

# The Need for Practice Consolidation in the Eye Health Industry



The  
**Grow**h  
Cooperative

The logo for The Growh Cooperative. It features the word "The" in a small, dark font above "Grow", which is in a large, bold, green font. The letter "h" is also in a large, bold, green font and is partially formed by a green plant sprout with two leaves. Below "Grow" is the word "Cooperative" in a smaller, dark font.

## The Need for Practice Consolidation in the Eye Health Industry

Despite information from various national associations claiming that there is a shortage of eye care professionals in the United States, it is obvious from the health of the majority existing practices that there are too many OD's on the market and more importantly, our 'Mom and Pop', 'independent' business model for bringing eye care to patients remains antiquated and ill fit for our times. The need for consolidation in the eye care industry – bringing together of small and solo practices under one corporation with strategic market locations - is apparent. The shift from solo practitioner to small practices to large practices and to even larger, multi-location regional practices is needed and those that have made the leap are demonstrating what healthy, practices delivering quality services look like.

Our younger, millennial doctors, now graduating, are two and a half times less likely than our current, older doctors to be in solo practice. This is a positive trend. As solo practitioners retire they are not being replaced with more solo practitioners. Younger optometrists appear to prefer larger practices where they can be employed for the [more predictable income and work-life balance](#) they seek. Larger practices can better attract this talent as needed. Larger practices have the professional coverage to staff weekends, vacations, and sick days, and on-call duties. Larger practices can provide a rich benefit package greater than smaller locations and benefits

may be even more important to this group than salary and certainly ownership. Younger optometrists also appear to be shying away from the [business and entrepreneurial responsibilities](#) demanded by solo practice. This is usually not required of them in larger practice groups. This sets up a sizeable, present opportunity and an even greater, future opportunity where the ground work must be laid now through practice consolidation.

### Case Study: Marin County, California

Located just over the Golden Gate Bridge north of San Francisco, 261,221 (2015) people call this relatively affluent county home. A large portion of the western and northern coastal reaches of the county are rural with little to no population centers. The vast majority of the county's population is centered around the north - south corridor of the 101 freeway comprised of three or four main cities: Novato, San Rafael, Mill Valley and Sausalito.

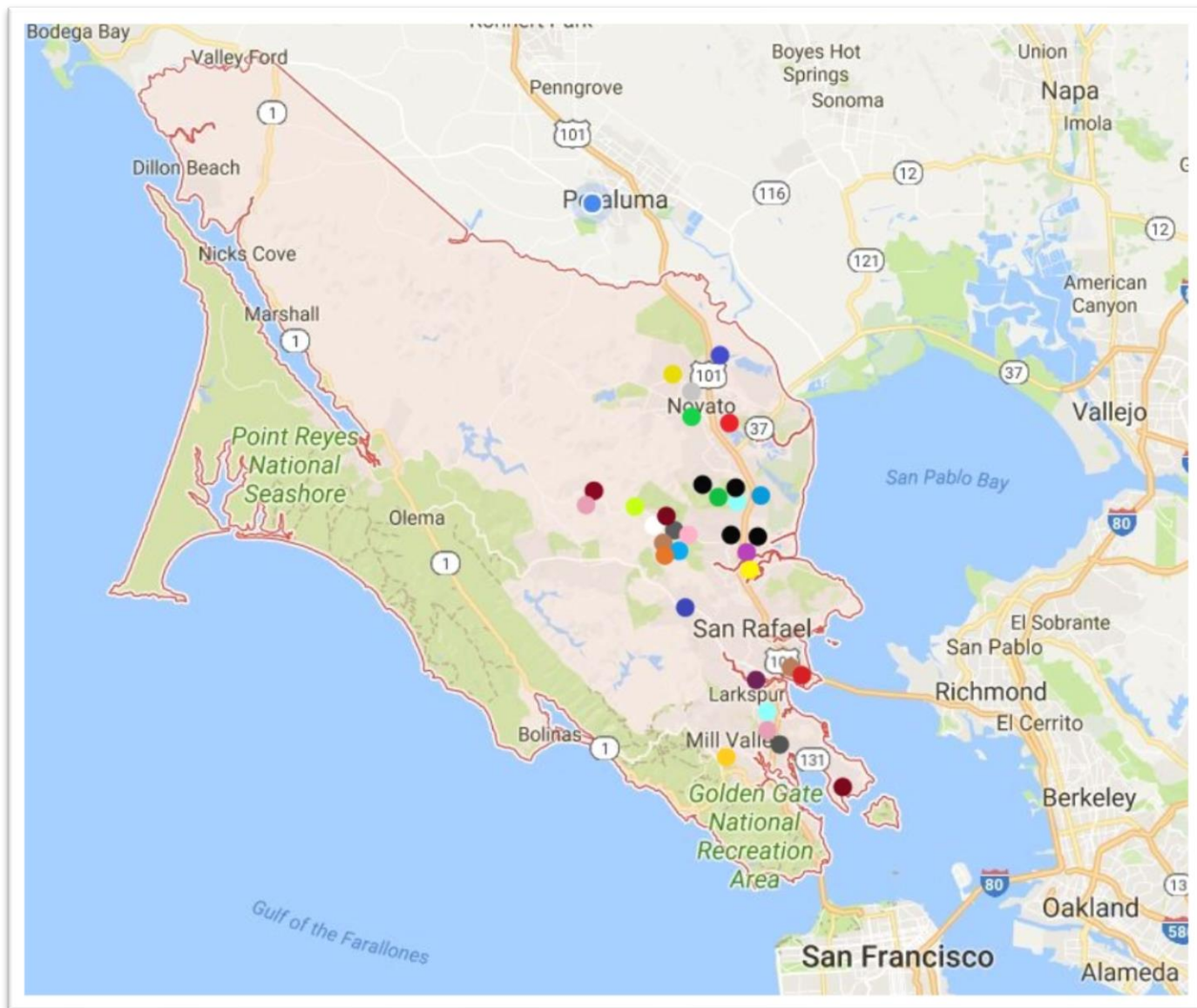
Thirty-three eye care providers call Marin county home and in my opinion, few of these providers are thriving. 60% of these providers are solo practitioners with single location practices. Two practices integrate optometry and ophthalmology. The population 'pie' has been divided up among so many practices, leading to suboptimal results for both practices and patients alike. When practices don't fair well financially, they cannot invest in new equipment and offer new

