ABSTRACT

Purpose: This review examines eye bank finances in the current industry climate. It is intended to equip active and prospective leaders with concepts and tools that may contribute to overall financial health, while sustaining their organization for future growth.

A strong and stable financial future is what any executive eye bank leader should be striving towards, ensuring their organization’s success. This becomes vitally important for eye banks desiring to remain relevant, while also continuing to fulfill the mission, vision, and values of the organization. While espousing to principles presented herein, understand there are far more that aid in securing a sound financial future for an organization. Moreover, depending on an eye bank’s size, strategic vision, and how aggressive they are compelled to operate within the market, there are points that will be of more value to some than others. To this end, the goal is to review key financial management tools which have contributed to successful programs while at the same time, introduce concepts to educate current (and future) eye bank leaders. Revenue stream diversification, expense management, and operating margin/cash reserve, encompass three areas covered in this review. It must be understood that even as a not-for-profit, funding revenue is a necessary component of any healthcare delivery including eye banking.

Revenue Stream Diversification

Tim Cook once said, “Companies that get confused, that think their goal is revenue or stock price or something. You have to focus on the things that lead to those.” While stock price does not usually apply to eye banking, other than an eye bank’s investment portfolio if any, Mr. Cook touches on a very important point. Taking a careful examination of your organization to first understand what drives revenue, and then focus on measures that will enhance each of those revenue streams. Fifteen or so years ago, sources of revenue for eye banks included three main areas: tissue processing/service fees for transplant/research ocular tissue, philanthropic support, and possibly investment income. Entering 2016, many eye bank leaders have been successful diversifying the revenue side of their services in a variety of ways, equipping their organizations to hedge future periods of uncertainty in our seemingly ever-changing competitive landscape.

Perhaps the most logical avenue eye banks explored to diversify has been seeking to better understand what additional, value-added services are of utmost importance to their customers (namely, corneal surgeons) and then offer these services to them. For example, the eye banking profession has witnessed numerous advances in corneal transplantation techniques over the past decade. Many banks took this as an opportunity to learn what was involved from the surgeon’s standpoint in terms of tissue preparation, integrated protocols internally, and developed new revenue streams for their organization while, at the same time increasing the number of corneas suitable for transplantation, creating value for surgeons and benefit to patients. Open-container processing techniques such as Descemet’s Stripping Endothelial Keratoplasty (DSEK), Descemet’s Membrane Endothelial Keratoplasty (DMEK), and Laser-Assisted Keratoplasty (LAK) are a few examples of enhanced services eye banks currently provide. Although not directly tied to corneal transplantation, another value-added service more and more eye banks are routinely offering ophthalmologists to better serve their patients is the preparation of autologous serum eye drops (ASEDs). Believed to be the first eye bank to offer this service, the Iowa Lions Eye Bank prepares ASEDs in-house, providing local surgeons an effective, alternative treatment option for patients suffering from symptoms associated with ocular surface disease. As word spread and more surgeons have become aware of this service, an increasing number of banks have joined the effort making...

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this available to their local surgeon base. In some instances, eye banks recruit part-time phlebotomists who visit their eye bank weekly so patients may schedule appointments to have blood drawn on-site. Other banks work directly with ophthalmology clinics that ship blood samples to their eye bank so the eye drops may be prepared. No matter the means, this further demonstrates how leaders are seeking out ways to equip their eye banks in providing value-added services to their clients, translating to further revenue diversification.

In addition to the patient care aspect eye banks fulfill, ophthalmic researchers have, and continue to be, beneficiaries of an eye bank’s need to diversify its revenue stream. Historically, eye banks have provided whole eyes and corneas to researchers seeking to develop treatments and cures for a variety of blinding eye diseases. In light of further contraction of NIH and NEI funding to support R01 grants, an eye bank’s ability to provide quality tissue coupled with value-added services to research laboratories has now, more than ever, become vital in further growing this “arm” of an eye bank organization. Services to consider might include: integrating blood sample collection into practice to ensure adequate samples accompany all research tissue; supplying masked data points for the donor profile; employing customized fixation protocols per the laboratory’s request; and even providing lab space for researchers to conduct their work.

