

FEASIBILITY STUDY AND STRATEGIC LAUNCH PLAN FOR A NEW VENTURE IN AN INTEGRATED MEDICAL CLINIC/ RETAIL STORE

by

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ABSTRACT

This paper outlines a plan for the strategic launch of a new venture in eyecare services and eyewear retailing. To determine the best strategy, an industry analysis is done on the optometry and optical dispensary industries. The marketing analysis section of this paper investigates the firm's location and the demographic and psychographic characteristics of prospect customers. This paper also outlines the strategy of the nearby competitors.

Based on the performed market analysis, estimates of the customers were projected and expenses, incomes, and breakeven volumes are prepared.

The firm must follow a differentiation strategy, planning a high-end and professional clinic and retail firm, while placing a high value on customers and their needs. In addition, the firm can attract customers by implementing innovative promotional strategies.

In conclusion, the firm can easily survive under normal sales projections, but if the actual sales volumes drop, the firm needs to look at alternative financing and withholding premise rents and owners' salaries during the beginning of the operation.

DEDICATION

This thesis is dedicated to my little Roya, who was born in the middle of my master program, and despite my expectations, gave me a tremendous energy to finish my degree.

Also, to my husband, Akbar, my parents, Mehri and Kazem, and my sister, Sanaz, for their unconditional love, patience, and invaluable support and educational opportunities

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1 ABOUT THE FIRM

1.1 New Market Entrant

The firm being analyzed in this paper is a new market entrant in the optometry and optical dispensary industries. The proposed location of this firm is a retail location on the ground level of South Granville Street in Vancouver, BC.

1.2 Focus of the Paper

Eye disease and vision impairment is a common problem worldwide. A 1991 Health and Activity Limitations post-censal survey (HALS) by Statistics Canada reported that 635,000 Canadians identified themselves as having a "seeing disability".¹ In US, about 61 percent of the 278 million people in 2001 wore some form of vision correction, such as eyeglasses or contact lenses.²

There are also many service professionals and retailers that cater to this common problem. There are about 154 optometry practices and 480 optical stores in Vancouver. With this many firms serving customers in these industries, will there be any economic gain for a new market entrant?

This thesis evaluates the viability of opening an integrated optometry practice and optical dispensary in a prime retail location of Vancouver, British Columbia.

¹ The National Coalition for Vision Health

² Jobson Publishing LLC

2 INDUSTRY ANALYSIS

2.1 Industry Description

2.1.1 Optometry Industry

Optometry clinics are set up for optometrists who provide public health services in vision care. They examine eyes to diagnose vision problems and ocular diseases; prescribe and fit eyeglasses and contact lenses; and recommend treatments to correct vision problems or ocular disorders. Vision care is also provided by ophthalmologists, but because of the long wait time to visit these professionals (1 to 2 months compared to 0 to 2 days for optometrists), most people prefer optometrists for their eye and vision related problems. Surgical cases and eye diseases requiring pharmaceutical interventions are referred to ophthalmologists. Most of the optometry clinics are private with a few located in clinics and community health centres. Optometry clinics are mostly owned by the optometrists, and in order to fully utilize the capacity of these practices, the majority of optometrists hire associates (locums). An average optometry clinic has two optometrists.

2.1.1.1 Entering the Market

According to the Optometry Board of Examiners in Optometry, an optometry practice must be owned and run by a registered optometrist. Educational requirements for an optometrist typically include one to three years of college or university education (with mathematics and science orientation) followed by a four-year university program in optometry, accredited by the Accreditation Council on Optometric Education. Upon completion of the course in Optometry, the graduate is required to satisfy the provincial board requirements where the practice is to be established. This includes a national examination administered by the Canadian Examiners in

Optometry, and the optometrists in BC must also be licensed by the Board of Examiners in Optometry in British Columbia, which requires passing a provincial board examination.

From 1995 to 2004 the number of new graduates has remained fairly constant in Canada with an average of 102 graduates per year.³ There are two optometry schools located in Canada and seventeen in the United States that are accredited and recognized in Canada, and they are:

Canada:

- University of Waterloo (English)
- University of Montreal (French)

US:

- Ferris State College
- Indiana University
- Pennsylvania College
- Southern College
- University of Houston
- University of California (Berkeley)
- Southern California College of Optometry (Fullerton)
- Nova Southeastern University (Ft. Lauderdale)
- Inter American University (Puerto Rico)
- New England College
- Illinois College
- University of Missouri
- State University New York
- University of Alabama
- Northeastern State
- Pacific University
- Ohio State University

The University of Waterloo has an agreement with the province of BC to accept five students in its program each year, which creates an intense competition for entering the Optometry program at this university. According to the British Columbia Association of

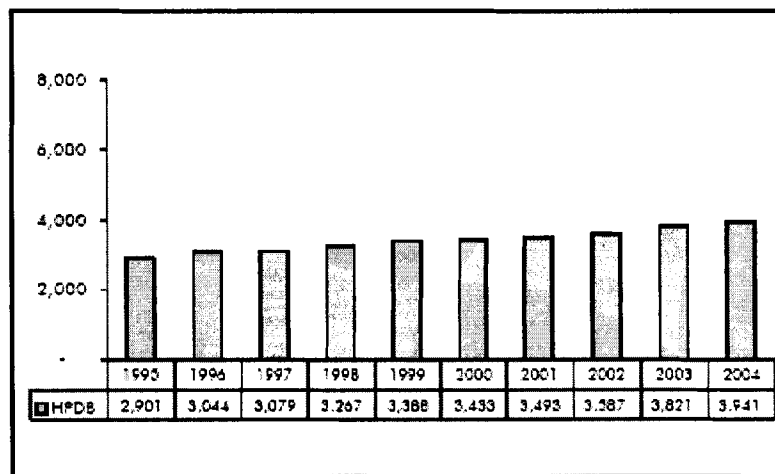
³ Health Personnel Trend in Canada, 1995 to 2004, Canadian Institute for Health Information

Optometrists (BCAO), there are about 20 new registered optometrists entering the BC market each year.

2.1.1.2 Optometrists and Optometry Clinics

The total number of active registered optometrists in Canada is 3,941 in 2004, with a steady increase of 3.5 percent average per year from 1995 to 2004. The graph in Figure 2-1 shows the growth trend over this ten year time frame. According to the same data, British Columbia had the largest percentage increase over this ten-year period (91.6%), followed by Alberta (64.2%) and Ontario (50.6%).⁴

Figure 2-1: Number of optometrists in Canada, 1995 to 2004



According to the Canadian Occupational Projections System (COPS), the projected growth rate in the number of optometrists will be about 2.4 percent per year through to 2011, which is much faster than the average for all occupations in BC.⁵ But, on the other hand, a study by Optical industry shows that virtually every baby boomer will need some form of eye care, and

⁴ Health Personnel Trend in Canada, 1995-2004

⁵ www.workfutures.bc.ca

the annual consumer growth rate is 10 percent to 15 percent in this industry for the foreseeable future.⁶

In BC, there are about 416 optometrists working in 102 different communities. And, in Greater Vancouver Regional District (GVRD), a total of 278 optometrists work in 154 clinics. Competition in this industry is localized to the communities within municipalities where the concentration ratio is fairly high, and the minimum efficiency scale (MES) is a high percentage of total market demand within communities. Table 2-1 below lists the number of optometrists and optometry clinics in lower mainland:

Table 2-1: Number of optometrists and optometry clinics within GVRD

MUNICIPALITY	NO. OF OPTOMETRISTS	NO. OF OPTOMETRY CLINICS
Burnaby	26	18
Coquitlam	18	9
Delta	10	6
Langley	8	2
Maple Ridge	7	3
New Westminister	8	2
North Vancouver	17	10
Pitt Meadows	1	1
Port Coquitlam	6	4
Port Moody	1	1
Richmond	30	13
Surrey	30	20
Vancouver	96	56
West Vancouver	13	6
White Rock	7	3
Total	278	154

The above table shows that on average, there are 1.8 optometrists per clinic compared to 2.3 optometrists per clinic according to a recent CAO survey⁷. This variance shows two possible

⁶ J.K. Malmgren, Eye Work Employment Paper, Business in Vancouver Careers

⁷ Canadian Association of Optometry

trends in the BC market: there is a shortage of optometrists, and thus, there are better opportunities for new market entrants, as well as a trend towards smaller clinics.

2.1.1.3 Regulatory Bodies

The optometry industry has been regulated since 1920's in all provinces in Canada. In the Territories, the territorial governments register/ license optometrists. Table 2-2 shows the first year of regulation in the Canadian territories.

Table 2-2: First Year of Regulation

	N.L.	P.E.I	N.S.	N.B.	Que.	Ont.	Man.
1st year of Regulation	1983	1959	1957	1960	1974	1947	1980
	Sask.	Alta.	B.C.	Y.T.	N.W.T.	Nun.	
1st year of Regulation	1956	1947	1988	1987	1988	2001	

Source: Health Personnel Trend in Canada, 1994-2005

The BC Board of Examiners in Optometry is the regulatory body established to govern the practice of Optometry in BC. The Board is established pursuant to the Optometrists Act.

2.1.1.4 Initial and Overhead Costs

Initial Set-Up Cost

Setting up an optometry clinic requires an upfront investment for purchasing new equipment and leasehold improvements. A premise has to be selected where it is accessible, can be easily found, and has parking spaces for customers.

A typical clinic has a front reception/ waiting area, one pre-examination room, one to three examination rooms, one contact lens room, and one storage room. If the clinic is forward

integrated and also sells optical frames, more space is required for displaying frames and setting up lens cutting equipment and a laboratory.

The clinic needs to be furnished with special equipment that can be purchased from a number of distributors in BC. The cost of equipment ranges from \$80K to \$200K, depending on the number of exam rooms, the brand of equipment, and whether the equipment is new or pre-owned. Table 2-3 shows a list of basic equipment required for a one-exam room practice that also offers contact lens sales and services.

Table 2-3: Equipment List and Approximate Prices for an Optometry Clinic

EQUIPMENT	APPROXIMATE PRICE
Chair and Stand	\$10,000
Tower style slit lamps	\$10,000
Digital camera for slit lamp imaging	\$5,000
Vision tester (Phoropter)	\$5,000
Projector	\$3,300
Non-contact tomometer	\$9,700
Auto Kerato Refractometer	\$14,000
Amtek Trial Lens Set	\$1,000
Visual Field Machine (Autoperimeter)	\$15,000
Tables & Stools	\$8,000
Welch allyn binocular	\$1,800
Accessories	\$1,000
<i>Sub-Total</i>	<i>\$73,800</i>
Inventory	
Contact Lenses	\$10,000
Total	\$83,800

In addition to the optometric equipment, basic office furniture, a computer system, and Customer Relationship Management (CRM) software is also required. Also, the property has to be renovated for an optometry clinic, and this cost has a large variance depending on the condition of the existing location and the extent of required renovation.

Overhead Cost

Table 2-4 shows a list of overhead items and their cost as a percent of collected gross income.

Table 2-4: Optometry Clinic Sample Overhead Costs

OVERHEAD ITEMS	PERCENT OF GROSS INCOME
Cost of goods	27% to 33%
Staff	15% to 20%
Occupancy costs	5% to 8%
Examination equipment	3% to 5%
Marketing and promotion	1% to 2%
General office overhead	6% to 9%
Doctor's compensation	30% to 40%

Source: Optometric Management, January 2005

Table 2-4 is generated from an article in Optometric Management website, and no operational capacity was mentioned for the overhead cost percentages. But, based on observing a number of firms in this industry, it is assumed that these estimates are based on operation at eighty percent to full capacity.

2.1.1.5 Services Offered by an Optometry Clinic

As primary eye care providers, optometrists' main responsibilities are:

- The examination of the human eye by any method (other than surgery), to diagnose, treat, and/or refer for treatment any abnormal condition of the eye, in cooperation with physicians and other health professionals.
- The employment of instruments, procedures or agents to measure, examine or diagnose visual defects or abnormal conditions of the eye.
- The prescribing, fitting and application of glasses, contact lenses or other devices to correct, relieve or treat the eye.

- The prescription, supervision and management of therapy for the improvement/monitoring of visual health.
- The referral of patients to other health practitioners as required.

Optometry firms offer similar eye exam services and sell contact lenses, and prices are very similar across geographic locations. Therefore, services of this industry are almost homogenous but can be differentiated based on brand equity (reputation of the optometrists), the variety of packaged services offered, the clinic location, and the clinic ambience. To further differentiate, many of these clinics are forwardly integrated into the eye-wear business.

2.1.1.6 Customers

Customers of the optometry clinics come from all age groups with vision problems or ocular diseases. Referrals from another health care professional are not required in order to access the services the optometrists. The customers visit the optical clinics by: self referral; referral from physician, nurse, opticians; and the clinic recall notices.

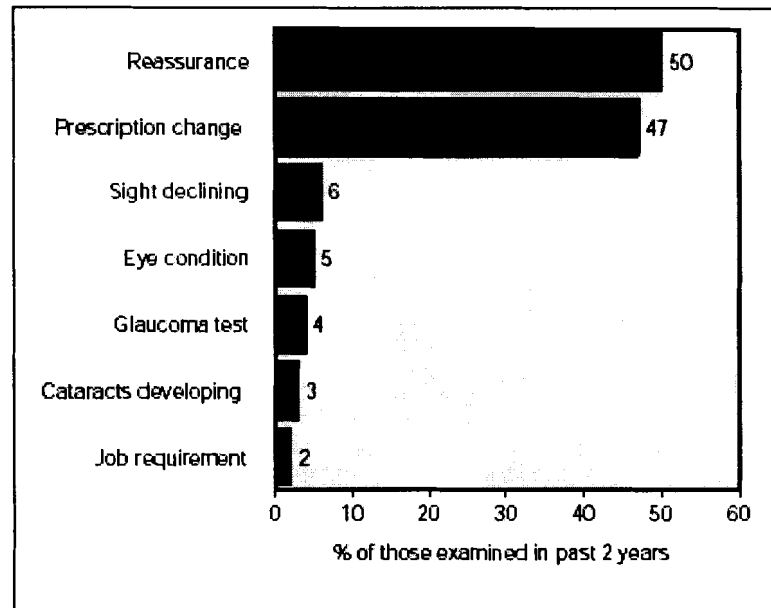
According to Stat Canada, about three-quarters of the Canadian population had an eye examination within the three years prior to the National Population Health Survey (1996-97). Figure 2-2 shows the reasons for getting an eye exam by patients of 12 years of age and older. This statistical result shows that about half of the population who visited optometrists in 1996 and 1997 did so for health reassurance, and almost all of them had prescription changes. This data can be used in estimating the number of potential customers in a new clinic.

Below is a list of the minimum recommended frequency of examination for those at low risk, by the Canadian Association of Optometry:

- Infants and toddlers (birth to 24 months) - By age 6 months
- Preschool (2 to 5 years) - At age 3, and prior to entering elementary school

- School age (6 to 19 years) - Annually
- Adult (20 to 64 years) - Every one to two years
- Older adult (65 years and older) - Annually

Figure 2-2: Reasons for getting an eye exam, age 12+, Canada, 1996-97



source: Statistic Canada

Vision loss can be caused by eye problems that are present from birth, by conditions that appear later in life, or by infections or environmental factors.⁸ Most vision impairment and ocular disease signs start at the age of 40, which means that the number of customers for this industry is increasing as the baby-boomer generation ages.

Table 2-5 shows 2005 population data for GVRD municipalities. This table also shows total population of residents over the age of 45.⁹

⁸ Vision Health, Vision Hope www.cnib.ca

⁹ Census data is only available for year 2001 from Stat Canada, which also provides total population of municipalities in GVRD for 2005. Therefore, percentage increase between year 2001 and 2005 was used to obtain population over age 45.

