

The Future of OPTOMETRY

Applying Data for Practice Growth

We live and practice in a dynamic environment, ever changing, ever challenging.

Among the changes we see, the patients whom we serve are increasingly informed and empowered through technology. The doctor-patient relationship is forever changed as a result of that.

Among the challenges we face are the imperatives of health care reform, namely to provide wider access to better care—and to do so efficiently and economically. While this is a daunting task, technology is on our side. Technology empowers us to be better clinicians and more adept practice managers. We are empowered to utilize the higher level of data we now gather to be the full-scope clinicians we are trained to be.

Further, we are challenged to compete. As independent optometrists, we compete with powerful market forces and far larger organizations with vast resources. Here again, tech-

nology is on our side, allowing us to gather data on patient needs and preferences and to offer personalized solutions that improve the lives of our patients.

Applying data to provide such personalized solutions has long been the hallmark of independent optometry. In order to put the power of data in your hands, we have conducted a comprehensive review of all available metrics on optometric practice performance. We launched an OD survey to specifically assess OD concerns and perceptions of future challenges. And we have begun a series of presentations to the optometric community to share and group-think strategies to ensure a bright future for independent optometry. We share some of these resources with you here in this special *VM* section.

We firmly believe that with knowledge, vision and determination, the practice of optometry will continue to thrive!

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Mark Wright, OD, FCOVD
Professional Editor
Review of Optometric Business



Richard Edlow, OD
EyeConomist

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DEMAND

Eyecare demand has two components: demand for corrective products and services, as well as for medical diagnosis and treatment, including surgery. The first category has been the traditional stronghold of optometry, and the latter has been the main focus of ophthalmology.

Eyecare is a huge business. More than three-quarters of the adult population wears vision correction devices. An estimated \$33.5 billion is spent annually by American adults for refractive eye exams, eyewear and contact lenses. Another \$28.6 billion is spent for medical and surgical eyecare. Total eyecare demand per capita is nearly \$200 annually.

Demand for eyecare is higher among older people, both because a higher proportion of people over 40 need vision correction and because the prevalence of most ocular diseases is much higher among older people.

Growth in demand for eyecare has been steady and predictable, driven by population growth, the aging of the population, rising incomes and new technology.

Eyecare is an attractive market for investors because it weathers economic downturns better than most businesses. This is because the foundation of eyecare demand is grounded in functional vision needs, not discretionary desires. Technical innovation is continuous and transformative in the eyecare market and is a significant contributor to demand growth, as it has been in most other health care sectors.

ECPs play a major role in channeling eyecare demand through their recommendations and education of patients—an influence on demand that is much greater than that of many other retailers of consumer goods. This market dynamic has not yet been meaningfully altered by the digital revolution. But change is blowing in the wind, and ECPs will likely need to work harder to retain their central role in guiding consumer choice.

Demand for Corrective Devices and Services



Data sources, see page 35.

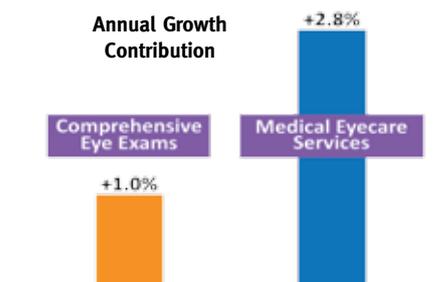
As in all health care, insurers and government exert increasing influence on eyecare demand as the proportion of the population covered with vision insurance, Medicare and Medicaid expands.

Demand for corrective products and services—the largest segment of the eyecare market—has grown at a compounded annual rate of about 4 percent in current dollars over the past 10 years. While not spectacular growth, this rate of increase is nearly twice that of GDP growth and is one percentage point higher than compound annual growth of total consumer expenditures for all goods and services. The two most important eyecare demand drivers have been price/fee inflation and upgrade of the product mix with new technology.

Contact lens demand growth is outpacing eyewear growth.

A long-term trend that has gradually changed the composition of demand for corrective products has been the increasing penetration of contact lenses. Since the early 1970s when soft lenses were introduced, there has been a steady rise in contact lens use. Over the past 10 years, the contact lens wearer population has grown twice as fast as the vision correction population. Currently, there are 41.2 million adult contact lens wearers, representing 22 percent of the vision correction population. By 2025, 24 percent of the vision correction population are likely to wear contacts.

