

Note: Both articles, below, were published in Review of Optometry

Practice Management

Business According to Plan

Here's how to get started on creating a business plan for growing your practice.

Judith Lee
Senior Contributing Editor

Whether you're planning to open a practice or are a seasoned practice owner, you need to write a business plan. There are a couple sound reasons for this. For one thing, it will help keep your practice on track. And if you ever want to borrow money for growing your practice, lenders demand it.

The business plan represents an overall strategy. It reminds you how the varied facets of your practice should serve that strategy. You'll avoid unproductive detours and costly mistakes. And, it gives lenders the facts they need to know about your past and current operations and projections for the future. This article, the first of two on how to write your own business plan, helps you get started on specific sections of the business plan. Next month, we'll look at putting together the financial statements along with other supporting documents you'll need to complete the plan.

You Can Do It

You don't need to be an M.B.A. to put one together. A nearby college or university may offer a basic course that will take you through the process. How-to software and books will guide you through. The Small Business Administration offers loads of help. Much of this article is based on an SBA publication which you can download for free from the Internet ([see box](#)).

This is not to say that writing a business plan is quick or easy. They typically run 30-40 pages, including supporting documents. You'll need to do research and analysis. When creating financial statements, you'll need some accounting help. Set aside 5 or 6 hours a week. At that pace, it should take 2-3 months.

Your business plan must be concise, yet contain tons of information, much like a news report. Like a journalist, you'll need to answer six key questions throughout the plan: Who? What? Where? When? Why? How or How much?

Gather supporting documents as you go. These include leases, loan agreements, bank statements, partnership or employment agreements, credit reports and so on. Have your

staff make copies to attach to the business plan. Then you can begin writing your plan. Here are the section headings and guidelines to follow.

Mission Statement

This is the shortest part of your business plan—a page or less. Think long and hard about your mission statement because it expresses your purpose for having a practice, as well as your most important goals. Expect to revise your mission statement many times as you write your plan. Here's an example of an optometric mission statement:

Family Eye Care is an independent provider of professional eye care services and products to correct and promote optimal visual function. Our mission is to serve patients' visual needs in a manner that is convenient for patients, as well as pleasant and reassuring to them. We will organize our location, hours, products, staffing and staff schedule to create a positive and effective environment in order to achieve our mission and to ensure future practice growth.

The Practice

No, we're not talking Dylan McDermott and Camryn Manheim here. This section of your business plan offers both a practice overview and details of your operations. You can organize the subheads in any logical way. Offer information about the vision care industry as well as your particular practice, and back up statements and justify projections with data in the supporting documents section. Start with a page that summarizes all the points in this section. Answer the who-what-why-when-how questions in brief. The summary is a quick snapshot of your practice that will set the tone for a more thorough impression.

- *Legal structure.* Explain why you set up your practice as you did (sole proprietor, partnership, corporation, etc.). If you have any plans to change this structure, explain why, how it will benefit the practice, and when it will take place.
- *Description of practice.* Here's where you'll expand on your who-what-why-when-how answers. Talk about practice history, present status and growth projections for the next 3-5 years. Outline your assets, such as business equipment, displays and optometric instruments. Report your inventory size, value and turnover rate. Tell how you differentiate your practice in the vision care marketplace.
- *Services and products.* Describe your professional services, as well as the training and instrumentation it takes to deliver them. Walk the reader through the patient-care process, describing who does what, and what training or certification each staff person and doctor has achieved. Explain how what you do is different or better than competitors. Discuss your inventory of frames and how you finish eyeglasses. Also, give insight into how you select the frames and ophthalmic lenses to recommend to patients. Emphasize your product knowledge and its contribution to visual function and patient comfort. Do the same with your contact lens inventory.
- *Management.* If you're a sole proprietor who manages the practice, describe your own business background, courses you've attended, and management methods (daily, weekly or periodic reports, etc.). If you have an office manager or practice

- administrator, describe that person's credentials and experience, and his or her management responsibilities. Also describe how the manager reports on practice operations.
- *Personnel.* Talk about your staff—how many you have, and how you train and compensate them. Include job descriptions for all positions. Discuss how you plan to increase staff size and productivity as the practice grows.
 - *Recordkeeping.* Show how you keep records for accounts receivable and payable, and who's responsible for keeping them. Do you use an outside accountant to analyze income and maximize profits? If not, how do you accomplish this internally? What reports do you generate, and who reads them? It's important to show that your records are accurate and comprehensive, and that you use them to run the practice.
 - *Insurance.* This is important to lenders. What financial protection do you have if you become disabled or die, or get sued for malpractice or a property-casualty claim? Describe details about your coverages: why you chose them, the term and the carrier. Explain how you protect your practice from theft. Describe the procedures that help you to check and double-check accounts and inventory, and any alarm systems or other security devices.