Table 2-5: Population Data – GVRD Municipalities

Municipality	Total Population	Over 45 Population
Burnaby	204,324	57,764
Coquitlam	121,973	40,848
Delta	102,655	37,611
Langley	122,841	42,669
Maple Ridge	73,280	23,533
New Westminster	57,480	21,307
North Vancouver	133,842	49,469
Pitt Meadows	16,673	5,320
Port Coquitlam	57,563	16,619
Port Moody	28,458	8,605
Richmond	173,430	63,586
Surrey	393,137	128,245
Vancouver	583,267	203,180
West Vancouver	44,149	22,616
White Rock	19,577	11,034
Total	2,132,649	732,404

Although all of the 2.13 million residents in GVRD are potential customers for this industry within this region, the segment of population that are 45 years old or over represents a better prospect as customers for this industry. In general, eyesight can change throughout life, but almost everyone over age 45 will experience presbyopia – a condition which affects up-close vision.

2.1.1.7 Key Competitors

Market share distribution among the firms in this industry is almost equal with the exception of a few large integrated firms, corporations that have offices in different locations across the province. These firms and their approximate market share are¹⁰:

- Luxottica Group (Lenscrafters, Sunglass Hut, Pearle Vision, Sears Optical, and Shoppers Optical) with 14 percent market share,
- Iris Optometry with 11 percent market share, and
- Image Optometry with 8 percent market share.

¹⁰ Market share values are based on author's estimates.

Luxottica Group is a global market leader that has a vertical integration model of design, manufacturing, distribution, wholesale, and retail. This company has twenty one integrated clinic / retail locations in GVRD.

Iris Optometry is a Canadian company with clinics in the provinces of Quebec, Ontario, Alberta, and British Columbia. This company is vertically integrated and in addition to optometry services, it also has optical dispensaries at its sixteen locations around Lower Mainland. The firm also offers laser eye surgery from its two locations in Vancouver and Quebec.

Image Optometry has a total of twelve locations around Lower Mainland. Similar to Iris, this firm is also vertically integrated with optical dispensary services as well as one laser surgery centre in a Vancouver location.

2.1.2 Optical Dispensaries

Optical dispensaries consist of many small and large retail stores selling prescription and sunglasses. Although not a requirement, most optical firms have certified dispensing opticians on staff, and may also have ophthalmic laboratory equipment.

Many dispensaries are part of an optometry clinic, either inside the clinic or side-by-side to a clinic. There are also many dispensaries that are boutique style and centre on high fashion.

Eyewear is a very large and growing industry. In Canada, eyewear is estimated to be a US\$1.4 billion retail sector¹¹, with an estimated annual growth rate of 10 percent to 15 percent for the foreseeable future¹². Stats Can's latest reports on the industry, from information gathered in 1996, showed that almost a third (31%) of all Canadian households purchased either contact lenses or prescription glasses that year.

¹¹ Investor Relations , Luxottica.com, May 18, 2006

¹² J.K. Malmgren, Eye Work, Employment Paper, Business in Vancouver Careers

The market value of eyeglasses and contact lenses had reached a value of US\$19.2 billion in United States in 2004. The spectacles sector accounted for 84.3 percent of sales, worth US\$16.2 billion¹³.

2.1.2.1 Entering the Market

To become an optician, students need to enrol in an Ophthalmic Dispensing Eyeglasses Program at one of the five educational institutions that offer opticianry programs. They are:

- BC College of Optics (British Columbia)
- Douglas College (British Columbia)
- Georgian College (Ontario)
- Northern Alberta Institute of Technology (Alberta and Distance Delivery)
- Seneca College (Ontario)

Licensing is required to practice as a dispensing optician. In BC, graduates of a suitable program are eligible to take the provincial registration exam through the college of Opticians of BC.

2.1.2.2 BC Opticians and Optical Dispensaries

There are currently 1,022 registered opticians employed in BC, and based on a category search in “mytelus.com” website, the total number of optician dispensing is 481. The number of opticians in BC is estimated to grow at 0.5 percent per year through 2011 (source: www.workfutures.bc.ca). Canada’s optical industry is estimated to be at around \$1.4 billion with a future growth rate of 10 percent to 15 percent per year for a foreseeable future.

¹³ Eyeglasses and Contact Lenses in the USA, Euromonitor International (www.euromonitor.com)

2.1.2.3 Regulatory Bodies

The College of Opticians of British Columbia regulates the practice of opticianry in accordance with the Health Professions Act and the Regulations and Bylaws of the College. Since 1996, Dispensing Opticians and Contact Lens Fitters in British Columbia must be registered with the College of Opticians of British Columbia to practice. All registrants of the College must meet basic educational requirements and pass the registration examinations related to the dispensing of eyeglasses, and to the fitting of contact lenses.

2.1.2.4 Initial and Overhead Cost

The cost of starting an optical dispensary consists of the equipment cost, frames and lenses inventory, and leasehold improvements.

Table 2-6: Sample Start-Up Cost for an Optical Dispensary

Equipment	Price
Lens edger	33,000.00
Digital lensometer	4,000.00
Feathering machine	1,300.00
Pupilometer	600.00
Frame warmer	500.00
<i>Sub-Total</i>	<i>\$39,400.00</i>
Inventory - Contact Lenses	\$10,000.00
Inventory – Eyewear	\$30,000.00
Inventory - Optical Lenses	\$5,000.00
Total	\$84,400.00

Similar to setting up a new optometry clinic, leasehold improvements depends on the existing conditions of the premise and the proposed budget. Table 2-6 shows a sample equipment list and costs for setting up a new optical dispensary.

2.1.2.5 Services and Products Offered by Optical Dispensaries

Optical dispensaries carry a wide range of sunglasses, optical frames, and contact lenses. In an optical dispensary, the dispensing optician reads the prescription to check for completeness, obtain lens specifications, and helps customers select appropriate frames and order the necessary ophthalmic laboratory work. Also, according to a new pending legislation, the opticians might be allowed to do sight-testing.

2.1.2.6 Customers

The customers of optical dispensaries are those who need glasses or contact lenses. Customers need prescription notes prior to purchasing their glasses or contact lenses, which makes the optometrists critical suppliers to this industry. But, pending legislation in the opticianary industry is changing the influence of the optometrists in this industry.

2.1.2.7 Key Competitors

The optical dispensary industry is fragmented and concentration is low. Retail services and products offered by the optical retail stores are largely homogenous; but, firms differentiate based on location, inventory selection, and services (i.e. more experienced opticians, fast laboratory services, etc.) In general, no firm has a substantial market share in this industry, except the few mentioned in the optometry industry: Iris Optometry with 17 locations, Image Optical with 12 locations, and Luxottica Group with 21 locations (5 Lenscrafters, 10 Sears Optical, 5 Pearle Vision, and 1 Shoppers Optical) around GVRD. These powerful players are both horizontally and vertically integrated to different degrees, and enjoy about 50 percent of the total market share in this industry (Luxottica Group: 25%, Iris Optometry: 15%, Image Optical: 10%)¹⁴.

¹⁴ Market share values are based on author's estimates.

2.2 Five Force Analysis

In order to better understand the industry context and assess the nature of competition, Michael Porter's Five Forces model is used. Figure 2-3 and Figure 2-4 shown in the next two pages summarize the factors affecting the two industries.

Figure 2-3: Michael Porter's Five Factor Analysis – Optometry Clinic

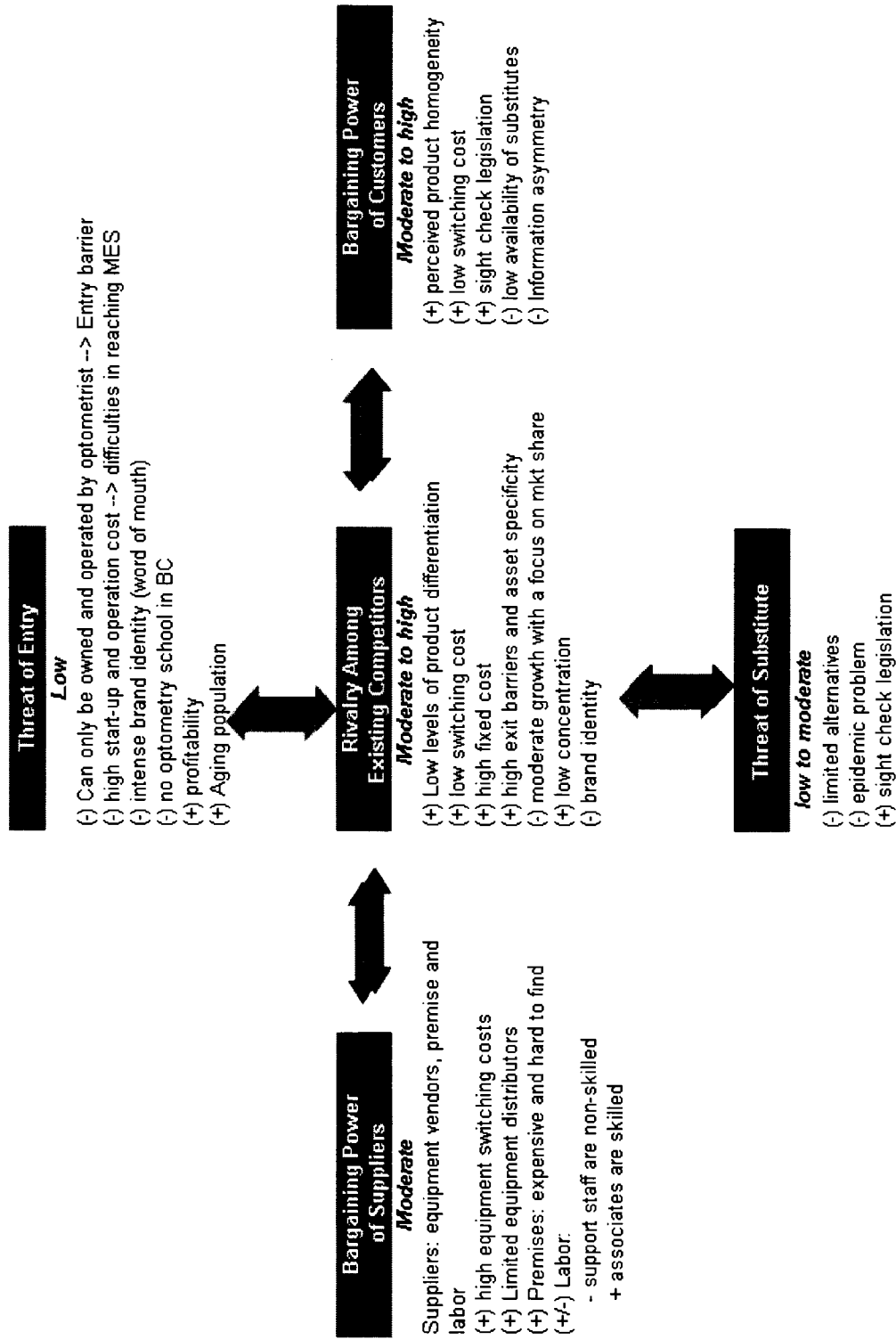
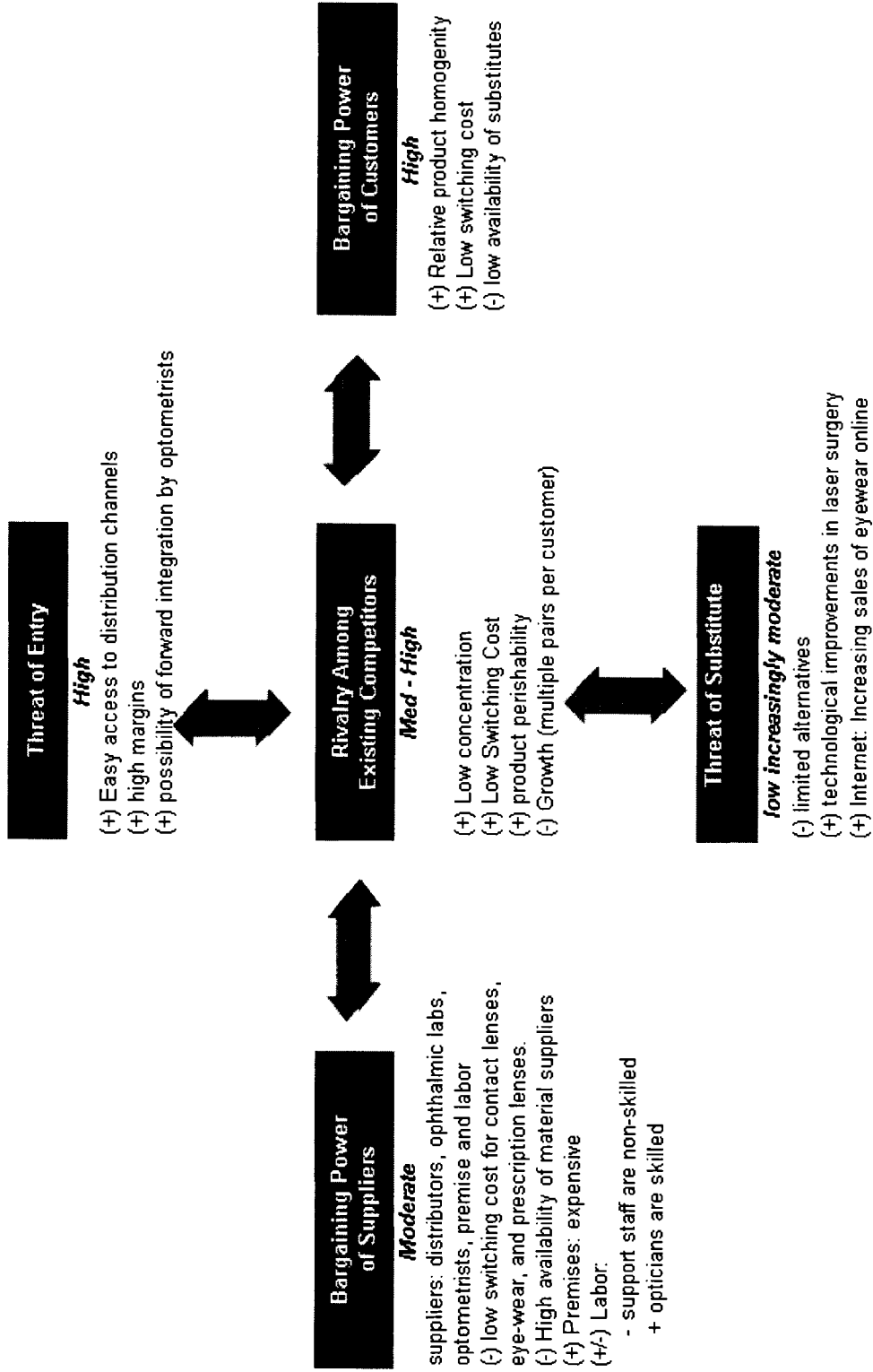


Figure 2-4: Michael Porter's Five Factor Analysis – Optical Dispensaries



2.2.1 Threat of Substitutes

Optometry Clinic

Threat of substitutes in this industry is low to moderate. According to data from the Canadian Community Health Survey, about half (51%) of the population age 12 or older had a vision problem in 2003.¹⁵ The need for eye exam increases as the population ages, and there is no other option available to customers but to go to their local optometrist when they have eye related problems.

A perceived substitute for the industry might be the eye laser surgery, but even though this procedure is becoming more popular and accurate, it still does not substitute the need for an optometrist. Eye laser surgery will improve the eye sight, but the patients still need to visit optometry clinics regularly to ensure the health of their eyes and stability of their vision. Furthermore, the optometrists are part of the laser surgery process, as they perform the pre and post operational examinations.

The main threat of substitute in this industry is the power of dispensing opticianary's industry. A pending Legislation by the provincial government might allow opticians to provide sight-test and use the results to fill optical prescriptions. If approved, this would be the first time anywhere in North America a jurisdiction is allowing sight-tests without medical supervision. Although this new legislation cannot fully substitute the services offered at an optometry clinic, it still is a major threat to the industry, because the cost of switching is negative, as customers do not have to pay anything for such eye-sight checks if they are purchasing eyewear from the optical dispensaries.