Demand for Medical Eyecare



Eyewear consumer purchase patterns limit demand growth.

Most eyewear buyers are in the market infrequently; they visit an ECP only every other year or less frequently, even as most ECPs recommend annual visits. Independents have tremendous revenue upside by reducing the interval between office visits.

There has been a proliferation of ophthalmic lenses and frame products designed for specialized uses or wearing occasions, yet the average eyeglass wearer uses just 1.5 pairs, and 63 percent use but a single pair. These ratios have not changed appreciably in recent years, despite the rising affluence of the population. The eyecare industry has been relatively unsuccessful in encouraging multiple pair usage.

Among the fastest growing components of eyecare demand through 2025 will be medical eyecare services. Medical eyecare services are expected to increase nearly three times as fast as comprehensive eye exams through 2025. The growth rates shown here do not reflect any fee increases, but only the number of exams performed, so the annual revenue impact of medical eyecare growth will be greater than these numbers suggest. The rapid growth in demand for medical eyecare services relates to the aging of the population, as well as to the growing diagnoses and treatment of prevalent ocular conditions such as dry eye and ocular allergies and expanded use of diagnostic tests such as retinal scans and OCT.

A major driver of demand for medical eyecare



“Tell patients about your professional services, which can be as simple as saying, ‘Did you know that we can take care of red eye?’”

– **Gina Wesley, OD, FAAO**,
Complete Family Eyecare of Medina

services is the increasing prevalence of ocular disorders in the population, related to the aging of Baby Boomers. For cataracts, glaucoma, macular degeneration and low vision, the number of Americans suffering from these conditions will increase 2.3 percent to 2.9 percent annually through 2030, according to the National Eye Institute. Similarly, the number of diabetics is expected to grow rapidly, as is the number of people exhibiting symptoms of diabetic retinopathy. Monitoring diabetics will become a major service provided by ODs who, with their large patient bases, are well positioned to assist insurers to monitor this population annually.

Managed care is the increasingly dominant ECP revenue source.

Over many decades, managed vision care plans have become by far the largest revenue source for ECPs, now accounting for over 70 percent of total revenue in most practices, including independent ODs. This has happened as the Medicare and Medicaid populations have expanded and an increasing share of the population is covered by some form of vision insurance.

One upside of the growth of managed care has been increased access to eyecare services for patients. But a downside, as consolidation proceeds in the insurance industry, is that it is likely that some ECPs will not gain accreditation on provider panels and will lose access to a segment of their patient bases. Consolidation also increases the leverage of the surviving insurance giants in dictating reimbursements, establishing administra-

tive requirements and reporting standards.

As a result of these factors, the uncompensated administrative workload of providers will grow. With their enormous leverage over providers, managed care payers are able to offer deflationary reimbursements that do not compensate for rising staff, overhead and occupancy costs of doing business. This situation is unlikely to change in the years ahead. As a result, it will be increasingly necessary for independents to increase office efficiency to maintain profitability. ■

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‘The Future of Optometry’ Presented at Vision Expo West

“The Future of Optometry,” was presented at Vision Expo West in September 2017. The presentation was based on a comprehensive study conducted by Jobson Medical Information designed to appraise the current and future state of the optometry profession in the United States. The presentation provided insights for independent optometrists about the likely changes in practice operations, as well as practical action points to adapt to evolving business dynamics through the year 2025. Pictured at the event are (l to r) **Marc Ferrara**, Jobson; **Holly Gillentine**, Essilor; panelist **Michael Kling, OD**; presenter **Mark Wright, OD**; panelist **Gina Wesley, OD**; presenter **Richard Edlow, OD**; and **Howard Purcell, OD**, Essilor.



Sources Cited

Data sources cited in “The Future of Optometry” include Jobson Optical Group, AOA Workforce Study, U.S. Census Bureau, Bureau of Labor Statistics, National Eye Institute, The Vision Council surveys, Think About Your Eyes, Centers for Medicare and Medicaid, and other sources.

Prepare Yourself and Your Practice to Provide Medical Eyecare Services.

“In our practice, we have grown our medical services to about 30 percent of revenues. To capture more medical services, you need to define the specific areas where you want to grow, then make a plan. You might first develop a specialty in dry eye, which requires that you educate yourself with industry resources and purchase the equipment you need. Next, you need to educate your staff on protocols and expectations and be able to handle phone calls about medically related issues. Finally, you need to educate your patients. Tell them about your professional services, which can be as simple as saying, ‘Did you know that we can take care of red eye?’”