Marketing

This section will contain much of your thinking about how you'll grow the practice. Give an overview of your marketplace and describe your niche. You'll need some hard data, and you might have to pay for it if you don't have it. You could pay a staff member extra, or hire a contractor to gather some facts, especially regarding the competition. You may need to do a patient-satisfaction survey, either with the help of your staff or an optometric consultant. Again, begin this section of your business plan with a one-page summary. Then focus on:

- *Your patients.* Describe the area's third-party plans and how they affect your practice. If you don't have a good demographic profile, create one with the information in your patient charts. Have an employee compile these to show trends in gender, age, visual condition, TPA use, referral patterns, recall response, home address, products dispensed and dollar amounts spent at the practice.
- If you've surveyed patient satisfaction in the past 3 years, include these results as well. If you haven't surveyed patients recently (or ever), it's time. You can do this as an exit survey or by telephone. It may be worth investing in a consultant who can design and conduct the study, and then help you interpret the results.
- *Competing providers.* Give a thumbnail sketch of the local vision care market. Who are the other providers, where are they located, what services and products do they offer? Are these competitors likely to stay, and what are their strengths and weaknesses? You'll need to find out what they charge for products and services. You can have an employee or trusted friend pose as a consumer shopping for prices on contact lenses, eyewear and comprehensive exams.
- *Advertising.* Show what you plan to spend on advertising and where you'll spend it. Include newspaper and Yellow Pages ads, office brochures, newsletters, patient letters and recall notices, public relations, web site, etc. Say why these vehicles

- are important, and quantify any results. Detail who creates advertising materials, and who approves them and places them.
- *Fee schedule.* Show what you base your fees on (cost + desired profit margin), how you monitor them against competitors' fees, and how often you revise them. If you're planning a fee increase, state when you'll do it and what you hope to accomplish with it.
 - *Location.* In any retail operation, location has a huge impact on success. Is yours convenient for patients? Have you thought about relocating or adding another office? Why? What are the strengths and weaknesses of your existing office? Does it provide enough options in terms of adding space, patient parking, etc.? If your goal is to borrow money for a relocation or expansion, focus carefully on this section.
 - *Industry trends.* Here's where you should address the big picture, including practice mergers and acquisitions, buying groups, alternative means of delivery (ordering replacement lenses by phone or on the Internet) and managed care. Are there some large employers who dominate in your area? Which panels do you need to be on, and are you on them? Is managed care growing in your area, and do you have the capacity to serve these patients? Would your practice benefit from any new strategic alliances, such as merging with competitors, or buying their practices outright? Show how your current practice structure and/or future plans realistically address vision care trends.

Sources

Here are some good sources to get you going on a business plan.

1. Small Business Administration. Call the nearest office, or download this document from the Internet: www.sba.gov/library/pubs.html#mp-32.
2. Plan Write for Business. Software that guides you through a business plan, www.brs-inc.com
3. Business Planning Website. www.planware.org
4. Custom Business Plan Website. www.bizplansource.com
5. Anatomy of a Business Plan: A Step-by-Step Guide to Starting Smart, 4th ed. Authors: Linda Pinson and Jerry Jinett, 1999 Dearborn Trade: Tustin, Calif.

How to Write a Business Plan: Part 2

Write the Story of Your Practice Finances

Putting together a plan for your business leads up to this: Where the money comes from and where it goes. Here's how to put that on paper.

Judith Lee
Senior Contributing Editor

No matter what kind of effort you put into writing your business plan, at some point you must deal with the dirty reality: It all comes down to finances. Where the money comes from and where it all goes to are key components of any business plan.

Last month, the first installment of this two-part series addressed why you should have a business plan and how you would go about compiling the plan's non-financial elements: the mission statement, marketing goals and details about your business structure. The second installment of this series looks at what you need to do to compile the key financial elements of your business plan.

Financial Statement

Begin this section of your business plan with a "Summary of Financial Needs." This is a simple statement of what funds you are seeking from a lender and why. [Write it in outline form](#). It should include these components:

- **Uses of funds.** Show how you'll spend the money. This might include the cost of each instrument and staff training. Attach backup data, such as price quotes, or tuition and staff time for training. Note how long it will take to reach full productivity (factor in low productivity during training and what funds you'll use), and how much more patient volume you anticipate from the instrument upgrade. State how long it will take you to repay the loan, yet still maintain your goal margin.
- **Cash flow statement or budget.** If you've been in practice for some time, you can assemble this from the actual income and expenses of previous years, with realistic projections for the coming years. If you're new, you'll need to project all this. The cash flow statement identifies when you'll receive cash, how much, when it must be available to pay your bills and debts, and how much you'll need to cover all other expenses. It also compares your practice's actual performance to your projections. This is a particularly detailed section for which you most likely

- will need some help. Obtain SBA Form 1100 (4-82) for further guidance, or seek the help of an accountant.
- **3-year income projection.** This section includes income and deductible expenses. Ask your lending agent which format the particular institution prefers. This usually includes gross revenue, cost of sales, variable and fixed expenses, other income (such as interest), and net profit or loss before and after taxes. Make this as realistic as possible because the lender will scrutinize this. It should include these subsections:
 - **Actual performance statements.** These are elements the lender generally requires from owners of an existing practice, not someone just starting out. They include your balance sheet and profit-and-loss statement (P&L). Generally accepted accounting principles govern what these documents should include, and you should deliver them in specific formats. If you don't have an accountant who already prepares these documents, you might want to obtain accounting services so your statements are accurate.
 - **Business financial history.** You'll have to complete this part last because it's based upon the many documents you'll compile or generate for previous sections.