¹⁵ Statistics Canada, Catalogue 82-003, Health Reports, Vol. 16, No. 1, October 2004

Optical Dispensaries

Threat of substitute is low to moderate in this industry. For those people needing vision correction, wearing spectacles or contact lenses is a necessity. There are no other products from other industries to substitute eyewear needs for customers except the high-cost eye laser surgery. This limitation lowers the threat of substitute to this industry. But on the other hand, technological advancements in the eye surgery equipment results in lower cost and more accurate operations which would increase the threat of this substitute for the optical industry.

And other factor affecting the optical dispensing industry is the Internet and sales of eyewear and contact lenses online. As customers become more comfortable and informed about such e-commerce sites, the threat of this substitute will increase. BC stores in this industry can also start operating in E-commerce themselves, but they will face the increasing international competition.

2.2.2 Threat of Entry

Optometry Clinic

Threat of entry is fairly low for the optometry clinic industry. Although there are factors that increase the threat of entry, they are not as strong as those lowering this threat.

Optometry clinics can only be owned and operated by licensed optometrists in BC, and as explained in Section 2.1.1.1 above, this profession requires college or university education requirement followed by a four-year university program in Optometry in an accredited university. The graduates of the optometry degree should then pass the examination administered by the Canadian Examiners in Optometry and become licensed by the BC Board of Examiners in Optometry. The time and financial requirements (ranging from \$60,000 - \$70,000 for the Canadian and \$175,000 - \$200,000 for the US schools) act as barrier to entry in this industry.

Start-up cost of an optometry clinic is another factor that lowers the threat of entry in this industry. An initial investment of approximately \$80,000 to \$200,000 is required to set up an optometry clinic, which is easily accessible by the optometrists, but a minimum scale is required to cover the clinic's fixed costs. In this industry, because the ratio of fixed to variable cost is high, the MES tends to be a high percentage of the market demand within the community that the optometry clinic serves. These clinics reach the MES after a long period of time, since they have to first be known and recognized by the local customers, or in other words, build brand equity.

On the other hand, profitability and BC's aging population increases the threat of entry in this industry. According to JobCanada.org, which records salaries derived from area-specific government survey data, an optometrist working in BC now earns an average salary of \$86,354 per year. Half of those in this position would earn between \$52,262 and \$138,745 (the 17th and 67th percentiles). Based on this data, when benefits and bonuses are added to this salary, the average total compensation would be \$97,721.¹⁶ Additionally, the optometrists can easily integrate forward into the optical dispensary industry, adding to the average basic annual salary mentioned above.

The profile of the buyers also adds to the threat of entry in this industry. As it is described in section 2.2.3 (Buyer Power) below, the customers in this industry are the aging baby boomers, which constitute the highest population in BC, making it attractive to the current firms and the new industry entrants.

Optical Dispensaries

Unlike the optometry clinics, the threat of entry in this industry is high. This is mainly due to perceived high margins; easy access to eye-wear distributors, contact lens distributors, and optical laboratories; and forward integration by the optometrists.

¹⁶ www.JobCanada.org

Historically, mark-ups on the eyewear have been high, which is mainly due to slow inventory turnover on products in this industry. Because of such high margins, the new entrants perceive it as a profitable industry which increases the threat of entry.

The optical dispensaries normally purchase their products from distributors, except the house brands which are directly purchased from the manufacturers. Mark-ups on contact lenses are typically around 30 percent to 40 percent and on the glasses are anywhere from 100 percent to 500 percent (higher mark-ups are applied to house brands). Such high margins and also ease of accessibility to the contact lens and eyewear distributors increase threat of entry to this industry.

Many optometrists that are looking for higher profits integrate into the optical dispensary industry. The cost of such integration is minimal for the optometry clinics, as they can benefit from the economies of scope with facility and expertise as easing entry into the optical industry. Optometry clinics can start by displaying glasses and contact lenses in the same location, and later on expand to a side-by-side dispensary and clinic, or keep it as an in-office dispensary. This is a major threat to the pure play optical dispensaries.

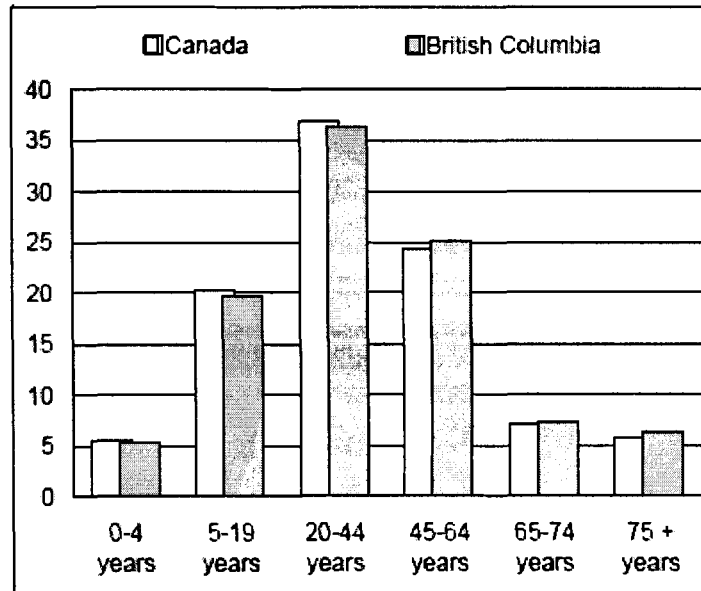
2.2.3 Buyer Power

Optometry Clinic

In the optometry business, the buyer has moderate power. The customers in this industry are all the people with vision or eye health related problems, which could happen at any age. But, most non-genetic eye related health issues surface at around 40 years of age. As it can be seen from Table 2-8, results from 2001 census profile shows that at the time of this census, about 40 percent of BC residents were over the age of 45 and 37 percent of residents were between the ages of 20 and 44. Many BC residents have extended medical health insurance that covers eye-

exam and eye-wear for up to a certain amount each year or every two years. This is an incentive for individuals to regularly visit their optometrists and purchase new eye-wear.

Table 2-7: 2001 Census Profile –Population by Age Group, Percent Distribution



Source: BC Stats

All optometrists offer the same basic services, which makes this industry a relatively homogenous one, also reducing the switching cost between firms. This factor, combined with the new eye sight-check legislation mentioned in section 2.2.1 above, increases buyer power in this industry.

Another factor that also reduces buyer power is information asymmetry and lack of price regulation. The general public does not have enough information about the details of optometry services and prices are not regulated. Even though the Canadian Association of Optometry sets out the roles of the optometrists and the services that the customers expect to receive when visiting an optometry firm, most customers are not aware of such standard services. Also, the optometrists are in private practice and set their own professional fees.

In some provinces, examinations for diagnostic purposes are covered in part or in full by the provincially-sponsored health care plan. As of November 2001, British Columbia's Medical Services Plan (MSP) no longer provides coverage for routine eye exams for patients between the ages of 19 and 64. As a result, the optometry clinics offer different examination and price packages, which increases the customers' search cost and information asymmetry, resulting in reduced buyers' power. This differentiation shows that services are not purely homogenous in this industry.

Optical Dispensaries

When it comes to purchasing spectacles, the buyer's power is high compared to the optometry industry. Eyewear has become increasingly homogenous as most designers are now offering very similar styles, while the spectacle lenses are perceived to be homogenous as there are very small differences in the apparent quality of different brands. For those customers who are not brand sensitive, there are many no name brands that are identical to those expensive brands preferred by brand conscious customers. The brand name eyewear manufacturers are front runners in fashion, and therefore are able to capture a large portion of the market share before the other no name manufacturers copy their models. In general, because of low switching costs in this industry, customers are more likely to price shop, which contributes to this high buyer power.

But, because of the changing fashion in this industry and the heterogeneous taste in customers for colour and shape of the spectacles, retailers are able to differentiate based on services as well as products. Firms try to position themselves as "low-end", "mid-range", or "high-end" retailers in this industry, and typically, the high-end firms have more experienced staff to better serve the customers with their selections.

2.2.4 Supplier Power

Optometry Clinic

Suppliers have moderate to high power in this industry. The suppliers in this industry include equipment vendors, premises, and labour.

This industry requires specialized equipment which poses a high fixed cost on the firms' operations, increasing the firms' switching costs. There are also a limited number of ophthalmic equipment manufacturers. Therefore, the power of equipment vendors as suppliers is relatively high in the optometry industry. Suppliers in this industry differentiate themselves based on quality and brand name of their products. For example, equipment that is made in Germany or Japan has much higher optics and mechanics qualities than those made in China.

Premise and labour also play a key role as suppliers to this industry. A high traffic location where market demand is high is becoming more expensive and harder to find around Lower Mainland. For example in Vancouver, lease rates vary from \$11.50 to \$24 per square foot, and vacancy rates are estimated to be about 13 percent¹⁷. Vacancy rate is much lower in prime retail locations in Downtown. According to Vancouver Economic Development Commission, strong economic growth is driving increased demand for office space, pushing vacancies down and putting upward pressure on lease rates. High lease and low vacancy rates are factors that make "premise" a powerful supplier, although tempered because ideal locations are not owned by the same suppliers.

Optometry clinics are owned by optometrists, but the owners typically hire locum(s) in order to maximize revenues. As optometry is not a very common profession, finding optometrists that are willing to work as associates with flexible hours is hard. Associate optometrists are powerful suppliers in this industry.

¹⁷ Vancouver Economic Development Commission (www.vancouvereconomic.com)

Optical Dispensaries

Suppliers in the optical dispensary industry have moderate power. Suppliers for this industry include eye glasses and contact lens distributors, ophthalmic laboratories, optometrists, premises and labour.

The main factors that lower the power of suppliers in this industry are the availability of the eye glasses and contact lens distributors, and low switching costs. Products in this industry are moving toward homogeneity, although brand differentiation still exists. But, since products serve the same purpose and the switching costs are low, the spectacles and contact lens suppliers have to rely on heavy advertising and promotion to capture a desired market share in the optical industry.

Optometrists are major suppliers to this industry, since customers have to have their eyes examined by the optometrists before visiting the optical stores. The number of optometrists relative to the optical dispensaries is low, enhancing the optometrists' power. The optical dispensaries and optometry clinics in local communities build relationships and form alliances so that they use each other as referral sources. This relationship works best for the pure play firms in both industries.

Premise and labour have similar effects on this industry as they do in the optometry industry mentioned above.

2.2.5 Rivalry

Optometry Clinic

Rivalry in the optometry industry is moderate to high. The following three factors increase rivalry in this industry: first, the optometrists offer relatively homogenous vision care services, and while brand identity exists among the optometrists, the examination services are

perceived to be similar amongst firms. Switching costs are low or almost zero increasing rivalry amongst firms in this industry. Second, setting up an optometry clinic is capital intensive. Equipment is specialized and imposes high fix cost to the firms, resulting in an economy of scale effect that increases rivalry. The clinics must produce near an efficient scale, which will lead to a fight for market share. Third, because the asset specificity of the equipment used in this industry is relatively high, exit barriers exist, and therefore firms stay in business and compete with each other. But on the other hand, the growth in the optical and eye-care industry, as well as the growing number of baby boomers increases the number of customers in this industry and therefore lightens rivalry.

Table 2-8 shows the total number of practicing optometrist and optometry clinics per municipality, as well as the total and 'over 45 yrs of age' population per optometrist and per clinic in those areas. The firms that are located in communities or municipalities with a high ratio of population to the number of clinics (low industry concentration) enjoy lower rivalry as most firms have reached their minimum efficient scale and competition is low. According to Table 2-8, rivalry is lower in municipalities that have higher than average number of potential customers. These municipalities include: Delta, Surrey, Maple Ridge, Port Moody, New Westminster, and Langley. It should be noted here that rivalry is high in Vancouver, which is the proposed location of the firm. And in general, for a new market entrant that is assessing the overall market in BC, the survival rate is higher in the low-rivalry municipalities.

And finally the word of mouth or "brand identity" in this industry is the best form of advertising, and in close communities this factor reduces rivalry among firms.

Table 2-8: Lower Mainland Population per Optometrist and per Clinic

Municipality	NO. OF OPTOMETRISTS	POPULATION PER OPTOMETRIST		NO. OF CLINICS	POPULATION PER CLINIC	
		All Ages	Over 45 Yrs Old		All Ages	Over 45 Yrs Old
Burnaby	26	7,859	2,222	18	11,351	3,209
Coquitlam	18	6,776	2,269	9	13,553	4,539
Delta	10	10,266	3,761	6	17,109	6,269
Langley	8	15,355	5,334	2	61,421	21,335
Maple Ridge	7	10,469	3,362	3	24,427	7,844
New Westminister	8	7,185	2,663	2	28,740	10,653
North Vancouver	17	7,873	2,910	10	13,384	4,947
Pitt Meadows	1	16,673	5,320	1	16,673	5,320
Port Coquitlam	6	9,594	2,770	4	14,391	4,155
Port Moody	1	28,458	8,605	1	28,458	8,605
Richmond	30	5,781	2,120	13	13,341	4,891
Surrey	30	13,105	4,275	20	19,657	6,412
Vancouver	96	6,076	2,116	56	10,415	3,628
West Vancouver	13	3,396	1,740	6	7,358	3,769
White Rock	7	2,797	1,576	3	6,526	3,678
Total	278	151,661	51,042	154	286,803	99,253
Average		10,111	3,403		19,120	6,617

Optical Dispensaries

Rivalry is high in this industry due to relative product homogeneity, perishability of eyewear as a fashion product, and mergers and acquisitions among large firms (more applicable to small firms). Brand differentiation and the customer need for multiple products in this industry reduce rivalry.

Spectacles are becoming increasingly homogenous as these products are fashion driven and styles are quickly copied. Therefore, relative product homogeneity and perishability in this industry increases rivalry. In general, customers are more likely to price shop when the product is perceived to be homogenous and switching cost is zero. Therefore, rivalry is increased among the retail stores that carry similar products and have similar services.

Another factor increasing rivalry among small firms in this industry is the acquisition of many small chains by the Luxottica Group, as well as mergers among other large firms. Subsidiaries of Luxottica Group offer both eye-wear and eye-care services at the same location, but more importantly, Luxottica is the largest manufacturer of eye-wear in the world (approximately 5,300 optical and specialty sunglass stores). This firm manufactures and distributes most of the known brands of glasses in this industry. Luxottica's house brands include: Arnette, Killer Loop, Luxottica, Persol, Ray-Ban, Revo, Sferoflex, and Vogue. And the company's licensed brands are: Adrienne Vittadini, Anne Klein, Brooks Brothers, Bvlgari, Byblos, Chanel, Dolce & Gabbana, D&G, Donna Karan, DKNY, Genny, Miu Miu, Moschino, Prada, Salvatore Ferragamo, Sergio Tacchini, Versace, Versus, and Burberry.

Being vertically integrated, Luxottica Group is also a major supplier to most optical dispensaries. The company's 2004 annual report shows that about 72 percent of this company's net sales were from distribution and 28 percent from direct sales. Existence of such powerful firm, as well as other mergers and acquisitions are causing consolidation in this industry. This will result in greater challenges faced by small firms in surviving and attracting new customers. Competing with such large firms becomes difficult as these vertically integrated firms, especially those with multiple locations, have greater scale effects in advertising, purchasing, market research, and administration leading to cost advantages.

Being vertically integrated, and having multiple locations and cost advantages, the large firms place great pressure on small rivals to differentiate services. To compete, small firms in this industry are either low-cost or differentiators. The low-cost firms carry low cost frames as well as their own house brands that they can sell at low prices. They also provide the convenience of location by being situated in areas and communities far from large optical firms.

On the other hand, the differentiators differentiate based on the products and services they offer. By setting up boutique style optical shops, these firms select a variety of high-end spectacles that are not sold at the Luxottica's subsidiary outlets, and also hire experienced opticians who help the customers select the best fitting glasses and create an enjoyable shopping experience. Such high-end firms attract a small percentage of customers who are looking for different styles in eyewear, and those who prefer to shop at their local stores.

Rivalry is also reduced due to the growth in spectacles demand. Customers purchase multiple pairs of glasses for various applications, such as reading, driving, or sun protection. Also, due to the fast pace of changing fashion in this industry combined with occasional vision power changes, customers tend to change their spectacles regularly (once every 2 to 3 years).