– **Gina Wesley, OD, FAAO**
Complete Family Eyecare of Medina
Medina, Minn.

SUPPLY

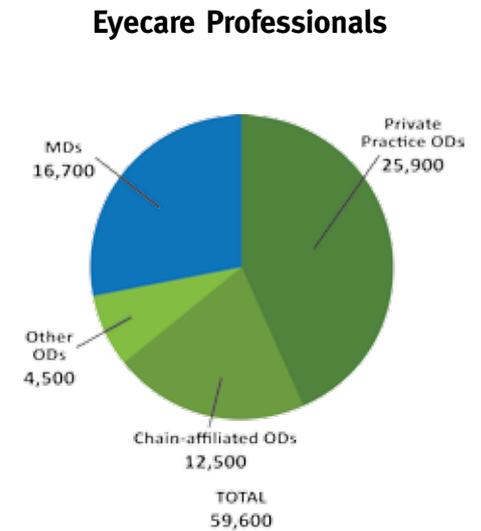
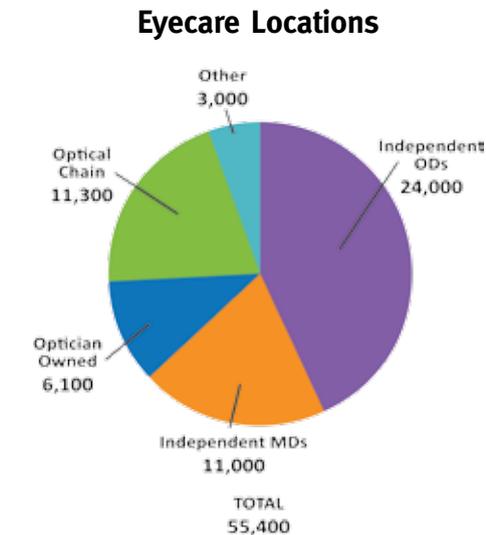
There are more than 55,000 locations currently providing eyecare in the U.S. That's equivalent to one location for every 3,500 adults in the vision correction population. Most of the population has ready access to eyecare and considerable choice in providers. There are nearly 60,000 licensed eyecare professionals, including 42,900 ODs and 16,700 ophthalmologists. A majority of ODs and nearly all ophthalmologists work in a private practice setting, but an increasing number of ODs are affiliated with retail optical chains.

OD work force to grow, ophthalmologist work force to remain stable.

There have been several work force studies of ODs and ophthalmologists in recent years, including the Jobson estimates presented here. All of the studies agree that, through 2025, the number of ODs will steadily grow, as the number of ophthalmologists remains flat. In 2025, there will be over 48,000 ODs in practice, compared to about 43,000 today. Within both professions, the proportion of women in practice will rise substantially.

It's clear that the growth rate in professionals, at 1.1 percent, is much lower than the anticipated growth in demand for comprehensive eye exams and medical eyecare services, which is expected to average 1.6 percent annually. This suggests that a supply shortage will develop. But that conclusion does not take into account that many optometrists are not operating at full capacity. This was demonstrated in a 2014 work force study sponsored by the AOA, which showed that average ODs conducted 62 patient visits per week, but estimated that they had the time to engage in 20 additional patient encounters weekly—an excess capacity of 32 percent.

The AOA work force study went on to estimate the supply of ECPs, adjusted for excess OD capacity, and to estimate total eyecare demand adjusted for the effects of the Affordable Care



Act. Based on this analysis, it was estimated that there is a current excess supply of full-time ECPs of 12 percent, which will shrink to a 4 percent over-supply by 2025.

The projections indicate that the eyecare market will remain highly competitive, and that ODs will need to satisfy much of the increasing demand for medical eyecare services in the future, as the supply of MDs remains stagnant.

Independent ODs' market position is improving.

Any SWOT analysis will illustrate that independent ODs will need to adapt to new business models, perhaps ones in which all their revenue is derived from professional services and little or none from product sales. Although the threats to independent ODs appear real enough, there is no evidence that any market share decline or massive shift in independents' business model are actually happening.