services. Their frames boards tend to be older and on the 'low end' of the price point. They may or may not be open on Saturdays as the volume doesn't allow for a fully paid staff with few appointments.

Like many optometric markets, this county is fractured with eye care professionals competing for a small part of the pie. In addition, My Zenni Optical (<http://www.zennioptical.com/>) is an online retailer located in Marin county and comes up as a result in all of the local online searches adding an online competitor to the mix. While not always physically

present, the pie is divided even further if you give a slice to the many, many online providers vying for the same business.

While eye care providers in Marin county claim referrals to a colleague as appropriate, generally MDs and ODs do not appreciate the other skills and abilities and do their best to keep patients in-house. The eye care that is provided when both an MD and an OD is needed, is also uncoordinated with little networking between OD's, MD's and opticians. Most of the doctors in the area have never met. There is no



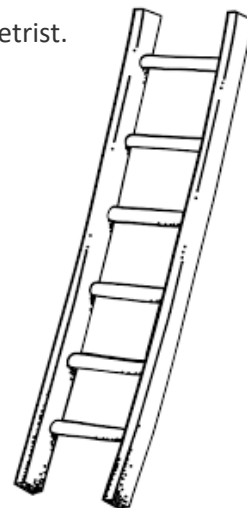
regular meeting to discuss eye care and nor do they understand the depth of what competitor offers. There appears to be no coordination or connection with local business and their employees. Insurers are dominant in this county due to the lack of organization and strength among the providers. Each provider fend for him or herself with little buying power and little authority to negotiate with insurers or vendors. The losers in this environment are the doctors and patients.

There appears to be a tremendous opportunity to the eye care providers into a group that can cross the MD-OD. When OD's and MDs practice together, the co-management of medical patients becomes truly coordinated care and not the 'co-management' of today.