2.3 Attractiveness of the Industries and Key Issues

Attractiveness to both industries is due to relatively low threat of substitutes and high margins for the optometry and optical dispensaries, and low threat of entry for the optometry industry.

Customers of both industries include everyone with vision problems. The optical industry is estimated to be a \$US1.4 billion sector, and an annual consumer growth rate of 10 percent to 15 percent is estimated for foreseeable future. The aging baby-boomer population is a major contributing factor to the growth in these industries. There is no substitute for correcting vision but to visit an optometry clinic for diagnosis followed by purchase of spectacles from a dispensary, or do an eye laser surgery. According to Stat Canada, about three-quarters of the Canadian population had had an eye examination within the three years prior to the 1996-97 National Population Health Survey, and about 50 percent of them did so as a reassurance of their visual health.

Perceived high margins in both industries are attractive to new entrants. And in addition, low threat of entry for the optometry industry, due to educational requirements and high start-up costs, provide the job security for those who decide to enter this industry.

The key issues faced by both industries are relative product homogeneity and competing with large firms.

Services offered by an optometry clinic is perceived to be homogenous, but the main differentiator is brand identity, or recognition of the optometrists and staff. Some optometrists differentiate themselves by providing nicer examination environment and showing more care and superior service to the customers.

The spectacles in the optical dispensary are also becoming increasingly homogenous, as the designers follow the fashion trend and the products are becoming very similar. To differentiate, firms rely on the designer brands, or choose to design their own house brands to compete with low-cost firms (in case of low-end spectacles).

Small firms have to compete and survive the threat of rivalry being created by large firms such as the Luxottica Group's subsidiaries, which have cost advantages over smaller optical stores. Luxottica is the largest eyewear manufacturer in the world, and has approximately 5,300 optical and specialty sunglass stores around the world and 21 stores in BC. The company manufactures and distributes about 25 brand names. As this company grows and gets stronger, less market share will be left for smaller firms. To differentiate, small firms enter into either very low-cost house brands, or carry a selection of very high-end spectacles not carried by the Luxottica Group. The firms also place a high emphasis on the quality of the service and rely on the local customers who prefer the convenience of the vicinity of small firms, and those salespersons and opticians who personally know them.

Partnership and alliance is another form of competing with large integrated firms. Pure play optometrists and optical dispensaries often form local alliances and refer customers to each other.

2.4 Industry Key Success Factors

Based on discussions in the previous section, the key success factors (KSF) in both industries are summarized below.

Optometry Clinics

The KSF of the clinics in this industry, in order of their importance, are:

- Brand identity (how well the customers know the optometrists)
- Location
- Variety of services and products
- Degree of integration (optical dispensary, optical laboratory)
- Friendly staff
- Waiting and examination rooms' environment
- Availability of Parking Spaces
- Online services
- Low pricing (this factor ranks low for the firms in the vicinity of the proposed firm, but could rank higher in other neighborhoods)

Optical Dispensaries

The KSF of the optical dispensaries, in order of their importance are:

- Location

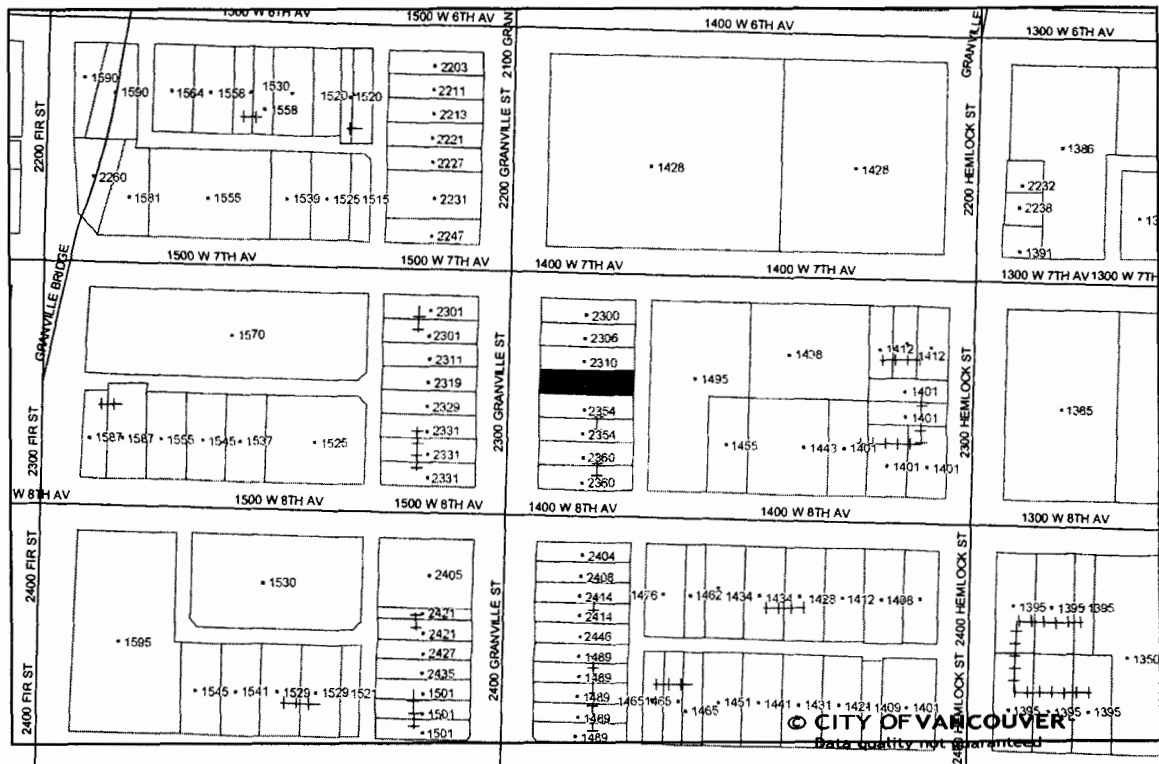
- Showroom presentation
- High fashion and variety of products
- Optometry services
- Brand identity
- Quality of services
- Friendly staff
- Recognizable house brands
- Accessibility to an optical laboratory (for faster service)
- Availability of Parking Spaces
- Website
- Low pricing (this factor ranks low for the firms in the vicinity of the proposed firm, but could rank higher in other neighborhoods)

3 MARKETING ANALYSIS

3.1 Firm's Location

The proposed location of the optometry / eye-wear store is on 2342 Granville Street, Vancouver, B.C., between 7th Ave. and 8th Ave (shown on Figure 3-1 below).

Figure 3-1: Location of the Proposed Firm



This area is known as South Granville Rise, which runs from south of Granville Street Bridge to 16th Avenue, and it has been one of Vancouver's premier shopping districts since the early 1920s. This area contains many upscale shops, restaurants, coffee shops, and art galleries. Although retail concentration is much higher on the south side of Broadway, the north side of this

stretch is building up quickly and with the new residential low-rises built in this neighbourhood, the pedestrian traffic is also increasing in the northern part of South Granville Rise.

There are a total of 272 stores and services along the South Granville Rise shopping district. Below is a list of service firms that could provide an insight into viability and fit of the proposed business in this area:

- 4 Optical shops: Bozi, Eyes on Twelfth, Eyes For You, and Oakmont
- 2 Dentists
- 3 Medical Clinics
- 3 Miscellaneous Clinics (herbal clinic, health and diet clinic, and allergy laboratory)
- 25 Art galleries and antique dealers
- 1 Theatre
- 6 Spas
- 12 Hair Salons

The type of businesses in this area is a good indicator of the customers' demographic and psychographic. In general, the customers in this neighbourhood are mainly affluent and artsy yuppies (young urban professionals) with high discretionary income, who are mainly looking for originality in products they consume.

The housing prices in this area are another indicator of high income population living in this neighbourhood. Average price of a single family house in this area is about 1.5 million, while the apartments have an average price of \$600 per square foot.

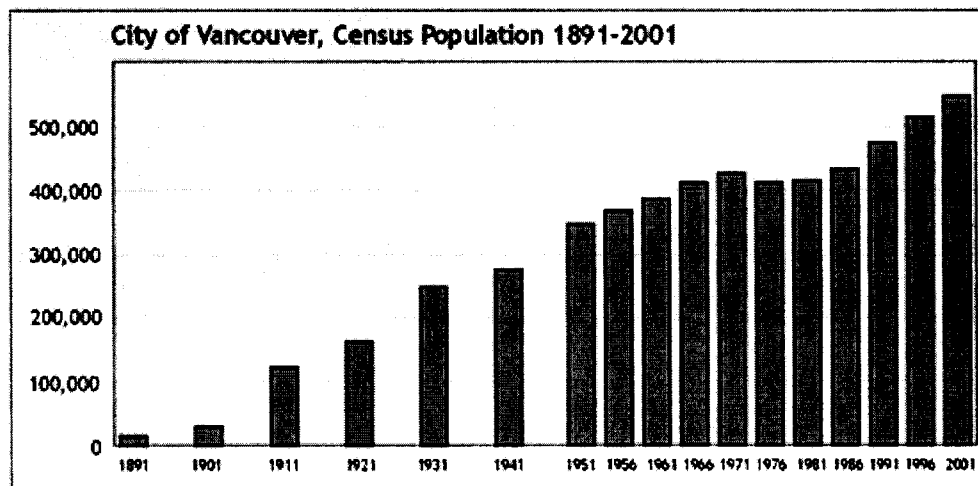
South Granville is a busy commuter route and a link from downtown to Vancouver International Airport. This street is also Highway 99, where many of the transportation links from east and west of the city meet at West Broadway and Granville Street. According to 2002 traffic

data collected from the City of Vancouver's VanMap for the intersection of South Granville and West 7th, the maximum traffic count per hour for the northbound and southbound traffic are 1,321 and 1,210 respectively (PM rush hour). According to the same data, maximum hourly count of pedestrians is 186, which is relatively a low count compared to 1,032 pedestrians per hour for the intersection of Granville and Broadway. But, the data was collected when the new development between 5th and 7th Avenues (Portico) did not exist, and due to addition of this new residential / commercial development, it is expected that the current pedestrian count is much higher at present time. Traffic count data are shown in Appendix A.

3.2 Current Population and Future Growth of the Area

The City of Vancouver's population based on 2001 census was 545,671, representing an increase of about 32,000 people over 1996 data. This growth represents an average annual rate of about 1.2 percent. Figure 3-2 shows population growth in Vancouver since 1891, indicating a continuous growth between the years 1891 and 2001.

Figure 3-2: Census Population 1891-2001



The GVRD Growth Management Scenario assumes that the City can accommodate about 635,000 people by 2021, which is consistent with CityPlan directions and was adopted by the City of Vancouver Council in 1995.¹⁸

According to the Regional Context Statement¹⁹, between 6,000 and 22,000 additional dwellings could be developed over the next twenty years (1996 base year). To provide the 22,000 additional dwellings, close to 90 percent of the presently zoned capacity would need to be developed. Table 3-1 shows the existing dwellings, unused dwelling capacity, and expected additional population for 1996 base year. As shown on this table, the Granville Slopes area has the capacity to double its population. It should be noted here that many of the unused zoned dwellings show on the table below have been developed since 1996.

Table 3-1: Downtown: location of additional housing (from 1996 base)

	Existing Dwellings (1996)	Unused zoned dwelling capacity	Additional Population
Downtown South	4,250	4,250	5,500
Granville Slopes	1,250	1,250	1,800
Triangle West	850	1,150	1,800
Coal Harbour/Marathon	0	2,200	3,700
Bayshore	0	980	1,800
Thornton Park	750	2,250	3,600
Victory Square	1,000	1,250	1,400
Historic Areas	1,750	750	900
North Shore False Creek	700	8,300	14,000
West End	22,500	1,500	2,400
Total	33,050	23,880	37,100

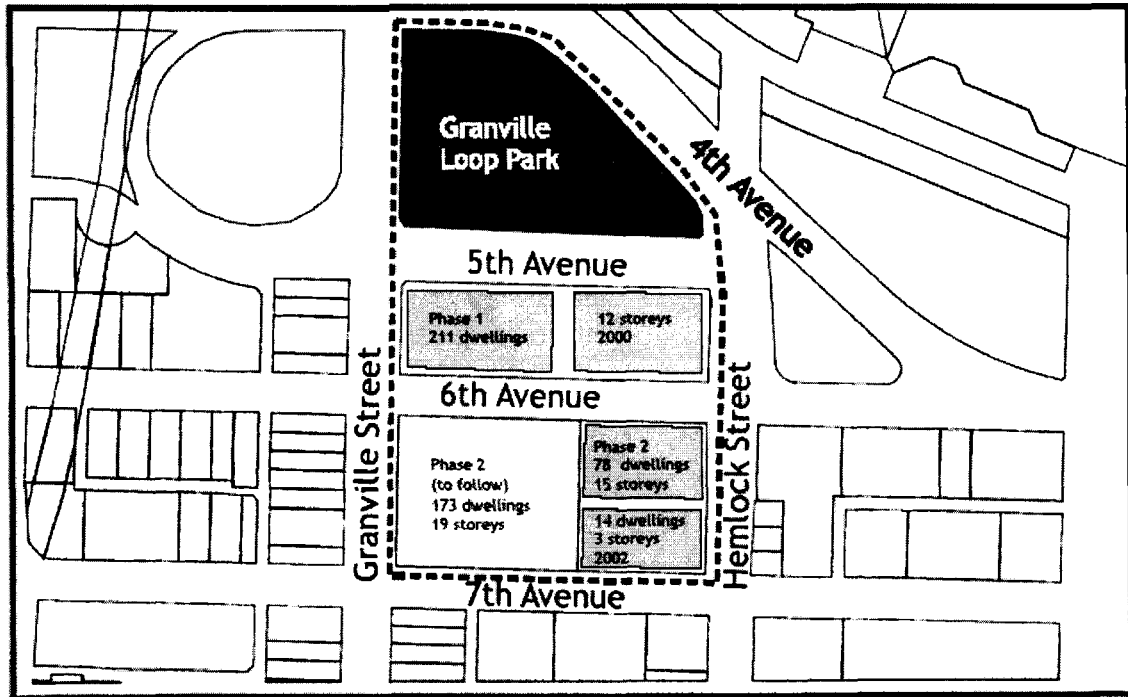
A recently completed residential complex in the area is the Portico project on the old Pacific Press Site, which was redevelopment of a 10-acre industrial site for mid and high-rise housing with some retail locations fronting Granville Street. As shown in Figure 3-3, this new

¹⁸ City of Vancouver, Community Services, The Expected Future Population Growth

¹⁹ Regional Context Statement is the City's official development plan that was adopted on September 14, 1999

development is built between 5th and 7th Streets, which has added approximately 1,000 residents to the area. This new development is located on the north side of the proposed firm's location, and with the addition of this residential and retail complex, the pedestrian traffic in this area has improved. Residents of this new development could be potential customers for the proposed firm.

Figure 3-3: Portico (Pacific Press Site) Location.



Source: City of Vancouver Planning Department, December 2002

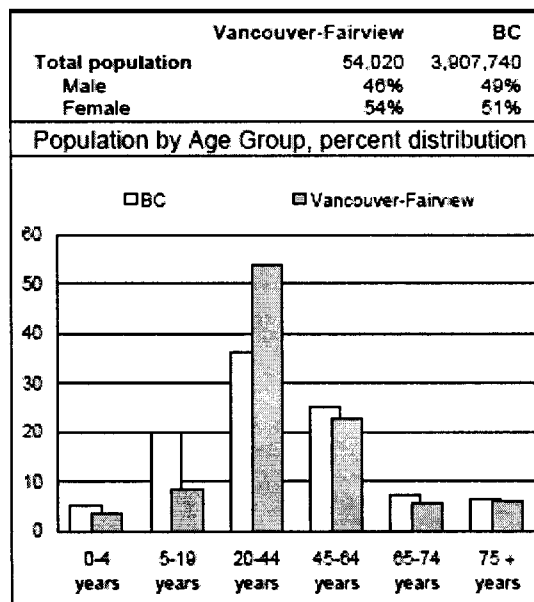
Another recently completed project in this area is the Terraces senior residence on 7th and Fir, which was completed in 2002. This new development has added about 95 residents to the population of seniors in this area, who are also good potential customers for the firm.