Available market data from The Vision Council's VisionWatch, based on large, continuing consumer surveys, show that the corrective product and service market share of independents (including ODs, ophthalmologists and the optical stores run by opticians) has actually increased over the past five years. Because ODs account for 75 percent to 80 percent of independent revenue and are unlikely

to have lost share to other independents, it's quite likely that ODs' share of the corrective market has also increased due to the following factors:

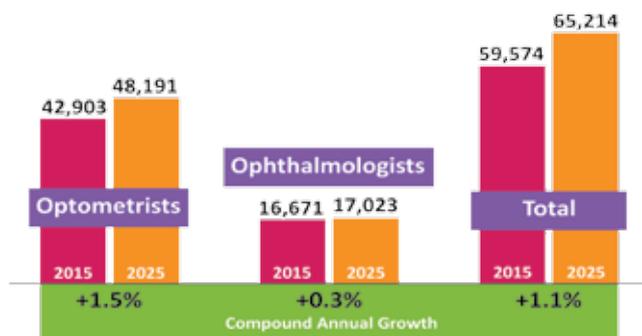
Retail slowdown. Many optical chains face the same problems of other brick-and-mortar retailers in the face of the gradual shift in the U.S. retail market to Amazon and other Internet sellers. Optical departments in stores like Sears, Macy's and JC Penney's have suffered a decline in traffic and store closures. Walmart store expansion has slowed to a crawl. These trends are likely to persist.

Early adoption. Independents often are faster to adopt new corrective product technology than are optical chains, who give more focus to lower-cost commodity products to attract price-conscious buyers. Independents have also been more aggressive in expanding medical eyecare services.

Aging America. Demographic and economic trends favor independents because older and more affluent people are more likely to prefer independents.

Though impossible to quantify, the upsurge in practice management education, much of it supported by the growing OD alliances, may have resulted in operational improvements that make

Most Professional Work Force Growth Will Come from ODs



“We have an enormous opportunity: We have a relationship with our customers/patients built on trust; online retailers don't have that.”

– Michael Kling, OD

Invision Optometry, San Diego, Calif.

independents more competitive.

It is estimated that independent ODs currently have a 44 percent market share of corrective product and service revenue in the U.S. There is no reason to believe that this share is in imminent jeopardy. Consumer surveys show a continuing higher level of satisfaction and loyalty among patients of independent ODs than among optical chain patients. The strength of the doctor-patient relationships is the bedrock of independents' market position, and is unlikely to be eroded in the near term. Available data indicates that medical eyecare's share of independent OD revenue is slowly growing, although only a segment of OD practices has fully developed this revenue source.

An important long-range trend within independent OD practices is consolidation. There are fewer and fewer solo OD practices each year. As in all health care fields, this trend is driven by the economies of scale that larger practices can capture and by the increasing administrative burdens imposed by managed care payers. This trend is likely to persist.

Optical chains are well positioned to compete in the digital world.

The overall market position of optical chains has not changed meaningfully over the past two decades, but in the past two years there has been an uptick in chains' market share, as equity in-

vestors have acquired and consolidated independents into local and regional chains. A leading example of this development is the rapid expansion of MyEyeDr.

The primary competitive advantage of chains is that they are superior marketers and merchandisers of eyewear than are independents. Because chains typically earn nothing from the medical eyecare that their affiliated doctors provide, chain management often does little to promote these services. As independent ODs expand their medical eyecare services, they will strengthen patient loyalty and slow or stop defection to chain providers who do not promote these services.

Although internet eyewear purchases have grown rapidly on a small base, it is clear that internet sellers face substantial obstacles to gain a major market share—the principal one being that consumers highly value the personal interaction with and advice of trained professionals as they navigate the complex task of choosing frames and lenses. Nevertheless, as consumers increasingly use the internet to make purchases across the entire spectrum of product categories—both to save money and make shopping easier—it's likely that internet providers will gradually increase their share of the corrective eyecare market.

Online refraction poses the most disruptive threat to the traditional model of how consum-

ers acquire vision correction products. There are many technology platforms under development to enable online prescription of eyewear and contact lenses, and it seems inevitable that one or more will prove reliable and accurate enough to survive legal challenges. To the extent that the technology works, it is probable that it soon will be adopted by many optical chains to gain a competitive edge. It is easy to envision the day when such technology is used by independent ECPs to accelerate the purchase cycle or to ease excess patient flow in their offices.