A larger, integrated (MD/OD) group will have the budget for expanded marketing bringing greater numbers of consumers to access eye care services. A larger group will have a location in Mill Valley, Sausalito, San Rafael and Novato, and cover the entire county with four coordinating offices, all on the same EHR. A larger provider will have specialty offerings at central offices such as orthokeratology, vision therapy, sports vision, specialty contacts and glaucoma treatment while offering general eye care conveniently at all locations. A larger practice will require significantly less office space than the 33 offices now occupy and serve the same, if not more consumers' eye care needs. The practice will quickly become THE provider of eye care in the region. Specialty programs such as free screenings, office delivery of eye wear, business to business services, tele-optometry to the

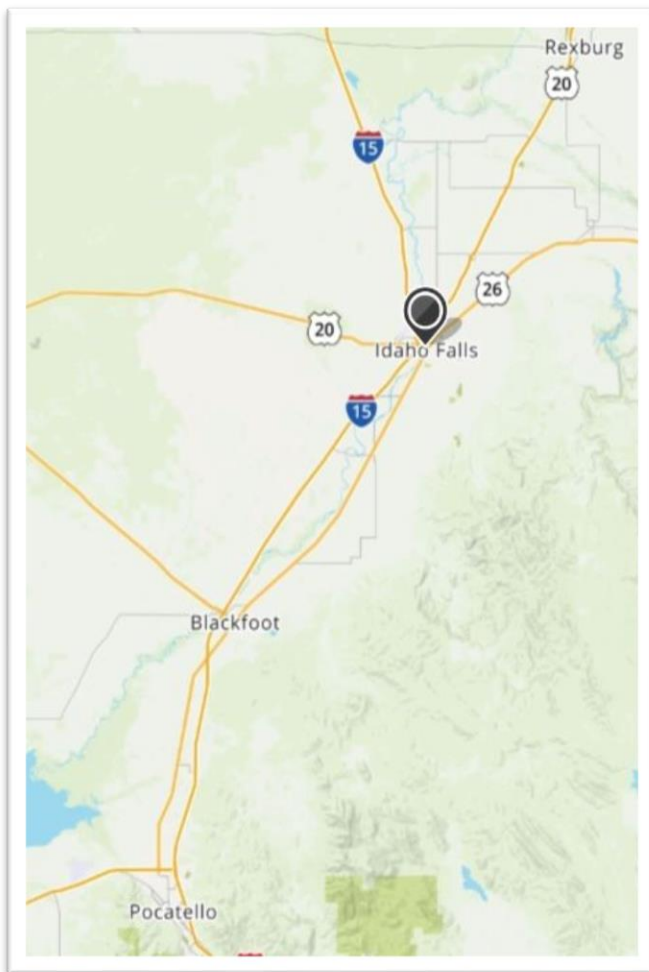
more rural areas of the county, and nursing home services can be provided more readily due to the size and scope of the newly consolidated practice. The practice will serve more patients at a significantly lower cost per patient due to shared back office services, greater negotiation power with vendors and insurers and better use/greater utilization of equipment.

A recent workforce study, conducted by the American Optometric Association (AOA) and consulting group, ABT, measured demand for optometric services and concluded that the supply of optometrists outstrips demand by about 12%. It also showed that the number of new optometrists entering practice each year (1,125) is greater than the number of optometrists who retire or exit the profession each year. The number of doctors retiring is getting even smaller because of the poor financial results of their practices they must stay and work well beyond our expected retirement age. This is just one of many factors (managed care, technology, advancements in treatments and early diagnosis) that is dramatically and rapidly increasing the challenge for the solo practitioner or small group optometrist.



### Case Study: Eastern Idaho I-15 Corridor

What is considered 'overbedded' (too many practices) in Marin County, California with 8,000 potential patients per provider, is exaggerated in the I-15 corridor of Eastern Idaho (Pocatello to Idaho Falls) where over 61 practitioners serve approximately 130,000 individuals. This population scenario is not unique to Eastern Idaho. In part, this overpopulation of doctors is the result of medical and optometry schools (optometry is the bigger offender) graduating eye care providers in record numbers. They claim a 'shortage' of care providers nation-wide but these statistics do not bear themselves out in reality.



164 new graduate OD's at ICO this year  
22 additional colleges of Optometry with similar class sizes

440 MD's entering practice every year

1,447 residents in training

The fact is there is a natural community or market caused by the geography of the I-15 corridor which includes the area from Pocatello to Rexburg. 28 individual eye care practices (excluding Rexburg) call this area home with more opening in the near future. There will be not winners in the fight for patients and the result will be many more mediocre practices all trying to carve out a living.