South Granville Rise is located in Vancouver Fairview electoral district. The neighbouring districts are False Creek, Point Grey, Shaugnessy, Quilchena, Arbutus, and Kitsilano. The 2001 census profile of British Columbia's Provincial Electoral District²⁰ showed

²⁰ Provincial Electoral District Profile based on the 2001 Census, May 15, 2001, BC Stats

that almost all of the mentioned districts have a high percentage of population between the ages of 20 and 44. As shown in Figure 3-4, in Fairview District, about 54 percent of population belongs to this age group, while the next largest population is the category of 45 – 64, who represent about 23 percent of the population in this region. The older population represents a good prospect for the firm during the initial years, while the younger age group, specially the 20 to 44 years of age category show positive long-term prospect, and reflect the yuppie character of this area.

Figure 3-4: Vancouver – Fairview Population by Age Group



Source: Provincial Electoral District Profile based on the 2001 Census, May 15, 2001

3.3 Target Customers

The firm's target customers are the shoppers along South Granville Rise, the local residences, and anyone who is looking to receive a supreme eye-care service, especially those who are active and involved in sporting activities.

Demographically, the yuppies represent the largest population group in the areas around the firm. These customers earn relatively high incomes and are willing to spend extra money for quality services and products.

The number of spas and hair salons in this retail stretch is an indicator of the psychographic characteristic of the customers, which shows that the customers value convenience, quality, and superior service. This group is active and willing to pay for well-being and a healthy lifestyle.

Census 2001 census results show that artists are among the top eight professions in Fairview District. And, the number of art galleries along South Granville Rise shows a concentration of artists in this area. Therefore, many of the customers living in this neighbourhood would also value arts and design in an eyewear piece and are looking for product uniqueness.

The residents of the new developments in the area are also prime target markets for the new firm, assuming that they are new to the neighbourhood and have no loyalty to any other optical stores or optometrist in the area.

3.4 Competition

Major competition for the proposed firm comes from the four high-end optical dispensaries on South Granville Rise and the two nearby optometrists on West Broadway.

3.4.1 Optometrists

There are eight optometrists within 1.5 km of the proposed firm. A list of these competitors with their address, distance to the proposed firm, and examination fees are listed in Table 3-2. This table also outlines the integration structure of these competitors.

These competitors are achieving most of the industry key success factors listed in section 2.4 above, except the online services, which is not implemented by any of the competitors. And also, the only firms that have created a presentable waiting and examination rooms environment are the Pacific Eye Doctors, Kitsilano Optometry, and Iris Optometry

Brand identity is the most important KSF in this industry. Customers visit the clinics in which they know the optometrists and staff, and since all of the competitors have established practices, they have all achieved this KSF. The only exception, according to the author's knowledge, is Image optometry. This clinic has a relatively high staff turn-over, which damages the firm's brand identity.

Pacific Eye Doctors is the only optometry clinic under 1km distance to the firm, which is located about 0.4km or 3 city blocks away from the proposed firm's location. Pacific Eye Doctors has two locations in Vancouver: one at 1668 West Broadway (near the proposed firm) and the other at Balsam Street in the Kerrisdale area. Both of these locations are known to customers, as these optometry clinics have been established decades ago. The Kerrisdale clinic was established in the 1920's and the West Broadway clinic during 1960's. The Broadway clinic is also an integrated business that offers a wide selection of contact lenses and frames. An optical laboratory is also in operation in this location, enabling the firm to enjoy the benefits of vertical integration. This clinic charges \$85 for a full eye examination, which is the average fee in B.C. This firm has achieved almost all of the KSFs, and therefore is a major threat to the proposed firm. Having a website to offer various online services could give a competitive advantage over this strong competitor. But, the best chance available to this new market entrant is to focus on its integration strategy by competing on the optical dispensary side of the business and focus on those KSF. Pacific Eye Doctors is displayed as an optometry clinic, whereas the proposed firm is planning to have side-by-side businesses, where the optical dispensary is also show cased with a fashionable showroom.

False Creek Eyecare is a firm that most of the optical dispensaries on South Granville Rise refer their clients for eye examinations. Also located on West Broadway, this clinic is about 8.5 city blocks away from the proposed firm. This clinic charges \$70 for a full examination, which is less than most optometrists in the area. This cost-based firm does not have an optical laboratory and has a basic office setup. The firm also carries a small selection of eyewear, and the poor inventory at this location is the main reason for the optical stores recommending this clinic to their customers, as it would not impose a threat to their high-end stores. In general, this optometry clinic is not attractive to high-end customers in the area, and therefore not considered as a major threat to the proposed firm.

Table 3-2: Optometry Clinic Competitors

Name	Location	Distance to Proposed Firm	Full Eye-Exam Fee (incl. Dilation)	Vertical Integration
Pacific Eye Doctors	1668 W. Broadway	0.4 km	\$85	Optical dispensary & laboratory
Kitsilano Optometry	1813 W. 1 st . Ave.	1.1 km	\$85	Optical dispensary & laboratory
Vancouver Vision Care Centre	950 W. Broadway	1.1 km	\$87	Optical dispensary & laboratory
Dr. Patrick Woo	2205 W. Broadway	1.3 km	\$75	Optical dispensary
False Creek Eyecare	805 W. Broadway	1.4 km	\$70	Optical dispensary
Iris Optometry	788 W. Broadway	1.4 km	\$95	Optical dispensary
Broadway Eyecare Centre	716 W. Broadway	1.5 km	\$75	Optical dispensary
Image Optical / Optometry	718 W. Broadway	1.5 km	\$75	Optical dispensary

3.4.2 Optical Dispensaries

A search for the number of optical dispensaries within 1.5km distance to the proposed firm results in a total of 14 existing firms. In this section, only the four competitors on South Granville Rise are analyzed, as these firms are the main competitors to the new market entrant.

The following table summarizes the details of these four optical dispensaries:

Table 3-3: Optical Dispensary Competitors

Competitor's Name	Address	Dist. to Firm	Optical Lab	Website/E-Commerce	Key Differentiation
Oakmont	2243 Granville Street	0 km	Yes	No	High-end "Art you can wear"
Eyes for You	2694 Granville Street	0.4 km	Yes	Yes, but not activated. www.eyesforyou.ca	High-end "Styles to suite your personality"
Bozi	2822 Granville Street	0.5 km	No	No	High-end "An eclectic selection of unique eyewear "
Eyes on Twelfth	1493 West 12 th . Ave.	0.5 km	Yes*	Yes www.eyesonline.com	High-end "Optical Boutique "

* Laboratory is located at the firm's Downtown location

Eyes on Twelfth is probably the most well-known optical shop in the area. This firm has another location on Burrard Street (775 Burrard at Robson). This chain of optical stores has a cost advantage since they share their inventory and the cost of optical laboratory, marketing and advertising. This small optical chain has a website that displays the brands they carry. They also offer online coupons which can be printed off the website to be presented at the stores for discounts.

Eyes for You is another major optical store on South Granville Rise. They carry about the same number of brands as Eyes on Twelfth, but the brands are typically not as high-end or exclusive. Eyes for You has an optical laboratory for common types of prescriptions, which allows them to offer same day service on most prescription glasses. This optical store has a registered website, which is not yet activated.

Oakmont optical is the closest optical shop to the proposed firm. This dispensary imports handcrafted designer frames and lenses from Germany. "Art you can wear - Your wooden frame connection in Vancouver". Similar to Eyes for You, Oakmont also has laboratory equipment capable of cutting lenses for most types of prescriptions. This optical store has no website.

Bozi is a small optical shop with no optical laboratory. The store carries a small number of high-end eyewear brands, and the customers seem to be a group of local loyal customers. This optical store also does not have a website.

All of the four competitors along South Granville stretch are differentiators based on the quality, inventory brands, and service. They all differentiate themselves from the other optical stores on West Broadway (near Granville Street) that are cost-based competitors.

Also, these major competitors have achieved most of the KSFs to certain degrees, with the exceptions of: having integrated optometry clinics, recognizable house brands, customer parking spaces, and active websites, which are all opportunities that could benefit the proposed firm.

3.5 Competitive Advantage

Although the existence of the other four high-end optical stores on South Granville Rise and the low-end optical shops along the Broadway corridor near Granville Street impose a threat to the new firm, they all create a cluster of optical shops in the Lower Mainland, which attracts customers from different segments to this area.

All of the competing optometry clinics and optical dispensaries are located along high traffic areas. Location is a KSF in both industries, and this factor is also achieved by the proposed firm. Being located on a major city street provides easy access to the firm by public transportation, but, parking could sometimes create a problem: spaces are hard to find with almost

no free street parking available in this area. Having parking spaces is a KSF that is achieved by the optometry clinics, but not the optical dispensaries. The proposed firm offers free parking spots to the customers.

Having an integrated eyewear / eye-care business provides a convenience that cannot be offered by the other four high-end optical dispensaries. Also, since there is an entry barrier for backward integration by the optical shops, the possibility of these competitors entering into the optometry business is very slim. Those optical firms have to partner with optometrists and provide the premise and equipment for setting up clinics.

Population is a primary factor to look at when opening a new optometry practice. A standard ratio used in the industry is the number of optometrists per 100,000 populations. This ratio is 11.4 in Canada (2002)²¹, 9.7 in BC (current), 13.0 in Lower Mainland, and 16.5 in Vancouver²². Having more optometrists in Vancouver increases competition, and therefore, differentiation is required to attract customers.

With four other optical stores in the South Granville Rise area and the two optometry clinics on West Broadway close to Granville Street, the new firm has to differentiate based on both products and services. The product inventory would have to include those selected frames that are high-end, but many are not already displayed in the neighbouring optical shops.

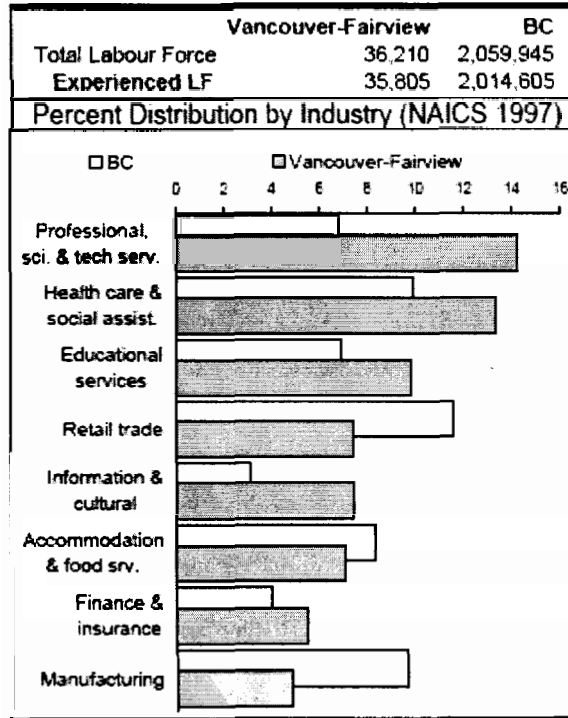
The proposed firm is planning to have an active website to provide useful eye-care related information to customers, along with an e-commerce section allowing the existing customers re-fill their contact lens orders. Having a website and online services is a KSF identified earlier, but not achieved by any of the competing firms in both industries. Eyes on Twelfth is the only competitor with an active website, which contains a brief description of the

²¹ Health Personnel Trend in Canada, 1993-2002

²² Author's estimates

firm and the eye-wear brands they carry. Having an interactive website that besides providing related information to the customers also allows them to book different eye examinations online and order contact lenses would provide a competitive advantage to the firm.

Table 3-4: Top 8 Industries by Labour Force, Vancouver – Fairview



Source: Provincial Electoral District Profile based on the 2001 Census, May 15, 2001

Other opportunities available to this firm are the need for sport vision and computer vision syndrome treatments. Sport vision specialty enhances visual skills required in sports, which is seen as an opportunity for the firm since the majority of residents in this area are between the ages of 22 and 45, representing an active segment of population.

Computer vision syndrome is another epidemic problem and is most frequently reported health problem among computer workers. According to surveys, eye and vision problems occur

in 70 to 75 percent of computer workers.²³ As seen in Table 3-4 from 2001 Census Profile of BC, the majority of people living in the areas around the new firm have occupations that require computer usage. Therefore, offering services for correcting computer vision syndrome is seen as an opportunity for the proposed firm.

²³ From studies conducted by M.J. Smith, B.G.F. Cohen, L.W. Stammerjohn, M.S. Collins, B. Brown, K.J. Bowman, D. Caird, S.J. Dain, A.K. McCarthy, and T. Chan-Ling. Source: www.allaboutvision.com

4 STRATEGY AND IMPLEMENTATION

4.1 Competitive and Marketing Strategies

Just like the other four optical dispensaries and Pacific Eye Doctors, the proposed firm would also compete based on differentiation. According to Treacy and Wiersema²⁴, there are three different kinds of strategies that firms can choose to operate:

- Operational Excellence (lowest price, always)
- Product Innovation (best product, first)
- Customer Intimacy (best solution, customized)

In their book, *The Disciplines of Market Leaders*, Treacy and Wiersema define operational excellence as providing customers with reliable products or services at competitive prices, delivered with minimal difficulty or inconvenience; the product innovation as providing products that continually redefine the state of the art; and the customer intimacy as selling the customer a total solution, not just a product or service.

For the proposed firm, the customers will be the most valuable asset, and therefore, “customer intimacy” may seem to be the best differentiation strategy. But, the four major optical competitors along South Granville are exercising the same strategy for customer acquisition. Therefore, to differentiate, the firm would utilise superior “product innovation” as a means to enhance its delivery of customer intimacy, thus separating itself from competitors.

²⁴ *The Discipline of Market Leaders*, M. Treacy & F. Wiersema, 1995, pg.29

The firm would carry the latest products in eyewear frames, optical lenses and contact lenses. When there is an innovation in the market, the proposed firm would inform the customers about it through its marketing media, and when possible, would carry the product in the store.

The ophthalmic equipment are expensive fixed assets, and therefore after purchasing a set of high-tech examination equipment at the beginning, the major equipment would not be continuously updated with new products. But, when a complementary product is invented, the firm would ensure to have it in its examination rooms. For example, retinal imaging would be offered at the time of eye examination, which is currently not being offered by the competing optometry clinics.

Marketing and promotional activities would focus on the “product innovation” strategy of the firm. The state-of-the-art examination equipment, high-tech contact lenses, technical sports frames, and high-fashion spectacles are displayed in print media and spoken in radio advertisings. The message will also be conveyed by continuously changing the window displays by reflecting “innovation” as part of the firm’s strategy.

4.2 Entering Strategy

Since the firm is a new market entrant, extensive advertising and marketing is required for customer awareness. The customers of the proposed firm are relatively price insensitive, and therefore, the firm would use *rapid skimming* as an entering strategy. The prices of products and services offered by the proposed firm are going to be on the high side of industry average, but about the same as competitors in the area, signalling quality and innovation, and hence attracting the upper income customers.

Initially \$15,000 will be allocated to marketing and advertising during the first few months, trying to capture as many customers as possible. The messages of “product innovation in

eyewear and eye-care” would be conveyed via different marketing media, letting the target customers know about the promotional strategies of the firm.

Many of the promotional strategies discussed in this paper can be easily copied by the competitors, and therefore, heavy promotion and advertising at the beginning is required in order to capture attention.

4.3 Pricing Strategy

Pricing for general eye examinations is going to be about the average industry prices, which is \$85 for a comprehensive eye exam. Other services such as visual field testing, retinal imaging, and computer syndrome treatment would be at extra cost priced at above average industry rates. Bundled pricing would also be available.

In addition to individual and bundled prices, the firm would also offer annual memberships for fitting contact lenses and receiving discounts on eye-wear purchases. The membership fee would be \$100 for new and \$50 for returning customers (a sensitivity analysis is required to find an optimum membership fee and applicable discounts.)