Once it's done, however, you should place this section first in your financial section. If you're applying for a loan, congratulations: You've just completed your loan application. If you're looking to open a practice, prepare a "[Personal Balance Sheet](#)" in its place. The history will bare all about your practice performance.

Supporting Documents

The last section should include all the documents you've already referred to in your business plan. These will support your decisions and statements. They are:

- **Resume.** Include a copy of your own and one for each of your partners. Keep them brief, though; they shouldn't exceed one page each. Show your work history, education, professional affiliations and honors.
- **Personal financial statement.** Again, for you and your partner or partners. Show personal assets and liabilities, compiled like a balance sheet.
- **Credit reports.** You can get these from vendors. Ask them to give you business letters of credit. You may obtain personal credit reports through credit bureaus or your bank.
- **Leases.** Include all of them—leases for your office space, automobiles, equipment and instruments.
- **Reference letters.** Obtain these from colleagues, vendors or other professionals such as CPAs and lawyers. These letters recommend you as a reliable businessperson and a good risk.
- **Contracts.** These include current and prior loan agreements, purchase contracts on instruments and equipment, vehicle purchase contracts, and service and maintenance agreements.

- **Legal documents.** Partnership agreements, articles of incorporation, optometric licenses, insurance policies, and property and vehicle titles are all part of this mix.
- **Miscellaneous.** Here you include all documents you've referred to but did not put in the business plan narrative. Some samples: patient satisfaction surveys, research about competing vision care providers or the best place to locate your office.

Once you've completed your business plan, develop a way to keep it current. Update your plan anytime there are significant changes in your practice, your patient volume, your scope of practice, your local vision care marketplace, or the technology that impacts your practice. That way, your business plan is ready anytime you decide to seek a loan, or as a roadmap to your continued growth and success.

Sample Balance Sheet

Company Name: _____

As of _____, 20____

Assets		Liabilities	
	Value		Value
Current assets		Current liabilities	
Cash	_____	Accounts Payable	_____
Petty cash	_____	Notes payable	_____
Accts receivable	_____	Interest payable	_____
inventory	_____	Taxes payable	_____
short-term investments	_____	federal income tax	_____
prepaid expenses	_____	state income tax	_____
long-term investments	_____	self-employment	_____
Fixed assets		Sales tax (SBE)	_____
land	_____	property tax	_____
buildings	_____	payroll accrual	_____
furniture	_____	long-term liabilities	_____
vehicles	_____	notes payable	_____
other assets	_____	Total liabilities	_____
1. _____	_____	Net Worth (owner equity)	
2. _____	_____	Proprietorship	_____
3. _____	_____	or Partnership	_____
Total assets	_____	(name's) equity	_____
		(name's) equity	_____
		or Corporation Capital	_____
		Stock	_____
		Surplus paid in	_____
		Retained earnings	_____
		Total net worth	_____
		Total liabilities and net worth	_____

(Total assets will always equal total liabilities and total net worth)

Break Even Analysis

Here's an example of how you can calculate the break-even point by using a mathematical formula.

Formula:

B-E point sales (at break-even point) = fixed costs
+ [1 - variable costs expressed as % of total sales]

Terms used:

B-E point sales = volume of sales at break-even point

Fixed costs = fixed expenses, depreciation, interest

Variable costs = cost of sales and variable expenses

Sales revenues = income from sales of goods/services over specified period

Values used:

B-E point sales (S) = ?

Fixed costs = \$25,000

Variable costs = \$45,000

Sales revenues = \$90,000

Computation:

$S \text{ (at break-even point)} = \frac{\$25,000}{1 - (\$45,000/90,000)}$

$S = \frac{\$25,000}{(1-0.50)}$

$S = \frac{\$25,000}{(0.50)}$

$0.50S = \$25,000$

$S = \$50,000$ (break-even point in terms of revenue exactly offset by total expenses)

Source: SBA Document "How to Write a Business Plan, MP-32"

Summary of Financial Needs

Here's an example of how this section might read:

I. Family Vision Care is seeking a loan to increase its growth capital in the following areas:

A. Instruments (improved technology and more instrument units).

B. Training staff to operate equipment and expand their clinical skills.

II. Funds needed to accomplish this goal will be \$100,000.

A. See "Uses of Funds" for distribution of funds and backup statement.

Baring All: Exposing Your Business Financial History

This is what the Business Financial History component of your business plan should contain:

- Assets, liabilities and net worth (from your balance sheet).
- Contingent liabilities (future debts).
- Inventory details (from your inventory records).
- Income statement (revenue and expenses from your most recent P&L or several recent P&Ls).
- Real estate holdings, stocks and bonds.
- Sole proprietorship, partnership or corporation information.
- Audit information (recordkeeping, whether you were ever audited and when).
- Insurance policies.