If there was no eye care available at this time in Eastern Idaho, your ideal situation might look something like this:

- 2 locations in Pocatello
- 1 location in Blackfoot
- 2 to 3 locations in Idaho Falls
- Each office would have a specialty developed – LASIK, cataract and medical, specialty lenses, ortho-K, low vision, pediatrics, vision therapy.
- All five offices would utilize the same EHR so patients could easily go to any location and their records would be available

- The practice would have contracts with major area employers who would no longer need the national vision benefit providers as they would be provided directly by the practices: J.R. Simplot Company, Idaho National Laboratory, Bannock County, City of Pocatello, Convergys Business Services, Heinz Frozen Foods, Idaho State University, ON Semiconductor, Meleleuca, Eastern Idaho Regional Medical Center, WinnCo Foods. Businesses would buy their benefits locally and their employees would receive their care locally.
- Redundant equipment would be eliminated, and non-existing technology would be purchased.

The uber practice would have MDs, ODs and opticians providing a comprehensive and well-coordinated care effort that would rival any eye care service in the country.



The practice would renegotiate all vision plan and medical contracts and discard those that would not reimburse at a fair rate for services provided. The

practices would consolidate equipment and purchasing, own their own out-patient surgery center and host mini-bus trip twice monthly from surrounding communities to come to their facility to receive care. They would have enough volume to sponsor their own Idaho frame line, purchase frames at a fraction of their current costs and have all eye glass prescriptions filled in their owned lab. They would essentially own the provision of eye care in Eastern Idaho and all other providers would work off of those who could not fit on the schedule.

### Market Consolidation

The concept of physician practice consolidation is not new, but eye care has largely been ignored. Instead, eye care has experienced, and is increasingly experiencing a wave of corporate (wholly-owned chains) and corporate-affiliated (optical chains with independent doctors) as the alternative to the private, solo practitioner. This is not consolidation, but competition using a better business model. Doctors may argue 'poor quality of care' and 'no one provides a comprehensive exam like I do' all the while watching their patients run over to the nearest Wal-Mart or Costco. While the corporate business model seriously addresses the costs in the optical, it does not address quality, coordinated care. The corporate model also does not raise the professionalism and clinical skills of the doctors involved. In fact, these corporate optical providers are opening optical stores far in excess of community needs and increasing the competition for doctors and the confusion of choice for consumers. Doctors remain as either silent or lone partners without influence.

There is a different approach or model to healthcare (eye care) services: CONSOLIDATION. The Growth Cooperative is investing in this model by sponsoring market-based groups to come together and form these larger, more capable regional eye care corporations. We are recommending that practices in a given market come together under a single doctor-owned practice with a management services agreement with the right management experience to help create and run the newly expanded operations of a large, consolidated practice. We are seeking to amalgamate enough independent individuals and small groups in any given market into a larger (\$8 million in trailing 12 months' revenue or better to start), better coordinated and equipped, better staffed, multi-location practice. Our management services agreement absorbs the upfront legal costs and provides a new level of professional management to increase the likelihood of success. We take on the responsibility for the myriad of contract renegotiations required. This newly consolidated practice will create huge efficiencies and opportunities unknown to the solo or small group practice. Optometrists and ophthalmologists alike will need to learn that the value of ownership far exceeds the value of solo or small group independence. There is little value in going it alone.

Of course, these independent doctors now are partial ownership in a much larger practice instead of being the sole owner of a small practice. This means partners, negotiation, compromise. It's true. It also means practicing eye care in ways you've only dreamed of. This new partnership is learned like any

new relationship, but the benefits far outweigh the costs.

A reminder that what is being contemplated is a larger entity whose ownership is exclusively shared by the doctors practicing within it. No private equity firm. No corporate entity. 100% ownership by the doctors, the partners, involved and practicing every day.

Worried about your retirement from that solo practice? Not in this model. As a shareholder, the new corporation is obligated to buy back your shares based on the value of the corporation at the time you seek to sell them. Your retirement plan can be to sell all or part of your shares at any time. You may wish to sell part of your shares and keep the rest in the corporation as it grows and develops, and your investment grows with it. The idea of finding an Associate who will come in to take over your practice and you will need to be at least a partial banker and hope for his or her success, is no longer required.

Practice growth of the new larger eye care regional practice is rapidly achieved when eliminating duplicative overhead, space and having the budget available to truly market. Consolidated practices benefit from:

- Significantly lower back office costs including personnel, technology, billing and coding services, contracting and scheduling
- Increased clinical coverage by practitioners allows for greater flexibility, better work-life balance and development of a greater

- number of areas of expertise in the practice. Going on vacation? Completely within reach in the larger practice.
- Better referral relationships with businesses, insurers and other providers.
- Greater marketing capacity
- Lower pricing on equipment, products and services
- Improved benefits (vacation, sick leave, 401k, retirement, medical) for staff and clinicians
- Improved negotiation power with insurers leading to better reimbursement rates
- Lower real estate requirements
- Ability to offer ancillary services (and share revenue and expenses from those services);
- Ability to hire management expertise;
- Ability to invest in information technology;
- Ability to invest in compliance, risk management and billing/collection resources;
- Ability to hire optometrists and ophthalmologists as employees (see millennials) who will earn for you;
- Ability to acquire other practices to add to your network using the stock of the corporation as your purchasing tool;
- Ability to improve clinical quality through outcomes analysis, sharing of best practices and development of clinical practice guidelines.