The fixed annual membership fee provides a continuous income per patient for the firm, while the firm can utilize the free time of the optometrists and the fixed expenses to better serve the customers. Instead of a one-time contact lens fitting fee, the customers can visit the firm as often as they wish in a given year. They also receive discounts on all the glasses and contact lenses.

The price of contact lenses would depend on the cost of material. On average, the mark-ups would be about 60 percent and 100 percent for contact lenses and spectacles respectively.

4.4 Promotion Strategy

Bundling, rebates, annual membership (maintenance) packages, and complementary products are among promotional strategies that would be used by the proposed firm.

Bundling is the main promotional strategy. By being a vertically integrated firm, providing a variety of eyewear and eye-care packages as well as offering complementary products would differentiate the proposed firm from the competitors who are either optometrists or optical dispensaries.

The firm would offer rebates on the spectacles for customers who visit the firm's optometrists for eye examinations. There would also be discounts if more than one optometry service is required.

In addition to the individual and bundled services offered by the firm, the firm would also offer "annual eye maintenance" to its customers, such that they can pay an annual fee and be able to refer to the optometrist as many times as they wish in a given year, or refer to the optical dispensary for contact lens fitting services or maintenance on their eyewear. Customers with annual maintenance membership would also be eligible to receive discounts on eye-wear and contact lens products.

To further differentiate from the local competitors, the firm would integrate horizontally and offer services that are typically not offered by rivals. Because the firm is positioning itself as a total solution provider, it can offer eye dermatological products. Such products for prevention or reduction of wrinkles around the eyes would attract the growing population of baby boomer generation. It is assumed that the customers would trust buying such products from an eye specialist rather than a spa or a department store.

4.5 Marketing Programs

The firm is using rapid skimming as its entry strategy. The business is a newcomer and has to use pull marketing strategies to effectively attract as many customers as possible during its first few months of operation. Marketing and advertising would impose a high cost on the firm, especially during the first year, and therefore, effective marketing programs have to be carefully selected.

BC Census Data shows that about 63 percent of residents in the Fairview district are renters while only 37 percent are owners. Therefore, more advertising is required as the residential turnover is high in this area.

Advertising

Community outreach – An effective marketing campaign is going into the community to offer eye care and education and planning “eye-care events” with focus on informing customers about eye health and the role of optometry. The firm could possibly receive sponsorship by the hospitals or the ministries for organizing such events.

Print Media

Community magazines such as Vancouver Magazine is a well read paper by population living around the proposed firm and in Downtown Vancouver. This magazine runs health related articles three times a year. The firm would include eye-related articles in every health related issue published by Vancouver Magazine.

Short and useful health-related articles can always capture readers’ attention. The firm would send short news releases and articles to local newspaper on a regular basis, offering helpful eye-care advice and providing information on latest innovation and fashion on contact lenses and spectacles. By doing this regular activity, the firm can attract customers; while at the same time

can establish visibility and credibility among publishers and editors, increasing the probability that those media professionals write articles about the firm on special occasions.

Internet and Email

The firm would have an interactive website that will be extensively used for marketing communications. The latest technology news, regular promotions and discounts would be communicated via email.

Regular search engine optimization would ensure that the website can be easily found and accessed by web surfers. The website link would also be listed in many related sites for easy access by potential customers.

Consumer feedback and survey forms would encourage the customers to be engaged after visiting the firm for eye examination, contact lens fitting and purchase, or spectacles purchase to provide their feedback on the products and services they received.

Radio and Television:

Radio and television communications are considered as part of marketing programs, but due to high cost of these programs, the firm would rely on print and internet sites for advertising during the first year of operation.

5 PROPOSED INTERNAL STRUCTURE

5.1 Firm's Structure

The proposed clinic will be operated by two partners, who are optometrists and have over 14 years of work experience combined. Each partner will be working three days per week, covering six days of optometry services coverage for the proposed firm.

Upon opening the new location, two full-time staff will be hired until the store reaches 80 percent of its operating capacity. The initial two staff would have to share the responsibilities of running the front desk, booking appointments, receiving patients, doing pre-examinations, and helping customers select eyewear. One of the support staff would be a licensed optician, who can work with lens cutting equipment, do pre-examination testing, and contact lens fitting. Once the practice exceeds 80 percent capacity, a third staff (potentially another optician) would be hired to ensure the quality of services is maintained.

Support services such as accounting, IT, website design, marketing and advertising will be outsourced.

5.2 Firm's Services

The proposed firm will be offering a wide range of services and products to meet the demand of customers seeking eye-care needs. The eye care services will include a variety of standard and specialized eye examinations by registered optometrists. The dispensary will carry a wide selection of contact lenses and high-end frames.

The firm's location is one of the most affluent locations in the Lower Mainland. Due to the young profile of this region, and considering that the largest population of this area are the most active members of the society, the clinic will focus on sports optometry while the optical dispensary will carry a wide selection of high-end sports eye-wear as well as few other high-end brands.

The optometry clinic will offer basic services as set out in the BC College of Optometrists, with added features to differentiate from other local optometrists. Below is a list of basic eye examinations:

- Comprehensive eye examination
- Prescription and fitting of glasses and contact lenses
- Diagnosis and treatment of eye disease conditions
- Screening for eye health problems such as high blood pressure and diabetes.

Additional services that will be offered by the optometry clinic are:

- Visual Field Testing
- Retinal Imaging
- Sports Optometry
- Eye examinations for computer vision syndrome.

The dispensary will have a boutique style that will centre on high fashion and offer top-of-the-line eyewear glasses as well as a variety of high-quality contact lenses. The services offered by the dispensary would include contact lens fitting, helping customers select appropriate frames and optical lenses, and ordering the necessary ophthalmic laboratory work.

A section of the optical dispensary would be allocated to sports eyewear, including high performance frames and contact lenses that would enhance vision in particular sports and protect

eye injuries. During the first two years, frames from ten to twelve high-end lines will be ordered with about twelve to twenty four frames per line. A number of lenses with general indexes would be kept in the inventory so that basic laboratory work could be done in-house. For complex laboratory jobs, such as high-index or bi-focal lenses would be outsourced to a local optical laboratory.

A mix of lenses from different contact lens companies will be ordered so that most patients can be fitted and receive their contact lenses the same day. There would also be lenses readily available for customers who need emergency replacements. The customers will receive full instructions in the care, handling, removal and insertion of contact lenses. Customers will also receive a DVD showing the same care instructions, and will be provided with a number to call in case of an emergency.

Many optometrists and optical dispensaries are losing market share to the large on-line contact lens retailers. Therefore, to compete with such large firms, the proposed firm would have an online service available to existing customers who can order and receive contacts with no extra shipping or delivery charges.

5.3 Premise Set-up

The total size of the premise is 1,716 square feet, with a width of 25ft and depth of 68ft. The space has to be divided so that at minimum, the following areas are created:

Optometry Clinic:

- Reception/ waiting area
- Full-examination rooms (2)
- Pre-examination room
- Contact lens fitting room

- Back office/ library

Optical Dispensary:

- Frame Display Area
- Lens cutting laboratory
- Storage Room

The optometry clinic and the optical dispensary would have separate street entrances with an open passageway connecting the two businesses from inside. The purpose of visually separating these two businesses is to signal to the prospect customers that if they already have an optometrist and only like to visit the firm for their selection of eye-wear, they are not obligated to switch their optometrists. And similarly, the customers requiring eye-examination are not obligated to buy their glasses or contact lenses from the same firm, although cross-buying would be encouraged through different promotional strategies.

5.4 Equipment

5.4.1 Ophthalmic Equipment

In the beginning, only one exam lane would be equipped until the economy of scale is reached and a second exam lane is required to have two optometrists working at the same time, which is estimated to be around six or seven years after opening the firm. Therefore, quotations were obtained for only one exam lane at this time. The table below lists all the required equipment and their average cost, based on prices obtained from two separate distributors:

Table 5-1: Ophthalmic Equipment and Costs (Approximate)

Equipment	Price
Chair and Stand	\$9,500.00
Slit lamps	\$9,000.00
Digital camera for slit lamp imaging	\$5,000.00
Vision tester (Phoropter)	\$5,300.00
Projector	\$2,500.00
Non-contact tonometer	\$9,500.00
Applanation tonometer	\$1,600.00
Auto Kerato Refractometer	\$12,500.00
Trial Lens Set	\$1,000.00
Visual Field Machine (Optional)	\$12,000.00
Stools (3)	\$1,050.00
Motorized Tables (2)	\$3,000.00
Welch allyn BIO	\$2,000.00
Retinal Camera and Software (optional)	\$33,000.00
Total	\$106,950.00

5.4.2 Laboratory Equipment

The optical business of the firm will have a separate entrance with a lens laboratory in the back. A set of basic equipment will be leased, which enables the firm to do most of the optical jobs in-house, and offer one-hour service to the customers. Complicated jobs such as dual vision lenses and drilling for rimless frames will be outsourced. The following table lists the basic equipment and prices for a set of start-up equipment.

Table 5-2: Lab Equipment

Equipment	Price
Lens edger	33,000.00
Digital lensometer	4,000.00
Feathering machine	1,300.00
Pupilometer	600.00
Frame warmer	500.00
Total	\$39,400.00

5.5 Inventory

Eyewear – based on the location of the proposed firm and the portfolio of the customers in the neighbourhood, it is assumed that the business should carry a range of high-end and trendy eyewear from a selection of high-quality brands. The firm will order from ten to twelve lines during the first two years. In general, each manufacturer has a minimum order of twelve to twenty four frames per line. The inventory required for this firm is estimated to be about \$30,000. The firm is also planning on purchasing basic equipment for cutting lenses. Therefore, an inventory of lenses is also required for starting this business, which is estimated to cost about \$5,000.

Contact Lenses – the firm should carry a wide range of known brand contact lenses in its inventory as well as contact lenses for Astigmatism (toric), bifocal, and gas-permeable. An initial order of \$10,000 is required for this inventory.

5.6 Computer Equipment, Software, and Website

A total of three computers would be installed at the front desk, the pre-exam room, and the back office. The computers would be networked with a main back-up system located in the back office.

CRM (Customer Relationship Management) software would be installed on all computers that allow the staff to manage patients' information, record appointments, record diagnosis, and submit state/ provincial claims. The software should also be capable of generating patient analysis and recall letters.

The website for the firm would be an online customer journey, engaging the customers at pre and post visit stages. The pre-visit will cover the office intro kit. The customers of the optometry clinic can download and print paperwork to fill-in their personal information and medical history prior to visiting the clinic, or submit them online. This section would also have an online map of the location, directions, and customers parking locations. As part of the pre-visit experience, the office staff and the optometrists are introduced, and there would be pictures of the office.

The optical dispensary section of the website would display the photos of the frames with links to the manufacturers' websites, as well as the variety of contact lenses carried by the firm. There would also be a section to list special offers.

In the post-visit section of the website, the customers can order their contact lenses, fill out web surveys, and read newsletters and office updates. The firm would also send recall notices and quarterly newsletters to the customers via email.

An information section will inform and educate customers about different eye diseases, contact lenses and spectacle types. This section of the website would also educate customers about sports optometry, different sports related eye injuries, and the need for wearing eye protection for different sports for both safety and performance reasons. This section will also contain information about CVS (Computer Vision Syndrome) and ways to reducing computer eyestrain.

The e-commerce of the website and selling contact lenses online can be a tool to compete with the large online contact lens sellers. The online store can be accessed by existing customers or anyone with a valid prescription that has been issued under one year. By using this method, the firm will not lose customers to large online retailers while elongating the customers' life time value.

6 FINANCIAL PLAN

6.1 Operating Hours

It is assumed that the optical business will operate seven days a week with regular store hours that match other retailers in the area, which is typically from 10am to 6pm. The optometry side of the business will operate weekly from Monday to Saturday with similar operating hours to the optical dispensary.

Once the minimum scale with the initial operating hours is reached, the hours would be extended a few days per week to accommodate those customers who prefer to visit their health professionals before or after work.

6.2 Financial Projections

6.2.1 Revenues

Revenues for the firm are from eye-examinations, and sales of contact lenses and spectacles. To forecast the number of customers for eye examinations and contact lenses, the data and growth pattern from the existing optometry clinic owned by one of the business partners is used. And, to forecasts for the initial sales and the growth pattern for the spectacles sales, an optician who runs a North Vancouver optical dispensary was interviewed.

It is assumed that during the first month of operation, the number of customers is 20 for eye examinations, 15 for contact lens purchases, and 18 for spectacles purchases, with a monthly growth rate of 15 percent per month for the first twelve months. The projected average number of customers for the second year is the average of the last two months of year 1. And, for years 3, 4, and 5, the growth rates of 50 percent, 40 percent, and 30 percent are assumed.

Table 6-1 shows the projected customer volumes per year for the first four years of operations:

Table 6-1: Customer Volume Projections

	Year1	Year2	Year3	Year4	Year5
Eye examinations	629	1,261	1,892	2,649	3,444
Contact Lens	495	1,160	1,741	2,438	3,170
Spectacles	575	1,074	1,611	2,256	2,933

The average price of eye-examination and contact lenses are also taken from the existing optometry clinic, which are \$85 and \$120 respectively. The majority of the optometrists in the area also charge \$85 for full eye-examination. The average price of spectacles is estimated to be \$400 based on observation and the prices offered by the competitors in the area.

Table 6-2 shows the projected fees and sales growth projections for first five years of operation.

Table 6-2: Professional Fees and Sales Projections

	Year1	Year2	Year3	Year4	Year5
Eye-examination	\$53,465	\$107,185	\$160,820	\$225,165	\$292,740
Contact Lens Sales	\$59,400	\$139,230	\$208,920	\$292,560	\$380,400
Spectacles Sales	\$230,000	\$429,520	\$644,400	\$902,400	\$1,173,200

The cost of eye examinations are assumed to be zero, as the salary of the optometrists are considered as a firm's expense and not linked directly to the examinations. The average cost of contact lenses is assumed to be \$72 per order, and, the average cost of spectacles is assumed to be \$200 per pair based on the existing clinic owned by one of the business partners and interviewing several optical dispensary owners. Table below summarizes the projected sales and gross revenues for the first five years of operation.

Table 6-3: Sales and Gross Profit Projections

	Year 1	Year 2	Year 3	Year 4	Year 5
Eye-examination					
Total revenues	\$53,465	\$107,185	\$160,820	\$225,165	\$292,740
Cost of Eye Examination					
Gross Profit	\$53,465	\$107,185	\$160,820	\$225,165	\$292,740
Contact Lens Sales					
Total revenues	\$59,400	\$139,230	\$208,920	\$292,560	\$380,400
Cost of Contact Lenses Sold	\$35,640	\$83,538	\$125,352	\$175,536	\$228,240
Gross Profit	\$23,760	\$55,692	\$83,568	\$117,024	\$152,160
Spectacles Sales					
Total revenues	\$230,000	\$429,520	\$644,400	\$902,400	\$1,173,200
Cost of Spectacles Sold	\$115,000	\$214,760	\$322,200	\$451,200	\$586,600
Gross Profit	\$115,000	\$214,760	\$322,200	\$451,200	\$586,600
TOTAL					
Sales	\$342,865	\$675,935	\$1,014,140	\$1,420,125	\$1,846,340
Cost of Good Sold	\$150,640	\$298,298	\$447,552	\$626,736	\$814,840
Gross Profit	\$192,225	\$377,637	\$566,588	\$793,389	\$1,031,500

6.2.2 Start-up Cost

The ophthalmic and optical laboratory equipment will be leased on a 5-year lease to own term. The start-up costs are assumed to be the sum of one time starting costs and the money required to cover personnel and occupancy expenses for the first four months. Summaries of start-up costs are shown in Table 6-4 and Table 6-5.

