

Optometry Practice Financial Health & Cash Flow Control

A Strategic Guide to Operating Cash Margin, Line-Item Expense Visibility, and Thirteen-Week Working Capital Discipline

Strategic Advisory & Custom Consultations

We understand that every independent practice or optical retail location possesses its own specific characteristics and a complex array of local variables, including distinct community demographics, patient spending power, clientele expectations, management preferences, and unique staffing dynamics. Therefore, Dr. Hettler and Mani can be contacted directly to discuss your specific requirements further and support your optical retail business long-term. By partnering together, we can set tailored operational benchmarks and build a retail strategy worthy of your practice's future goals.

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By **Dr. David Hettler** and **Mani Vaghedi, President & CEO, CNS | ORM | ORC**

OPTICAL RETAIL CONSULTANTSSM

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Executive Summary: The Distance Between a Profitable Statement and Available Cash

In the independent optometry sector, the profit and loss statement is produced for the tax year rather than for the operating week. It records revenue when earned and expense when incurred, which means an owner can read a healthy bottom line in March while the operating account cannot carry payroll in April. Profit is an accounting opinion settled annually. Cash is a fact settled every Friday.

The standard error is to treat the year-end statement as the practice's only financial instrument and to manage the gap by watching the bank balance. That approach conceals where margin is actually lost, because the statement aggregates into categories that hide decisions. A single line reading "cost of goods" absorbs frame purchasing, lab invoicing, contact lens acquisition and shipping, each governed by a different vendor relationship and a different operational habit. Resolving this leak requires decomposing the statement into line items an owner can act on, separating the practice's distinct revenue engines, and installing a forward-looking cash instrument.

"A profitable year does not fund a payroll run. Until an owner can name what the practice spends line by line and see cash thirteen weeks ahead, the statement is a history lesson rather than an instrument of control."

Step 1: Quantify Operating Cash Margin & Establish a Rolling Baseline

Before any expense decision can be evaluated, the practice requires a single figure describing how much of what it collects survives the cost of operating. Track your Operating Cash Margin (M_c) across a rolling period using the following relationship:

$$M_c = \frac{C - O}{C} \times 100$$

Where:

- M_c : Operating Cash Margin (expressed as a percentage)
- C : Total cash collected in the period from all payers and all patient payments, net of refunds
- O : Total cash paid out in the same period for operations, including payroll, rent, cost of goods and recurring overhead, excluding owner distributions, debt principal and capital purchases

A well-run independent practice should sustain a rolling operating cash margin in the range of 18% to 22%. Measure on a rolling twelve-month basis rather than a single period, because a practice that bought a quarter of inventory in one month reads as distressed and the month after reads as exceptional. If your rolling margin sits below 12% while revenue is flat or rising, the constraint is an expense structure problem rather than a demand problem, and additional patient volume will not correct it.

Step 2: Decompose the Statement into Actionable Line Items

Categories that aggregate unrelated decisions cannot be managed. A practice that knows only its total cost of goods cannot tell whether margin moved because frame purchasing drifted, because the lab raised prices, or because contact lens acquisition shifted channel. Rebuild the chart of accounts so every material line corresponds to a decision someone actually makes:

- **Separate cost of goods by source.** Frames, spectacle lenses and lab work, contact lenses and shipping each become their own line. Combined cost of goods should run 28% to 32% of net collections; anything above 35% indicates a purchasing or pricing failure rather than a volume one.
- **Separate payroll by function.** Clinical staff, optical staff, front desk and administration are distinct cost structures serving distinct revenue engines. Total staff cost excluding doctors should hold between 20% and 24% of net collections.
- **Isolate the fixed floor.** Rent, insurance, software subscriptions, equipment leases and debt service form the amount the practice must generate before it earns anything. Occupancy alone should remain between 5% and 8% of gross revenue.

