



## Creating a Frame Inventory Matrix

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Would you like to make a dramatic and positive impact on cash flow and profits? Properly managing cash flow will give you the ability to better service the patient base, invest in new equipment and technology, hire and train more staff and invest in yourself. The most effective way to have the greatest impact is by evaluating and organizing frame inventory. If you have an organized, well run dispensary and the staff is well trained, the practice will grow and flourish.

### Avoid Pitfalls

Before getting into the details of inventory management, there is one thing in practices that deserves closer scrutiny. How many patients move from the exam room to the dispensary?

### What's the most common mistake that practices make?

Too few patients are going from the exam room to the dispensary!

You can have the best managed dispensary in the world, but if patients never visit it, you will never be able to take advantage of its full potential. Therefore, the first step in inventory management is to assess effectiveness at bringing patients into the dispensary.

- First, review the appointment book for the previous month. How many comprehensive eye exams were performed?
- Next, review the office's optical records and count the number of those exams which purchased eyewear.
- Now, calculate the percentage of exams converted into purchases by dividing the "purchase" number by the "exam" number. This is your capture rate.

The capture rate will never be 100% but the closer you come the better the opportunities to best service patients. There will be patients without RX's, there will be contact lens patients who already have adequate back up glasses and there will be patients who have no prescription change (20% of whom want new eyewear anyway – don't neglect these people). The goal is to capture 100% of potential buyers.

If the capture rate is below 60%, evaluate how patients are transitioned to the dispensary. The problem may be purchasing opportunity or patient satisfaction not inventory management.

If your problem is getting patients into the dispensary, consider incorporating some of the following procedures into your office:

- Escort the patients to the dispensary.
- Communicate patient optical needs directly to the optician in view of the patient.
- Discuss new lens technology with patients in the exam room, just an overview, not the details.
- Mention new products.

Once you are confident that you are directing patients to the optical, which often represents more than half the revenue of the practice, make sure that the frame stock is the correct amount of inventory and the right mix.

### **How to Manage Inventory**

Effectively managing inventory might seem like a complicated process, and avoiding the process might be why the practice's inventory is out-of-control. But really, the process is fairly simple. Follow these 5 steps:

- Step 1: Assess current inventory – count it.
- Step 2: Determine how much inventory is needed – count patients.
- Step 3: Evaluate product mix – organize it.
- Step 4: Maintain inventory – stock it.
- Step 5: Be patient - this could take 6 to 18 months to get it right!

Step 1: Determine how much inventory is currently in stock.

The most common justification for inventory is architecture. “We have that much inventory because the frame displays fit in that area.” This is not a good reason for inventory volume in any practice.

The second most common justification for inventory is the need to give patients choice and selection. In reality, patients are often overwhelmed by too many choices. Make sure they are the right selection of choices

So, take a few minutes and count the number of frames in inventory...don't guess!

Step 2: How much inventory is needed.

Plain and simple, the amount of inventory in the optical is driven by how many frames are purchased. So how do you go about determining that number?

The first place to look is the appointment book...

- How many eye exams are provided in a day?
- How many of those patients purchased a frame? Don't guess! Getting this number right is critical to effectively managing inventory.

If you've input this information into your practice management software this process can be as simple as clicking a few keys. If not, a hard count will be necessary, compare the appointment schedule and either optical or financial records, i.e. patient ledgers.

**Let's do some math.**

Exams per day = \_\_\_\_\_

Frame Selects per day = \_\_\_\_\_

Frame selections should be close to 70% of the total exams seen, if not, the problem isn't inventory management, it is patient retention.

Multiply frame selects per day by the number of days per week eye exams are provided

Example      10 frame selects per day  
                  5 days per week  
                  50 frame selects per week

Multiply the number of frame selects per week by 4 weeks per month

Example      50 frame selects per week  
                  4 weeks per month  
                  200 frame selects per month

Multiply the number of frame selects per month by 12 months per year

Example      200 frame selects per month  
                  12 months per year  
                  2400 frame selects per year

**Important:**      2400 is NOT the amount of inventory you need.

Divide the total annual number of frame selects per year by four

Example      2400 frame selects per year ÷ 4  
                  600 frame in inventory

600 is the total amount of inventory needed.

A general guideline for effective inventory management is that inventory volume should revolve or "turn over" four times per year. Each frame will not sell four times but the volume should be at that level to maximize efficiency and allow for buying patterns.

When overstocked many practices get caught in a cycle of returns and exchanges that drain the profit from the business. When you factor in the cost of lost revenue, staff time, and practice overhead, exchanging a frame costs the practice approximately \$18.00 per frame!

Don't deceive yourself into believing that by having lots and lots of styles that patients are being offered greater choices, the office is just churning product. Churning product is the cycle of returns and exchanges often caused by an inequity between inventory volume and actual frame purchases.

**OK, now that we know how much we should have the next questions is which frames to pick.**

Step 3: Determining inventory mix.

So, what should the successful optical carry?

The answer is that 20% of inventory generates 80% of business! So you need to identify that 20% and have it occupy 80% of board space. It is human nature to repeat our behavior, we notice that opticians have a tendency to become familiar with certain frames and sell those frames repeatedly. That's why 20% of the inventory does 80% of the business.

Identify the top 10 frame styles. Start by having each staff member identify the frames they sell most often; each experienced optician should be able to easily pick out their favorites. If they have difficulty choosing, go back to the records for optical and take a tally. Don't minimize this process, have an ongoing written or computer generated record of frame styles that have sold, along with all the data from each sale, i.e., lens design, material and type plus any coating or treatments. This information can even be broken down by staff member enabling the targeting of future staff training toward developing selling skills.

To assist in determining product mix, reorganize frame displays to help better evaluate the remaining inventory. The simplest organization method is:

- Separate by gender.
- Separate by material.
- Separate by shape.

Once the inventory is organized for evaluation, meet with the reps and exchange under producing product and expand on your best sellers. Purchase all the colors and sizes the best styles; this is called a "kit of frames." It is better to carry an odd color or two in a great selling style than to risk a style that won't sell at all. Sometimes an unusual color can act as an attention getter or will allow patients to rule it out, reducing special orders.

Step 4: Maintaining inventory.

You can't sell it if you don't have it!

Once your productive inventory has been established, it should stay on your boards this ensures that your best products are available to all patients. Set up drop-ship accounts with your top vendors which allow the frame to be "dropped" to the specific lab and the billing information goes to your buying group or directly to you. This system also enables you to evaluate the productivity of frame styles. If you have a kit of frames on the board for 3 months, you'll know if it is productive.

Think of your inventory as an investment in your success, just as you would any instrument purchase for your practice.

Step 5: Be patient this could take 6 to 18 months to get it right!

The problem did not begin overnight and won't be resolved overnight. Pick a starting point and methodically work through each step. You may want to start with your best vendors and partner to success.