Table 6-4: Firm's Start-up Costs –Monthly Expenses

Item	Estimate of Monthly Expense	Estimate of Required Start-up Cash	Multiplier Used for Colum 2
Personnel Compensation	\$14,750	\$59,000	4
Occupancy Expense	\$6,042	\$24,167	4
Sub-Total		\$83,167	

Table 6-5: Firm's Start-up Costs – One-time Costs

Item	Estimate of Expense
Leasehold improvements	\$50,000
Computer System	\$10,000
Starting Inventory	
Contact Lenses and Solutions	\$10,000
Spectacles	\$30,000
Optical Lenses	\$5,000
Website / IT	\$1,000
Initial Marketing & Advertising	\$15,000
Sub-Total	\$121,000

The multiplier used in Table 6-4 is derived from cash flow projections, which will be discussed in section 6.4. This start-up cost is required to alleviate the negative cash flow for the initial twelve months of operation.

According to the estimates shown on the above tables, the total required start-up cash is \$204,167. This amount will be borrowed on a 5-year loan term. An annual interest rate of 7 percent is assumed for this loan.

6.2.3 Expenditures

The numbers used for forecasting expenses are based on interviewing a number of optometrists in the Lower Mainland and based on an existing optometry firm owned by one of the proposed firm owners. A summary of assumptions are listed below:

- **Personnel expenses:** It is assumed that for the first two years, a receptionist and a sales person (preferably an optician) will be hired. An experienced optician will be added to the staff at the beginning of the third year. An annual raise / bonus of 5 percent is assumed for salary projection. The two partners (optometrists) will allocate an annual

salary of \$56,000 per optometrist for the first two years increasing to \$70,000 per year for the following three years of projected duration.

- Occupancy expenses: items under this category are the actual values collected from the property or from other similar firms. Under this category, an annual rental rate of \$23 per square foot is assumed for the premise with an assumption that this rate will increase by 3 percent each year. An annual increase of 2 percent is assumed for property tax, insurance, maintenance, and utilities. Telephone and Internet charges are assumed to remain constant throughout the forecasted period.
- Other expenses:
 - Lease payments: All ophthalmic and optical laboratory equipment will be leased on a five-year lease to own basis. Lease payments are estimated based on a monthly rate provided by an equipment distributor. This rate is \$20.32 per thousand per month.
 - Interest payments: The firm will acquire a loan of \$205,000 to cover the start-up costs. The loan is assumed to have a term of five years with an annual interest of 7 percent.
 - Professional fees: Annual professional fees for the optometrists are about \$4000 for each partner, totaling \$8,000 for the firm.
 - Accounting fees are assumed to start at \$4,000 per year with an increase of 2 percent each year.
 - IT services are assumed to cost about \$1,000 per year. This amount may seem lower than usual cost allocation for IT and web design services, but there is an IT firm which provides templates for performing the types of tasks, such as patient registration, online booking, and ordering contact lenses online, which are the

types of modules planned to be implemented by the proposed firm. The IT company charges an annual fee of \$800 per year for using its services.

- Marketing and promotions expenditures are assumed to be about 5 percent of total sales. During the first year of operation, an additional amount of \$15,000 is expected to be spent on this item.
- An annual miscellaneous expense of 1 percent of the total sales is assumed for each year.

Expenditure projections for the first five years of operations are shown in Appendix B.

6.2.4 Income Statement

Based on projected revenues and expenses described in the previous two sections, the income statement for the first five years of operation is generated and shown in Table 6-6.

Table 6-6: Forecasted Income Statement

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	\$342,865	\$675,935	\$1,014,140	\$1,420,125	\$1,846,340
Cost of Good Sold	\$150,640	\$298,298	\$447,552	\$626,736	\$814,840
Gross Profit	\$192,225	\$377,637	\$566,588	\$793,389	\$1,031,500
Depreciation	\$11,009	\$10,181	\$9,415	\$8,707	\$8,052
Less Expenses	\$262,623	\$380,713	\$465,335	\$487,249	\$510,269
Net Income Before Tax	(\$81,407)	(\$13,256)	\$91,838	\$297,433	\$513,179
Income Tax (40%)			\$36,735	\$118,973	\$205,272
Net income	(\$83,154)	(\$7,817)	\$55,103	\$178,460	\$307,907

The forecasted income statement indicates that the firm would realize a loss of \$83,154 after the first year and \$7,817 at the end of the second year. The firm will be profitable by its

third year of operations. Using a discount rate of 20 percent, the net present value for the first five years of operation is \$166,970.

6.3 Breakeven Analysis

The breakeven analysis is required to determine the amount of income and the minimum volume of customers for eye-examinations, contact lenses, and spectacles to breakeven or have a certain amount of profit.

Since variable costs and margins are different for each one of the business categories of the firm (eye-examination, contact lenses, and spectacles), separate breakeven analysis are done for each category. The firm's fixed expenses are allocated based on the percentages shown below:

- Eye-examinations: 40%
- Contact lens sales: 20%
- Spectacle sales: 40%

The fixed cost percentage allocations are estimated based on dependency of each operation unit on fixed operations. For example, the optometry clinic and the optical shop on average would occupy the same amount of retail space and the staff time. Although the ophthalmic equipment lease payments are higher than the optical laboratory equipment, the optical dispensary must always carry a wide inventory of frames and optical lenses. Therefore, 40 percent fixed cost allocation is used for both the eye-examinations and spectacles sales.

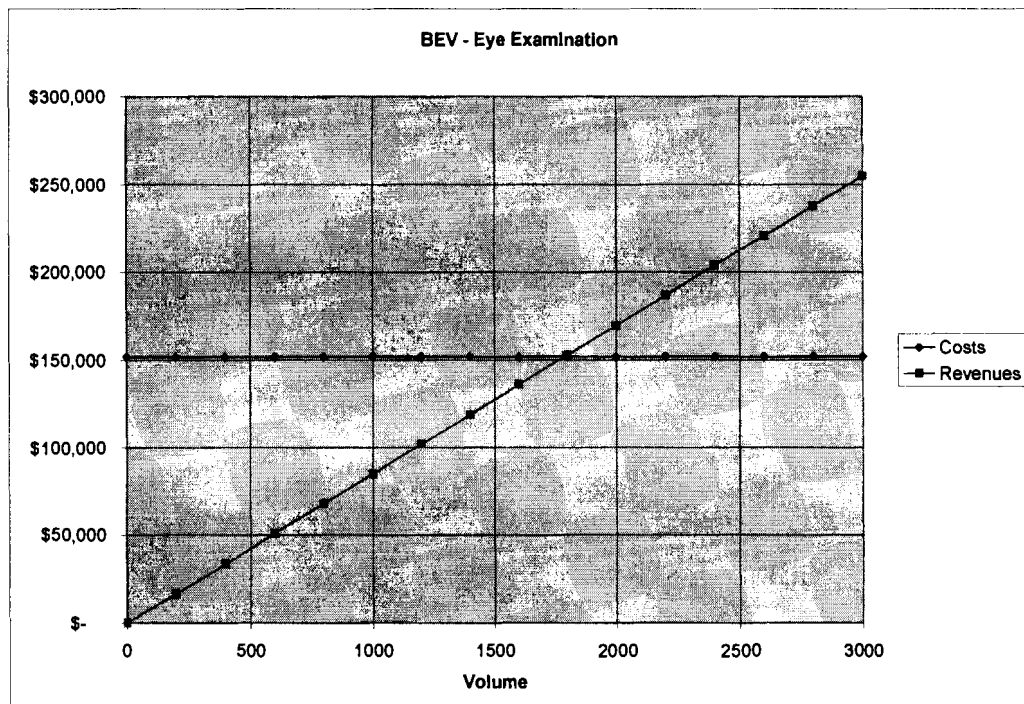
On the other hand, the contact lens room, where the contacts lenses are stocked and the fitting assessments are performed, is a much smaller area compared to the other two operations. Also, on average, the staff time allocated to checking in the patients and eye examinations in the optometry clinic, as well as helping the customers with eye frame selection and cutting lenses are

much higher than helping customers with contact lenses. Therefore, a 20 percent fixed cost allocation is assumed for the sales of contact lenses.

The following graphs show the breakeven volumes for eye examinations, contact lens sales, and spectacle sales. The fixed costs used to plot these graphs are the average fixed costs for the first three years.

The graph shown in Figure 6-1 shows the annual breakeven volumes for eye examinations. The “cost” line in this graph has a slope of zero, since there is no variable cost associated with this type of business. As seen in this graph, the breakeven point is 1,787 patients per year. This volume is projected to be reached towards the end of year three. The projected patient volume at the end of year three is 1,892 patients per year.

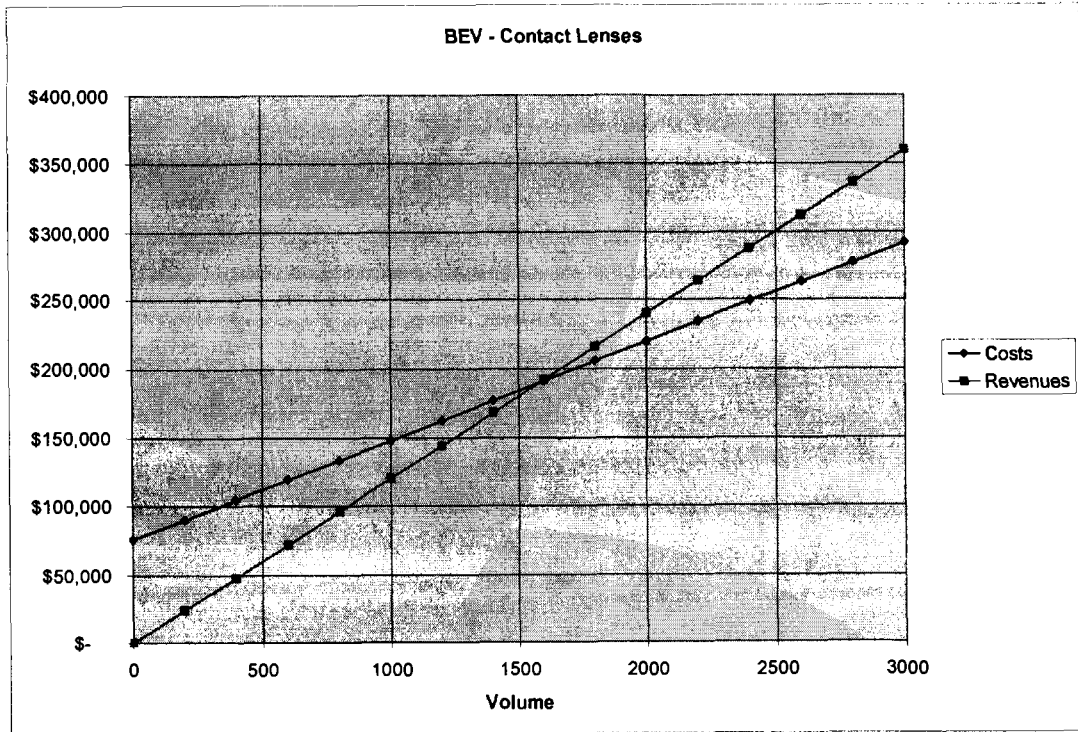
Figure 6-1: Annual Breakeven Volume – Eye Examinations



The graph shown in Figure 6-2 shows the breakeven volumes for contact lens sales. This graph shows that the breakeven volume is 1,582 contacts sold per year. The volume is projected

to be reached towards the end of year three. The projected contact lens sales volume at the end of year three is 1,741.

Figure 6-2: Annual Breakeven Volume – Contact Lens Sales



The graph shown in Figure 6-3 shows the breakeven volume for the sales of spectacles, which are 760 pairs sold per year. According to projections, this volume will be reached shortly after the end of year one. The projected volumes for the first and second year are 575 and 1,074 pairs of spectacles respectively.

The proposed firm is very dependent on the customers for all three different operations, and in order to further assess the initial months, a breakeven volume analysis is also done for the first twelve months of operation and is shown on Table 6-7 compared to the projected volumes.

Figure 6-3: Annual Breakeven Volume – Spectacles Sales

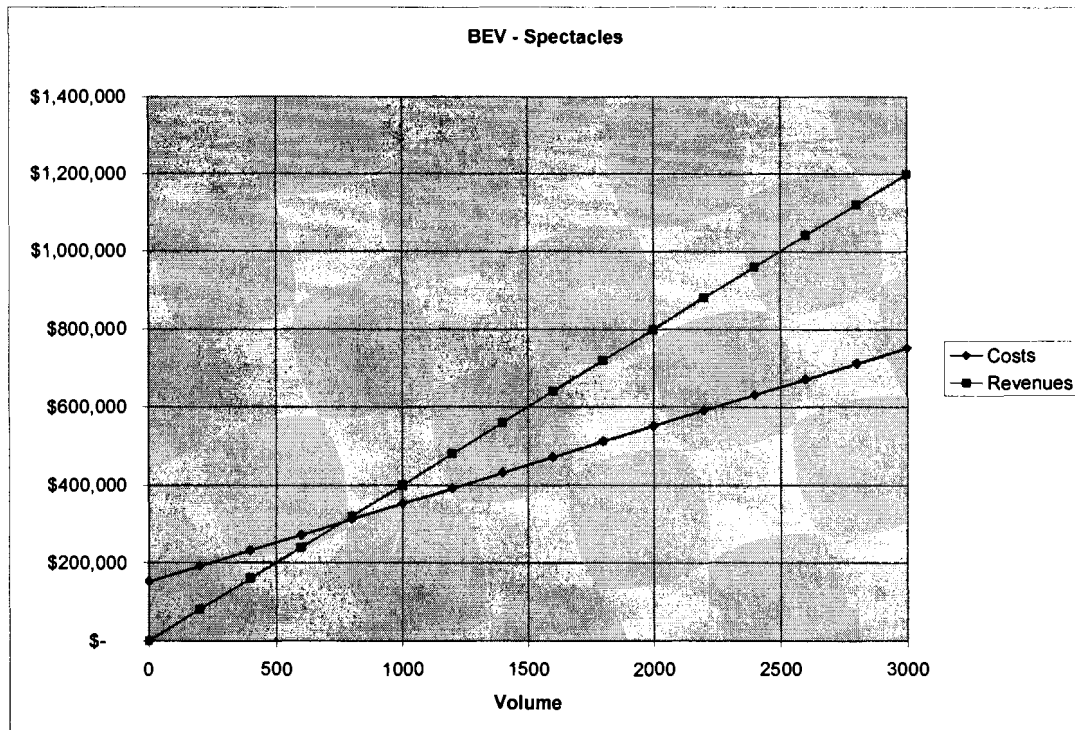


Table 6-7: Breakeven and Projected Volumes

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Eye examination												
Eye-Exam BEV	136	136	136	137	137	138	139	139	140	141	142	144
Eye-Exam Projections	20	23	27	32	37	43	50	58	67	78	90	104
Contact lenses												
Contacts BEV	107	107	107	108	108	109	109	110	110	111	112	113
Contacts Projections	15	18	21	25	29	34	40	46	53	61	71	82
Spectacles												
Specs BEV	45	45	45	45	45	46	46	46	46	47	47	48
Specs Projections	18	21	25	29	34	40	46	53	61	71	82	95

The above table shows that the only operation that would breakeven during the first year is the spectacles sales, which would happen around month seven. It should be noted here that as shown in Figure 6-3, the breakeven volume will be reached between the first and second year, while the above table shows that the time to reach this volume is around month seven. This variance is due to the difference in fixed costs used in calculations. Fixed costs during the first year is lower than the second and third year, and the graph shown in Figure 6-3 uses an average fixed cost for the first three years of operation.

The breakeven volumes for each operation are dependant on the fixed cost allocations discussed earlier in this section. A slight variation on this distribution would change these breakeven volumes. In general, since all three operations are the firm's core competencies and all are owned and operated by one firm, a profitable operation could contribute to the other operations' fixed costs.

6.4 Projected Cash Flow

A projected cash flow for the first twelve months was generated and shown in Appendix C. To cover some of the initial costs, the owners are investing \$60,000 in equity. The monthly cash flow in Appendix C shows that the firm undergoes negative cash flow during its first year of operation with an ending cash of -\$112,708 at the end of the twelfth month.