Step 3: Separate the Three Revenue Engines

An optometry practice is not one business. Professional services, the optical dispensary and contact lens supply carry different margin profiles, different working capital demands and different sensitivity to payer mix. Reported together, a strong performer subsidises a weak one indefinitely without anyone seeing it. Assign revenue and directly attributable costs to each engine separately, including the staff time each consumes, and review their contribution independently. In a balanced practice, professional services typically generate 35% to 45% of net revenue and the optical dispensary 45% to 55%. An optical contributing under 40% is either under-captured or under-priced.

Step 4: Install the Thirteen-Week Cash Instrument

The thirteen-week rolling forecast is the standard working capital instrument outside healthcare and transfers directly. One quarter is long enough to see a constraint while there is time to act and short enough that estimates stay credible. It is maintained weekly, and it is the owner's document rather than the accountant's. Target a closing reserve equal to eight to twelve weeks of operating outflow.

1. Opening Position Input: Cleared cash across all operating accounts at the start of the week, excluding any reserve or tax account the practice treats as untouchable.	2. Expected Receipts Input: Payer remittances by expected settlement week, patient payments and optical receipts, forecast from historical collection timing rather than from billed amounts.	3. Committed Outflows Input: Payroll runs, rent, lease and debt service, vendor invoices falling due and tax deposits, each placed in the week it actually leaves the account.	4. Closing Headroom Input: The resulting balance each week, read against the floor below which the practice will not operate. Any week approaching the floor is a decision rather than a surprise.
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Step 5: Convert Vendor Terms and Inventory into Working Capital

Most independent practices hold a substantial portion of available cash on the frame boards and in the lab queue without having decided to. Inventory and vendor terms are the two largest levers an owner controls without touching revenue, and both are usually left at whatever was agreed when the account opened:

Working Capital Position	Standard Cost Constraint Trap	Strategic Corrective Action & Formula
Frame Inventory Depth	Boards are replenished by vendor visit rather than by sell-through, so cash accumulates in stock that has not moved in twelve months.	Set reorder against measured turn. A board turning below 2.5 times annually is carrying dead capital; return or discontinue the slowest quartile.
Vendor Payment Terms	Accounts run on the terms offered at opening, commonly net 30, with no review as volume grows and the account becomes more valuable.	Renegotiate annually against current volume. Moving from net 30 to net 60 on 40% of purchasing converts directly into working capital at no margin cost.
Lab and Remake Exposure	Remakes and warranty work are absorbed as a cost of doing business and never attributed to a cause or a vendor.	Track remakes by cause and by lab. A remake rate above 4% of jobs is a negotiable item and frequently a vendor selection question.
Receivables Aging	Outstanding claims are monitored in aggregate, so individual payers drift without anyone noticing which is slowest.	Age receivables by payer. Hold total days in accounts receivable under 35 and act on any payer exceeding 45.

Step 6: Give the Team the Numbers They Actually Control

Financial information is customarily held at owner level and shared only when something is wrong, which guarantees staff experience the practice's finances as criticism rather than as a shared instrument. The correction is not to publish the profit and loss statement. It is to give each function the one or two measures it genuinely influences, reported weekly, with the context to understand them. An optical team seeing its own capture rate and average transaction will act on both. Owners who frame this well describe the mechanism rather than the judgment: *"These are the numbers your work moves. When they improve, the practice has more room to invest in equipment, in training and in pay."*

Step 7: Establish the Reporting Cadence and Hold It

A reporting structure consulted only when something feels wrong is not a reporting structure. Fix the cadence before the content, because an imperfect report read weekly outperforms a comprehensive one read twice a year. Weekly, the owner updates the forecast and reads the headroom. Monthly, the practice closes within fifteen days and reviews cash margin, the three engines and the fixed floor against prior month. Annually, the chart of accounts, vendor terms and reserve position are reviewed deliberately rather than by exception.

To secure advanced long-term traction, ensure your financial reporting is aligned across your entire team via comprehensive **AI Visibility Planning Strategy**. Coordinating directly with Dr. Hettler and Mani Vaghedi to audit your reporting structure, rebuild your chart of accounts around actionable line items, and install a working cash forecast gives an owner the ability to see a constraint before it arrives, negotiate from a position of information, and make capital decisions on evidence rather than on the balance showing that morning.