- Ability to create your own vision benefits to be sold to area large and small businesses.

### Examples of Success



<https://indianaeyeclinic.com/>

The Indiana Eye Clinic is an MD/OD practice with 4 MDs and 3 OD's. They offer a comprehensive optical in two locations. They own a surgical center and have achieved over \$10 Million in revenue.



<https://www.precisioneyecarenc.com/>

The Albemarle Eye Center in Albemarle, NC is a 6 location practice along the North Carolina coast. The practice boasts 3 MDs and 6 ODs and has a centralized call center to make appointments in any location. The practice is a result of three 'independent' practices coming together. A singular HER system connects all of the practice locations making it easy for patients to go to the location of their choice or to the location that offers their needed service.





A Division of Twin Cities Eye Consultants

On February 21, 2017, Edina Eye Physicians & Surgeons, North Suburban Eye Specialist, and Northwest Eye Clinic announced a merger to form Twin Cities Eye Consultants. This group now has 19 locations across the Twin Cities area. Each practice remains physician-owned and will act as a division within the larger organization, which will be governed by a single board.

### Conclusion

In most markets, eye care remains the domain of solo and small group practices and Eastern Idaho and Marin County, California are just examples. In Marin County, California, 33 practices, each with 1 to 3 providers. In Eastern Idaho, with half the population in comparison, 27 practices with 38 locations and 61 eye care providers all solo or small group practices with a few exceptions. The offices are not integrated and ophthalmology and optometry are not working together. Ophthalmology practices are also solo and small group practitioners, although they have made the switch to larger practice environments at a significantly greater rate than ODs. Each practice is in a struggle to make ends meet. There is not a dominant practice in either of these regions that would lead to improved quality of care, comprehensive services, and the lowest cost per patient served. Instead, most practices in these markets function at the same inefficient level employing overlapping staff with other solo practices in less than busy practices. They utilize

significantly more office space than is required to treat the number of patients that need to be seen. The consolidation model is a solution where independent practices, both OD's and MD's, seek to create a 'super group' that will be supported by a management service agreement and be leaders eye care services in their respective market.

This is not a one-size-fits-all model, but instead, offers flexible approaches that allows practice goals to be met and allowing local OD's and MD's to shape their new co-ownership relationship. Consolidated practices need to consider many questions and we are providing guidance and leadership to assist doctors with critical integration considerations such as:

- **Governance** - The consolidated group must plan out how the new practice should be governed. The doctors (OD's and MD's) can no longer make unilateral decisions or come to agreement with a small group of known and trusted associates. Instead, the new group must create procedures for electing members of a governance board and officers to carry out the day-to-day governance duties. These procedures must be spelled out in a written agreement.
- **Compensation** – With the help of management, the group will develop a three tier system of compensation that will reward partners and associates appropriately including salary, bonus and stock dividends.
- **Pre-Merger Liabilities** - The new eye care group must allocate resources and attention to address the pre-merger liabilities of each of the partners. Each party to the merger may not know or be

able to identify what potential liability the consolidated practice will face from actions that predate the merger. The group must agree and contract to distribute those financial risks in an equitable manner and create insurance policies that cover pre-merger work of the partners.

- **Member Departures** - The group must prepare for the possibility that some members may choose to leave the consolidated group at some point, or that the consolidation, as a whole, doesn't work out. Planning for the end of the group decreases its' likelihood and enables agreement on how dissolution with one or more members will occur. Noncompete clauses for practitioners who leave as well as contractual provisions for unwinding the consolidation must be considered. Retirement plans are put into place as this is one of the great benefits of the corporation.

With all of the private equity pouring into eye care, we hope doctors, who see the value of being part of something bigger, will consider a doctor-owned, larger entity as a viable, long term alternative to their practice future. If in the future, the newly organized group seeks to sell, the partners will only benefit from the gains made during consolidation.

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