Although revenue diversification up to this point has focused on products and services an eye bank may provide, philanthropic donations are also a key funding source to complement an eye bank’s revenue stream and support the wonderful, sight-restoring work eye banks perform. While financial gifts to eye banks often are generated from private benefactors, typically recipients (or relatives of recipients), charitable organizations, such as Lions Clubs International and the Foundation for Fighting Blindness, are renowned for providing funding and support to their local eye banks. Public and private corporations have also joined the crusade on both the local and national levels to aid eye banks in carrying out their missions.

Regardless of donation source, eye banks should be mindful about the importance of developing (and maintaining) mechanisms for receiving financial contributions. Having a channel for your organization, or even better, those whom you serve tell the story of what your organization does, married with ways financial gifts may be provided, facilitates a much deeper and meaningful relationship with potential benefactors. It also allows people to not only get excited about the work you are doing, but compels some to get involved beyond financial contributions through service such as volunteering.

One last source of income eye banks should explore, which is considered a more passive means for generating funding to further enhance the revenue balance, is investment income. Several eye banks throughout the country may be closely affiliated with (or a part of) a university-based healthcare system and, while it is likely these organizations may not have the latitude necessary to develop a customized investment portfolio, eye bank leaders who do not operate within these constraints might consider working with a financial advisor in order to develop an investment portfolio that best suits their organization’s future goals and strategy.

Late last year, the EBAA hosted a webinar for member banks to provide them with the opportunity to gain a better understanding of the benefits for investing a portion of their operational reserves as a means to generate increased returns on money that may currently be sitting idle, earning little to no interest (More information regarding this program might be obtained through the EBAA office). Operational reserves are a necessary part of organizational viability as new technology often requires new equipment and existing equipment will need repair and replacement.

**Expense Management**

Cost-saving opportunities allow eye banks to maintain reasonable processing fees for the tissue and services provided while, at the same time, generating an acceptable margin necessary for sustaining operations and growth. Prior to an eye bank embarking on a new project, be it related to a product or service being considered, it is always wise to conduct thorough examination to explore all associated costs, as well as project necessary revenue to cover expenses, by developing a financial pro forma. This tool aids not only in understanding what all the costs are, but also eliminates guesswork from the equation allowing leaders to establish a processing fee that is fair to both clients and to the organization. A basic rule of thumb to operate off of is: To know your costs, at all costs.

Costs may be classified differently and eye bank leaders must understand each in order to accurately determine expenses associated with project costs. The main classifications are: fixed versus variable costs and direct versus indirect costs. Fixed costs are those which remain unchanged in total for a given time period, regardless of changes in the related level of total activity or volume; while variable costs do change in proportion to changes in the related level of activity or volume. Direct costs are
those related to a particular cost object that can be traced to that object in a cost-effective manner with indirect costs being unable to be traced to an object (i.e. overhead).

The next section examines a few strategies eye bank leaders might consider as a means to control costs within their organization.

Conducting cost-containment analyses on a regular basis may serve as one tool to aid eye banks in reducing supply and service costs. This process begins with knowing your costs. Developing a spreadsheet detailing all current unit costs for both office and laboratory supplies is useful. Using this as a template and sharing among all eye bank departments, leaders may examine opportunities to not only obtain competitive pricing quotes from supply vendors vying for new business, but also as a means to determine if instances exist within product or service lines where perhaps an oversupply of product is being used or ordered, resulting in waste. Or, it might be the case where a more efficient use of a product could be leveraged resulting in elimination of a costly supply. Some specific examples identified through the process of rolling out various service lines within eye banks have been: eliminating use of Healon viscoelastic in DSAEK preparation; identifying a vendor other than DORC to supply trypan blue for DMEK peels; and having a medical supply company pack and sterilize ASED preparation kits as opposed to ordering supplies individually, packing, and sterilizing them in-house.

In a similar manner, there are also a few strategies eye banks may employ to reduce the amount of money spent annually for services. These services might include printing, maintenance and repairs, IT/telecommunications, as well as those outsourced to other eye banks, to name a few. Aside from obtaining competitive quotes from alternative vendors leaders must also consider whether or not it makes sound financial sense to outsource particular services versus vertically integrating them within their eye bank. Investing the time to conduct a cost comparison is vital as the decision not only impacts their organization for good or worse, but also affects the eye bank market in general.