In order to alleviate this negative cash flow, the firm must borrow a bank loan to cover some of the initial fixed costs. The modified cash flow is shown in Appendix D. This table shows the addition of the monthly bank loans and interests, and elimination of the inventory, personnel, and occupancy expenses for the initial months, and the initial marketing costs. This improved cash flow demonstrates that the business can survive the first year of operation.

The financed inventory of \$45,000, required to cover the initial stock of contact lenses, eye glasses, and optical lenses, eliminates the “cost of goods” disbursements for the first six months of operation. Personnel and occupancy expenses are also paid out of the borrowed money during the first four months, and these values are taken off the modified cash flow accordingly.

It is necessary that the firm undertakes this additional loan.

6.5 Worst Case Scenario

In order to evaluate what would happen if only a fraction of the projected customers refer to the firm, an income statement was generated based on 70 percent projected operating capacity. Table 6-8 shows this income statement summary, which indicates that the firm would lose money for the first three years, and the net present value of the first five years is -\$92,111.

Table 6-8: Forecasted Income Statement, 70 percent Operating Capacity

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	\$256,045	\$384,292	\$576,620	\$847,092	\$1,238,350
Cost of Good Sold	\$105,448	\$158,267	\$237,496	\$356,339	\$534,604
Gross Profit	\$150,597	\$226,025	\$339,124	\$490,753	\$703,746
Depreciation	\$11,009	\$10,181	\$9,415	\$8,707	\$8,052
Less Expenses	\$260,126	\$371,616	\$451,687	\$469,091	\$490,604
Net Income Before Tax	(\$120,538)	(\$155,772)	(\$121,978)	\$12,955	\$205,090
Income Tax (40%)				\$5,182	\$82,036
Net income	(\$83,154)	(\$7,817)	(\$121,978)	\$7,773	\$123,054
NPV	(\$92,111)				

In case of this worst case scenario, the firm has to take some actions to reduce debt and be able to survive the first few years. One of the options available to the firm is elimination of the premise rental fees, as the retail location is a family owned property. Also, since the partners will be practicing optometry in other clinics, they can withhold their salaries for the first few

years. As explained earlier, each partner will be practicing optometry three days per week out of the proposed location, and the rest of the time they will be working elsewhere. Also, during slow times, the patients will be booked into morning or afternoon groups, allowing the partners to work even less than the scheduled three days.

Table 6-9 shows the modified income statement with 70 percent of operating capacity, in which the property rental fees and the optometrists' salaries are eliminated for the first three years.

Table 6-9: Modified Forecasted Income Statement, 70 percent Operating Capacity

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	\$256,045	\$384,292	\$576,620	\$847,092	\$1,238,350
Cost of Good Sold	\$105,448	\$158,267	\$237,496	\$356,339	\$534,604
Gross Profit	\$150,597	\$226,025	\$339,124	\$490,753	\$703,746
Depreciation	\$11,009	\$10,181	\$9,415	\$8,707	\$8,052
Less Expenses	\$172,609	\$216,974	\$267,766	\$466,494	\$487,929
Net Income Before Tax	(\$33,021)	(\$1,130)	\$61,943	\$15,552	\$207,765
Income Tax (40%)			\$24,777	\$6,221	\$83,106
Net income	(\$83,154)	(\$7,817)	\$37,166	\$9,331	\$124,659
NPV	\$1,382				

According to this table, the firm would still lose money during the first two years, but the net present value of the first five years of operation is \$1,382.

7 RECOMMENDATIONS

Financial projections show that opening a firm that integrates an optometry clinic and an optical shop on the South Granville Rise area is feasible. Even at worst case scenario, which is assumed to happen at 70 percent of operating capacity, the firm can survive, mainly because the partners can withhold the premise rental fees as well as their own salaries for the first few years.

The new firm must be aware of competition in the area and implement a differentiation strategy. As mentioned in section 4, a rapid skimming should be used as entering strategy in order to capture as many customers as possible. To differentiate, the proposed firm should focus on stylish sports eyewear and optometric services, as well as a full range of services for treating computer vision syndrome. These services are probably being offered by some of the competitors in the area, but they are not at core competency of any of the competing firms.

The proposed firm must do a sensitivity analysis to set optimum values for the annual maintenance membership fees and associated discounts. Partnership with local stores in the area and bundling their products with the proposed firm's products would contribute to the firm's differentiation strategy.

APPENDICES

Appendix A – Traffic Count Data

Source: City of Vancouver - Manual Traffic Count: Intersection Flow Diagram

Granville and 7th, Monday, June 03, 2002, AM Data

North	Left Lane 3	Thru Lane 3	Thru Lane 2	Thru Lane 1	Right Lane 1	Total	Bikes	Peds	East	Left Lane 1	Thru Lane 1	Right Lane 1	Total	Bikes	Peds
AM Max Hour 07:55 - 08:55	18	272	501	63	12	866	3	29	AM Max Hour 07:55 - 08:55	10	41	9	60	50	41
2 Hour Totals 07:00 - 09:00	30	528	942	135	18	1653	6	42	2 Hour Totals 07:00 - 09:00	19	67	14	100	69	63
South	Left Lane 3	Thru Lane 3	Thru Lane 2	Thru Lane 1	Right Lane 1	Total	Bikes	Peds	West	Left Lane 1	Thru Lane 1	Right Lane 1	Total	Bikes	Peds
AM Max Hour 07:55 - 08:55	19	624	960	141	29	1773	7	47	AM Max Hour 07:55 - 08:55	50	22	15	87	58	45
2 Hour Totals 07:00 - 09:00	30	1242	1765	259	46	3342	8	71	2 Hour Totals 07:00 - 09:00	72	36	20	128	115	96

Granville and 7th, Monday, June 03, 2002, PM Data

North	Left Lane 3	Thru Lane 3	Thru Lane 2	Thru Lane 1	Right Lane 1	Total	Bikes	Peds	East	Left Lane 1	Thru Lane 1	Right Lane 1	Total	Bikes	Peds
PM Max Hour 16:25 - 17:25	30	460	612	201	18	1321	5	82	PM Max Hour 16:25 - 17:25	17	75	15	107	56	125
2 Hour Totals 15:30 - 17:30	59	836	1264	341	41	2541	12	150	2 Hour Totals 15:30 - 17:30	31	145	37	213	103	215
South	Left Lane 3	Thru Lane 3	Thru Lane 2	Thru Lane 1	Right Lane 1	Total	Bikes	Peds	West	Left Lane 1	Thru Lane 1	Right Lane 1	Total	Bikes	Peds
PM Max Hour 16:25 - 17:25	13	469	654	16	58	1210	7	104	PM Max Hour 16:25 - 17:25	63	82	69	214	52	108
2 Hour Totals 15:30 - 17:30	22	919	1321	34	127	2423	20	157	2 Hour Totals 15:30 - 17:30	117	147	117	381	94	195

Granville and Broadway, Friday, August 13, 2004, AM Data

North	Left Lane 3	Thru Lane 3	Thru Lane 2	Thru Lane 1	Right Lane 1	Total	Bikes	Peds	East	Left Lane 1	Thru Lane 1	Right Lane 1	Total	Bikes	Peds
AM Max Hour 07:55 - 08:55	1	343	434	47	22	847	2	358	AM Max Hour 07:55 - 08:55	117	241	301	67	41	767
2 Hour Totals 07:00 - 09:00	3	606	801	85	45	1540	2	592	2 Hour Totals 07:00 - 09:00	196	424	540	104	66	1330
South	Left Lane 3	Thru Lane 3	Thru Lane 2	Thru Lane 1	Right Lane 1	Total	Bikes	Peds	West	Left Lane 1	Thru Lane 1	Right Lane 1	Total	Bikes	Peds
AM Max Hour 07:55 - 08:55	605	650	131	62	1448	3	417	605	AM Max Hour 07:55 - 08:55	139	257	242	30	39	707
2 Hour Totals 07:00 - 09:00	1117	1227	182	99	2625	8	687	1117	2 Hour Totals 07:00 - 09:00	247	434	470	49	78	1278

Note: 2004/08/13 07:00 : LT from north are illegal

Granville and Broadway, Friday, August 13, 2004, PM Data

North	Left Lane 3	Thru Lane 3	Thru Lane 2	Thru Lane 1	Right Lane 1	Total	Bikes	Peds	East	Left Lane 1	Thru Lane 1	Right Lane 1	Total	Bikes	Peds
PM Max Hour 16:25 - 17:25	1	481	641	191	51	1365	4	368	PM Max Hour 16:25 - 17:25	199	322	331	84	68	1004
2 Hour Totals 15:30 - 17:30	5	861	1214	324	86	2490	8	658	2 Hour Totals 15:30 - 17:30	404	580	659	153	131	1927
South	Left Lane 3	Thru Lane 3	Thru Lane 2	Thru Lane 1	Right Lane 1	Total	Bikes	Peds	West	Left Lane 1	Thru Lane 1	Right Lane 1	Total	Bikes	Peds
PM Max Hour 16:25 - 17:25	414	440	34	64	952	1	815	414	PM Max Hour 16:25 - 17:25	173	345	357	53	128	1056
2 Hour Totals 15:30 - 17:30	797	843	67	150	1857	5	1627	797	2 Hour Totals 15:30 - 17:30	319	675	729	93	226	2042

Note: 2004/08/13 15:30 : LT from north are illegal

Appendix B – Expenditure Projections

	Year 1	Year 2	Year 3	Year 4	Year 5
Personnel Expenses					
Owners' salaries	\$112,000	\$112,000	\$140,000	\$140,000	\$140,000
Office/ Sales Manager	\$35,000	\$36,750	\$38,588	\$40,517	\$42,543
Receptionist	\$30,000	\$31,500	\$33,075	\$34,729	\$36,465
Optician	\$0	\$0	\$40,000	\$42,800	\$45,796
<i>Sub-Total</i>	<i>\$177,000</i>	<i>\$180,250</i>	<i>\$251,663</i>	<i>\$258,046</i>	<i>\$264,804</i>
Occupancy Expenses					
Rent	\$41,400	\$42,642	\$43,921	\$45,239	\$46,596
Property tax	\$18,800	\$19,176	\$19,560	\$19,951	\$20,350
Property insurance	\$1,800	\$1,836	\$1,873	\$1,910	\$1,948
Property maintenance	\$1,500	\$1,530	\$1,561	\$1,592	\$1,624
Utilities	\$3,000	\$3,060	\$3,121	\$3,184	\$3,247
Telephone & Internet	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000
<i>Sub-Total</i>	<i>\$72,500</i>	<i>\$74,244</i>	<i>\$76,035</i>	<i>\$77,875</i>	<i>\$79,765</i>
Other Expenses					
Lease Payments	\$32,712	\$35,686	\$35,686	\$35,686	\$35,686
Loan & Interest (7%)	\$49,794	\$49,794	\$49,794	\$49,794	\$49,794
Professional Fees	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000
Accounting Fees	\$4,000	\$4,080	\$4,162	\$4,245	\$4,330
Website / IT Maintenance	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Marketing (as % of Gross Margin)	\$0	\$0	\$0	\$0	\$0
Marketing	\$9,611	\$18,882	\$28,329	\$39,669	\$51,575
Conventions / Seminars	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Miscellaneous (1% of Gross Margin)	\$1,922	\$3,776	\$5,666	\$7,934	\$10,315
<i>Sub-Total</i>	<i>\$112,040</i>	<i>\$126,219</i>	<i>\$137,637</i>	<i>\$151,329</i>	<i>\$165,700</i>
Total Expenses	\$361,540	\$380,713	\$465,335	\$487,249	\$510,269

Appendix C - Statement of Cash Flows, First Twelve Months

	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
Receipts												
Sales		\$10,700	\$12,515	\$14,815	\$17,320	\$20,225	\$23,735	\$27,450	\$31,650	\$36,455	\$42,350	\$48,970
Disbursements												
COGS		\$4,680	\$5,496	\$6,512	\$7,600	\$8,888	\$10,448	\$12,080	\$13,912	\$16,016	\$18,592	\$21,512
Personnel Expenses		\$14,750	\$14,750	\$14,750	\$14,750	\$14,750	\$14,750	\$14,750	\$14,750	\$14,750	\$14,750	\$14,750
Occupancy Expenses		\$6,042	\$6,042	\$6,042	\$6,042	\$6,042	\$6,042	\$6,042	\$6,042	\$6,042	\$6,042	\$6,042
Equipment Lease Payments		\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974
Bank Loan & Interest (7%)	\$2,459	\$2,459	\$2,459	\$2,459	\$2,459	\$2,459	\$2,459	\$2,459	\$2,459	\$2,459	\$2,459	\$2,459
Professional Fees	\$8,000											
Accounting Fees												\$4,000
Website / IT Maintenance	\$1,000											
Marketing (% of Gross Margin)	\$15											
Marketing		\$301	\$351	\$415	\$486	\$567	\$664	\$769	\$887	\$1,022	\$1,188	\$1,373
Conventions / Seminars		\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417
Miscellaneous (1% of Gross Margin)		\$60	\$70	\$83	\$97	\$113	\$133	\$154	\$177	\$204	\$238	\$275
Subtotal	\$11,474	\$31,683	\$32,559	\$33,652	\$34,825	\$36,210	\$37,887	\$39,644	\$41,618	\$43,884	\$46,659	\$53,801
Total Cash Outflows	\$11,474	\$31,683	\$32,559	\$33,652	\$34,825	\$36,210	\$37,887	\$39,644	\$41,618	\$43,884	\$46,659	\$53,801
Net Cash Flows:												
Starting Cash	\$60,000	\$48,526	\$27,543	\$7,500	-\$11,337	-\$28,842	-\$44,826	-\$58,978	-\$71,171	-\$81,139	-\$88,568	-\$92,877
Ending Cash	\$48,526	\$27,543	\$7,500	-\$11,337	-\$28,842	-\$44,826	-\$58,978	-\$71,171	-\$81,139	-\$88,568	-\$92,877	-\$97,708

Appendix D – Modified Statement of Cash Flows, First Twelve Months

	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
Receipts												
Sales		\$10,700	\$12,515	\$14,815	\$17,320	\$20,225	\$23,735	\$27,450	\$31,650	\$36,455	\$42,350	\$48,970
Disbursements												
COGS								\$12,080	\$13,912	\$16,016	\$18,592	\$21,512
Personnel Expenses						\$14,750	\$14,750	\$14,750	\$14,750	\$14,750	\$14,750	\$14,750
Occupancy Expenses					\$6,042	\$6,042	\$6,042	\$6,042	\$6,042	\$6,042	\$6,042	\$6,042
Equipment Lease Payments		\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974	\$2,974
Bnak Loan & Interest (7%)	\$4,150	\$4,150	\$4,150	\$4,150	\$4,150	\$4,150	\$4,150	\$4,150	\$4,150	\$4,150	\$4,150	\$4,150
Professional Fees	\$8,000											
Accounting Fees												\$4,000
Website / IT Maintenance	\$1,000											
Marketing		\$301	\$351	\$415	\$486	\$567	\$664	\$769	\$887	\$1,022	\$1,188	\$1,373
Conventions / Seminars		\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417	\$417
Miscellaneous (1% of Gross Margin)		\$60	\$70	\$83	\$97	\$113	\$133	\$154	\$177	\$204	\$238	\$275
Subtotal	\$13,150	\$7,901	\$7,961	\$8,038	\$14,165	\$29,012	\$29,129	\$41,334	\$43,308	\$45,574	\$48,349	\$55,491
Total Cash Outflows	\$13,150	\$7,901	\$7,961	\$8,038	\$14,165	\$29,012	\$29,129	\$41,334	\$43,308	\$45,574	\$48,349	\$55,491
Net Cash Flows:												
Starting Cash	\$60,000	\$46,850	\$49,649	\$54,203	\$60,980	\$64,135	\$55,348	\$49,954	\$36,070	\$24,412	\$15,293	\$9,294
Ending Cash	\$46,850	\$49,649	\$54,203	\$60,980	\$64,135	\$55,348	\$49,954	\$36,070	\$24,412	\$15,293	\$9,294	\$2,773

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