in the minds of your stakeholders, you must be what that position describes.

“You can’t make a silk purse out of a sow’s ear.”

“You can’t fool all of the people all of the time.”

Caution
National Trends Affecting Our Practice

Number* of Persons 65+ in the U.S.
From 1900 – 2030**

*Numbers in millions
**Source U.S. Bureau of the Census
Seniors **USE** healthcare services. Eye care:
People over 65 use 8.8 times the eye care
dollars on average compared to those under 65
in sample California insurer data.
More staff time is required to meet regulatory requirements.
Increasing Need for Capital

Computer Systems

Imaging Systems

Facility Upgrades

- Better Flow
- Strategic Positioning
- Growth in Numbers of Providers
- Addition of Ancillary Services
The Result?

- Better care that costs more
- Older population that uses more care
- Increasing costs

U.S. Health Care Expenditures as a % of GDP
Health Care Reform

Everyone is Insured

- Greater demand
- Greater costs
Physician Supply May Tighten

Level residency positions

Plus

Retiring boomer ophthalmologists

Plus

Changed priorities of new physicians

Plus

Increasing patient numbers

May Well Equal

A significant reduction in access to care.
Reimbursement Decline

Facts...reimbursements have declined.

Providing care is more expensive due to advancements in technology and pharmaceuticals.

The money available for medical reimbursements will not grow as fast as the demand for services.

Therefore, there will be continual downward pressure on reimbursements.
Ophthalmology’s fast technological and clinical advancements have created a new breed of patient “consumer.”
Eyecare Consumers

Premium IOLs result in an out-of-pocket purchase which fuels the refractive perfection mentality.

High deductible plans and HSAs result in patients offering checks and debit cards to “pay” for their services.
While the internet is not “new” to us, the prevalence of its use has grown exponentially.

Patients have access with a keystroke to an abundance of clinical and technological information.
<table>
<thead>
<tr>
<th>Practice Model Types for Future</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Reimbursements</td>
</tr>
<tr>
<td>Patient Payments</td>
</tr>
<tr>
<td>Costs</td>
</tr>
<tr>
<td>Ancillary Revenues</td>
</tr>
<tr>
<td>Demand</td>
</tr>
<tr>
<td>Ophthalmologist Time</td>
</tr>
<tr>
<td>Optometric Care</td>
</tr>
</tbody>
</table>
Putting It All Together

Creating and implementing a successful strategic plan that defines the practice in the context of our current environment.
The Strategic Planning Process

- Prepare
- Meet
- Decide
- Write
- Implement
Prepare

Gather Information

Financial
- Revenue history
- P&L
- Budgets and variances

Patient flow
- # patient visits
- # new patients
- # surgeries
Prepare

Gather Information

- Patient satisfaction survey
- Employee satisfaction survey
- Referring physician survey
- Physician survey
  - Critical issues for the practice
  - Critical issues for the individual doctor
  - Priorities
  - Work commitments for following year
Prepare

Analyze Information

💡 Historical patterns
💡 Year over year differences
💡 Comparison to benchmarks
  - Internal
  - External – AAO Benchmarking Project
    - Example: Your overhead ratio is 72%, benchmark is 62% (Overhead expenses ÷ revenues)
    - What does this tell you?

💡 SWOT Analysis
Prepare Information for Presentation to Owners

- Reports of key data
- Summarize but have details available
- Use visuals
  - Graphs
  - Charts
  - Pictures
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>2,255,123</td>
<td>2,351,012</td>
<td>2,401,511</td>
<td>2,499,123</td>
</tr>
<tr>
<td>Payroll</td>
<td>563,780</td>
<td>581,987</td>
<td>601,001</td>
<td>620,437</td>
</tr>
<tr>
<td>Malpractice</td>
<td>21,222</td>
<td>23,123</td>
<td>25,600</td>
<td>29,654</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>1,398,176</td>
<td>1,504,647</td>
<td>1,681,057</td>
<td>1,799,368</td>
</tr>
</tbody>
</table>
Visual Presentation

Revenues and Expenses

- Revenues
- Expenses

Year:
- 2012
- 2013
- 2014
- 2015

Values:
- 0.00
- 500,000.00
- 1,000,000.00
- 1,500,000.00
- 2,000,000.00
- 2,500,000.00
- 3,000,000.00
Strategic Planning Meeting

Keys:

💡 Minimize distractions
  - Time & place
  - Retreat?

💡 Ensure participation by key stakeholders
  - Owners
  - Administrator
  - Employed doctors?
  - Optometrists?
  - Supervisors?
Strategic Planning Meeting

Use an Agenda

- Welcome
  - Set the stage: purpose of the meeting
- Decide on practice objectives
- Review data and progress reports
- Define strategic options
- Decide on a strategy and tactics
- Make assignments
- Summarize
Allow discussion, but …

- Avoid rabbit trails
- Record decisions and assignments
- Distribute summary after meeting
  - Decisions
  - Assignments
### What changes are we going to make?

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Tactic</th>
<th>Timeline</th>
<th>Assignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expand geographic coverage</td>
<td>Merge with Dr. Lund</td>
<td>Sept. '16</td>
<td>Dr. Smith</td>
</tr>
<tr>
<td></td>
<td>Build office in Smallville</td>
<td>Aug. '16</td>
<td>Marla</td>
</tr>
<tr>
<td>Add Subspecialists</td>
<td>Recruit peds doctor</td>
<td>Jul. '17</td>
<td>Dr. Jones</td>
</tr>
<tr>
<td></td>
<td>Recruit retina doctor</td>
<td>Jul. '18</td>
<td>Dr. Brown</td>
</tr>
</tbody>
</table>

**Assignment**

- **Services offered**
- **Providers**
- **Internal Processes**
- **Offices**
- **Marketing**
- **Positioning**
- **Assignments**
Example: Merge with Dr. Lund

1. Call Dr. Lund to ascertain interest
2. Schedule initial dinner meeting
3. Share financial information
4. Share existing legal documents
5. Analyze financial ramifications
6. Prepare proposal
7. Make decision
8. Prepare and sign new legal documents
What to do?

Your practice has 3 doctors, all very busy

One doctor wants to hire another physician to help carry the overhead burden

Another doctor wants to add two additional OCTs to improve efficiency

The third doctor has been pushing to open a satellite office in the town where he lives
# Pro Forma Budget

<table>
<thead>
<tr>
<th></th>
<th>Current Year</th>
<th>Change</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>3,000,000</td>
<td>Revenues</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>2,000,000</td>
<td>2% inflation</td>
<td>2,060,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Add doctor (net expense)</td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Add Staff</td>
<td>70,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Open satellite</td>
<td>275,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Add OCTs</td>
<td>150,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>2,000,000</td>
<td></td>
<td>2,585,000</td>
</tr>
<tr>
<td>Available for Doctors</td>
<td>1,000,000</td>
<td></td>
<td>345,000</td>
</tr>
</tbody>
</table>

**Difference = $655,000**
To stay even with the current year, we need $655,000 in additional revenues.

At $150 average revenue per patient, we need 4,367 additional patients.

Do we have enough demand to generate that additional patient flow?

Who is going to see those patients?
Implement

Delegate as appropriate

Establish reporting schedule

Establish projected budgets

Monitor progress
  - Monthly reports
  - Doctor meetings

Evaluate Results

Repeat the strategic planning process
Conclusion

We are in challenging times.

Some trends are negative.
Some trends are positive.

Strategic planning helps us identify how to deal with the pressures we face and which roads to take to achieve our objectives.

Implementation is critical for success.
Thanks for Attending!

Derek Preece: dpreece@bsmconsulting.com