As an example to highlight the impact financially on a bank, and economically at the market level, suppose an eye bank is currently outsourcing DMEK preparations to a partner, EBAA-accredited eye bank and the cost to the client bank is $1,200 per peel. The annual volume of DMEK preparations required to fulfill the client bank’s current local surgeon demand ranges from 12 to 15 per year, translating to an expense for this eye bank (and, in this case, the overall market) of approximately $14K to $18K, annually.

This preparation cost is presumably bundled and passed-through as part of the processing fee to the hospital/ASC. Now consider the client bank decides to also include a small markup to cover additional handling and transport, record keeping, etc. bundled along with the tissue processing fee, say 10%. The cost now becomes $1,320 per peel yielding an additional annual cost to market of $1,440 to $1,800, assuming volumes previously noted. Known as double-marginalization, this is an undesirable effect for not only the eye bank market, but for any market in general, creating deadweight loss, or a reduction in the net economic benefits resulting from an inefficient allocation of resources.

To combat this adverse effect, as well as to be economically sustainable, eye banks have the opportunity to vertically integrate processes in-house. A critical component here is timing, understanding when to integrate. The question leaders should be asking themselves is: Will it cost less to outsource a service line, or is it possible for the eye bank to reduce costs while, at the same time, benefit the market by bringing the process in-house? Likely the former case when volumes are low in-house, addition may not be warranted. However, when volumes warrant integration, a bank not only eliminates double-marginalization in the prior example, but also reduces costs and generates revenue. Keep in mind too that with highly-technical procedures, attention should be placed on having (and sustaining) adequate volume to ensure both proficiency and quality. Should volumes be too low and not allow for procedures to be performed on a frequent (or at least regular) basis, it would likely be better to outsource until volumes increase. Overall, the preference for leaders who find it necessary to outsource a service based on current operations is to not add increased expense to the market by bundling-in a markup, but rather treat the service as a pass-through, thereby avoiding the effect of double-marginalization.

Another mechanism a bank might employ to accurately assign, monitor and manage expenses is to consider implementing what cost accountants term as an activity-based costing model. This system allows an organization to first compute the costs of individual activities and then methodically assign those costs to the products or services based on the combination of the activities required to produce the product or service. Peter Drucker, a well-known management theory expert and author, supports this method of costing as it “records the costs that traditional cost accounting does not do.” Depending whom you consult, this system is also claimed as being the most accurate when assigning costs. Experience using this model allows an organization to detect variations in costs over time and
provides valuable information on whether or not it is costing the organization more (or less) to provide a product or service based on volume for any given month.

A final strategy leaders may implement to manage expenses is establishing clear boundaries and expectations when it comes to travel-related expenses. This may be captured in an organizational travel policy, along with an accompanying travel reimbursement form, to consistently and accurately document requests for travel reimbursements. There are several areas leaders should consider incorporating reasonable parameters. Receipts for airfare, hotel, transportation, and meal expenses are generally what leaders receive upon approving requests for reimbursements. One category which tends to be more of a contentious area in the reimbursement process is associated with meals. How much is too much (or too little) when staff members are on business travel? Similarly, what would be considered a fair and equitable policy to reimburse staff for meals when a portion of, or all, have been included as part of the registration fee for the event/meeting for which the employee is attending?

So how do leaders support staff in this area without imposing restrictions that are far reaching, or perhaps too loose? One potential solution is using the federal government’s General Services Administration website for travel reimbursements, www.gsa.gov/travel. This site provides current per diem rates for domestic travel including not only meals, but also airfare, hotels, and mileage based on the travel destination. Simply input the city and state or zip code, and the maximum allowable rates are provided for each category. For instances where meals are provided during travel, daily meal per diem rates are broken down into breakfast, lunch, and dinner allowing one to deduct meals from the daily meal allowance. As a disclaimer, there may be several occasions where the per diem rate is insufficient, especially when it comes to lodging or airfare. These should be taken into consideration when incorporating this tool within an eye bank’s policy for travel reimbursement.