Among current developments in this arena are:

Opternative, a Chicago start-up operating in 39 states, has attracted equity capital to expand its system to attract a larger patient base. It is partnering with 1-800 Contacts. It faces a number of legal challenges which have slowed its progress.

Smart Vision Labs is marketing its system to optical retailers as a means to attract new customers.

Warby Parker recently announced an online refraction app, initially available only to existing customers. All these developments should be monitored closely as a means of assessing their ultimate impact on optometric practice. ■

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EYECARE MEGATRENDS AND GROWTH OPPORTUNITIES

Independent ODs can flourish in the future if they recognize the megatrends that are shaping the delivery of eyecare and the opportunities for growth before them.

MEGATREND

Digital technology is transforming medical care.

Online refraction is a development analogous to what is occurring throughout medicine as a tool to monitor chronic disease. This is but one way that digital technology is transforming health care delivery. Many analysts foresee the not-so-distant day when digital communications are so ubiquitous that they become the primary way the population accesses information, interacts with other people and makes transactions.

Many ECPs are behind the curve in using digital communications to interact with patients. Many ignore the potential of digital communication to maintain contact with patients between their infrequent visits or to manage the revenue cycle. Over time, it will become increasingly vital that independent ODs master the new digital technologies.



OPPORTUNITY

Expand medical eyecare services.

Demographic trends, insurer needs and the projected professional work force all point to growing opportunity for ODs to expand medical eyecare services. The aging of the population assures growth in demand for these services. Many ocular conditions, including dry eye and allergy, remain underdiagnosed and undertreated. Diagnostic testing continues to be underutilized as a means of early detection of sight-threatening disorders.

Full-scope optometry is an excellent defensive strategy against commercial providers who are primarily interested in selling eyeglasses.

MEGATREND

Private equity investment in eyecare is growing.

In recent years, there has been an uptick in private equity investor interest in eyecare. This has occurred in a low interest rate environment with a surplus of uninvested capital seeking higher returns. Eyecare is an attractive investment arena because the business size and growth fundamentals are sound, and the market remains fragmented and able to yield synergies through consolidation and centralized management.

There are a variety of business models being pursued by consolidators. Some are acquiring independent OD practices and groups to form local or regional chains under central management. Consolidation provides an exit strategy to OD owners nearing retirement and is a means for other ODs to capture the equity in their practices and achieve freedom from management chores while maintaining a comfortable annual income. Other consolidators focus on ophthalmology practices, offering similar benefits to acquired practices. A third model is for consolidators to combine optometric and ophthalmology practices under the same roof to offer patients a comprehensive array of eyecare services.



OPPORTUNITY

Upgrade the patient experience.

The fundamental competitive advantage enjoyed by independent ODs is the depth of their relationships with patients, which relates directly to the service experience of patients.

Surveys show that most patients are happy with their ODs, and virtually all ODs rate their service as "above average." But the reality is that few practices give consistent and continual attention to their service process, and most gear their process

more to efficiency, reduction of abuse and office convenience than to patient satisfaction. Designing a patient-centric service process is one of the best ways independent ODs have to defend against inroads from commercial providers.

MEGATREND

ODs' role in health care is expanding.

Over the past 20 years, ODs have come to play an ever-larger role in eyecare and health care delivery in the U.S. ODs have assumed a growing role in the diagnosis and treatment of ocular disease. Increasingly, ODs are being relied on by insurers to detect and monitor chronic health conditions such as diabetes. ODs are attractive to insurers in this role because patients have easier access to ODs than do many primary care providers. ODs also may charge lower fees than MDs to direct-pay patients for the same services. And the patient experience in OD offices is often more satisfying. The stagnant supply of MDs assures that ODs' role in health care will continue to expand in the years ahead.

OPPORTUNITY

Elevate patients' value perception of an eye exam.

Independent ODs have traditionally been able to charge more for the products and services they provide because they offer a higher level of personalized service. In the face of growing commercial competition and the looming threat of online refraction, independent ODs have a greater need to increase patient perceptions of the value of their services. This includes raising patient perceptions of the value of yearly eye exams. Today, many patients think of an exam as a mechanical, impersonal measurement step necessary to purchase eyewear or contact lenses. Many do not perceive a yearly exam as a high-value preventative step to preserve sight. ■