Operating Margin / Cash Reserve

After reviewing strategies for managing both income and expenses, it would be a disservice to not also discuss the same when it comes to generating a margin for products and services an eye bank provides, while also building cash reserves to provide support for planned and/or unplanned future needs. This subject has received increased attention within our profession recently, considering there are some eye banks deploying a highly-aggressive approach to compete for, and capture, market share outside their respective prior service areas. Since all full service eye banks are required to be, a 501(c)3 nonprofit organization, it is important to provide clarity on this subject so leaders may abandon myths and better understand what is considered acceptable when it comes to generating a margin and cash reserve within an eye bank organization, especially when it deals with annual reporting requirements to the Internal Revenue Service (IRS).

Margins in the nonprofit sector may be achieved through either related, or unrelated, activities. It is critical for eye bank leaders to be aware that revenue, along with the associated margin realized from products and/or services directly related to their organization’s mission, are acceptable and non-taxable. Conversely, activities generating revenue for a nonprofit organization which are deemed unrelated (while still acceptable) are taxable and as such, must be reported to the IRS. To aid in determining what is considered related versus unrelated business income, the IRS provides the following:

An activity is considered an unrelated business (and subject to unrelated business income tax) if it meets the following three requirements:

1. It is a trade or business,
2. It is regularly carried on, and
3. It is not substantially related to furthering the exempt purpose of the organization.

It should be noted that there are exceptions and exclusions to unrelated business income. These include, but are not limited to, investment income, dividends, volunteer labor, selling donated merchandise, and royalties. For additional information, it is recommended for eye bank leaders to discuss specific tax questions with their CPA or tax advisor to ensure compliance.

To further dispel misconceptions of eye bank board members and others who may question whether or not it is an acceptable practice for a bank to earn a reasonable margin for tissue services and other services provided to build operational reserves, doing so is vital to future success and provides much needed stability to an eye bank organization. The first question becomes: Where to begin?

The Nonprofits Assistance Fund recommends a written policy be adopted to clearly document the purpose, goals, and mechanics for maintaining and using operating reserve funds. Development would be achieved through a col-
laborative effort between eye bank leadership and board of directors with the recommended policy addressing the following five areas:

1. Purpose of building and maintaining reserves,
2. Definitions of the types of reserves, intended use, and calculation of target amounts,
3. Assignment of authority for making use of each type of reserve fund,
4. Responsibilities for reporting reserve fund amounts and use of reserve funds, and
5. Any specific policies, as needed, about investment of reserve funds.

The next question: How does an eye bank know whether or not they have the right amount of cash on hand to provide stability for planned and unplanned needs? Of course, this amount varies among eye banks and depends on several factors including, but not limited to, an organization’s size, annual expense load, cash flow, and overall strategy. Eye banks may have 30 days or less cash on hand, with some banks reporting to have several years of cash available in reserve. Based on literature and custom practice observed within industry, the “sweet spot” appears to be having between three to six months of cash on hand at any given time. Additionally, it is important to note that the Better Business Bureau’s Standards for Charity Accountability states that a nonprofit, charitable organization’s “unrestricted net assets available for use should not be more than three times the size of the past year’s expenses or three times the size of the current year’s budget, whichever is higher.”

A final question might be: How to calculate the amount of reserves an eye bank should maintain? Leaders should understand this amount will not remain constant and, based on current operations, may vary drastically year to year depending on strategic initiatives deployed. Therefore, it would be wise to calculate this figure on a routine basis and it is quite easy to do so. Perhaps the most straightforward method is to take your bank’s total expenses for the past 12 months and divide by 365. This yields your current, daily expense rate. It can be taken a step further by first segregating labor and non-labor expenses if there is interest in understanding your daily labor versus non-labor rates. Once a policy decision is final for the minimum number of days cash on hand, simply multiply by the total daily expense rate to compute the amount of cash on hand to maintain in reserve.

CONCLUSION

In summary, it is imperative for eye bank leaders and staff at all levels to understand the significance of not only having a sound financial strategy in place for the organization, but also how to leverage the power of financial management tools and the resulting impact each has on the overall health of the eye bank. Being as transparent as possible about finances and providing opportunities for staff to become educated on various financial reports (e.g. balance sheet, income statement, etc.) and other tools will yield benefits. For it is through educating staff and reinforcing why it is vital for all to be mindful of eye bank finances which creates a broader culture of fiscal responsibility and, more importantly, a healthy bottom line to further grow and secure your eye bank’s future.

REFERENCES