

Retail Pricing in Refractive Surgery Part II

How discounting has hurt physician providers.

BY SHAREEF MAHDAVI

Last fall, I detailed how trends toward lower retail pricing in refractive surgery had thus far failed to expand overall demand for LASIK procedures at the consumer level. This article aims to quantify the impact that price discounting has had on the short-term financial health of refractive surgery providers in the US market. It also examines some of the perceived root causes of the problems faced by the industry today, as well as some of the corrective steps that need to be implemented in order to reverse the tide.

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FLAWED THINKING

Up through 1999, the average price of a LASIK procedure increased and then held steady at just above \$2,000 per eye.

Beginning in the first quarter of fiscal year 2000, the price of LASIK in the US began dropping significantly (Figure 1) as measured by David Harmon, Editor-in-Chief of *Market Scope*, in his quarterly analysis of average refractive pricing and procedural volumes across the US. This downward trend continued over the next several calendar quarters of 2000, as increasing numbers of physicians and other providers sought to capitalize on the rapid growth in consumer demand for the LASIK procedure that occurred between 1997 and 2000.

By the end of 2000, the average price of LASIK had dropped over 20% from initial rates and settled at approximately \$1,600 per eye, where it has remained for more than 2 years. Prices were lowered based on the belief that discounting would attract more patients

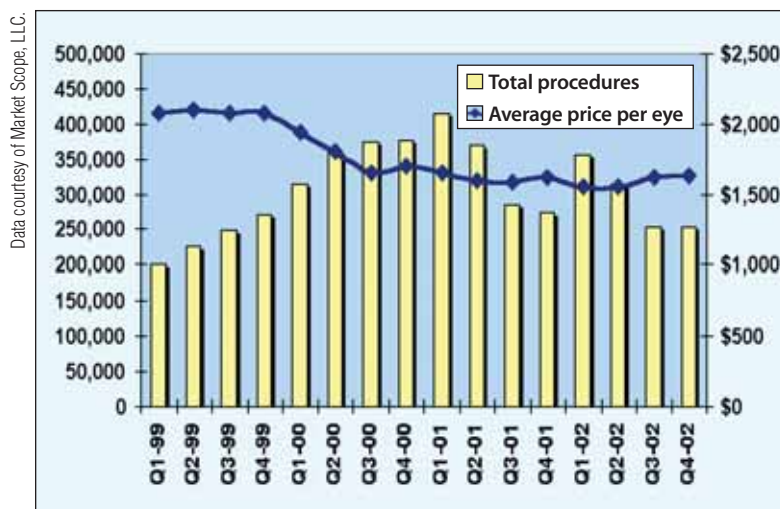


Figure 1. Average quarterly LASIK price per eye and total US procedures from 1999 to 2002.

and expand the pool of eligible candidates who would choose to undergo the procedure. This thinking grew from a misguided assumption that price was the major obstacle to market growth. Had this assumption proved correct, the overall number of procedures performed would have grown tremendously, patients would have benefited from increased competition among providers, and providers would have benefited from increasing procedural volumes and lower overhead costs on a per-case basis. This was not the case, as shown by the yellow bars in Figure 1, which indicate a trend of declining quarterly procedural volumes.

SUFFER THE CONSEQUENCES

Price was not the driving force keeping patients out of providers' offices, and lowering the cost of LASIK did not grow the refractive surgery market. In fact, the overall number of LASIK procedures has declined steadily by 10% to 15% in each of the past 3 years. While analysts and corporate manufacturers have pointed to the weak economy and poor consumer confidence, these are only two of many factors that have contributed to the decline in the number of procedures performed. The problem in LASIK procedural volumes has been less about the economy and more about the assumptions of what drives consumer behavior. Faulty thinking abounds when trying to predict consumer behavior in any market, and refractive surgery is no exception. Back in 1995 and 1996, when the excimer laser was first approved for refractive surgery, many analysts predicted that demand for the procedure would explode. It didn't. It took nearly 2 years to establish the infrastructure and to generate a critical mass of word-of-mouth awareness before procedural volumes skyrocketed. As more and more LASIK providers entered the market, a multiplier effect was created, where consumer awareness and provider availability generated increased demand for LASIK procedures.

While it took nearly 5 years to build the value and price of the LASIK procedure to the levels seen in 1999, it took just several quarters in the year 2000 for the effects of LASIK discounting to impact the industry. To say that this experiment failed is an understatement; several years have passed, and the market is as flat as a pancake. What is truly shocking is just how much profit has been lost during this time period. As Figure 2 shows, the net effect of discounting has left more than \$1.67 billion "on the table." This figure is determined by multiplying the actual number of procedures performed by the average decline in price at each of the past 12 fiscal quarters (through 2002). This amount equals more than \$335,000 for every active refractive surgeon in the US.

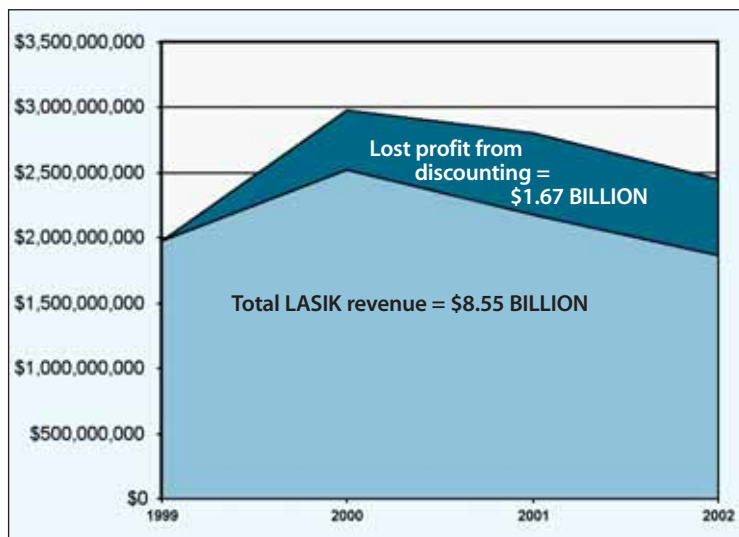


Figure 2. Discounting has hurt total LASIK revenues since the year 2000. The \$1.67 billion figure translates into \$335,000 per refractive surgeon.

Data courtesy of Market Scope, LLC.

Every dollar of that was a profit margin that could have been used more productively had it been available.

A DIFFERENT SET OF RULES

Some skeptics may suggest that, had LASIK prices not been lowered, procedural declines would have been even worse. Recently, a few industry observers have pointed to the recent rapid growth of one of the few remaining deep-discount corporate LASIK chains as evidence of price sensitivity on the part of consumers. Both of these arguments fail to take into account that healthcare economics follow a somewhat different set of rules than that of other markets. Even in a weak economy, consumers view healthcare decisions, especially those involving eyecare, differently from other consumer categories. For example, numerous products and categories in healthcare have thrived during this 3-year period. Several cosmetic surgeons report tremendous growth in their business over the past 3 years and are being helped by extensive corporate advertising (eg, Botox Cosmetic; Allergan, Inc., Irvine, CA) as well as positive news stories such as ABC's new hit series "Extreme Makeover." One plastic surgeon I've known for years commented, "What's wrong with those ophthalmologists?" He has never understood why the profession seeks to discount the price and perceived value of its services to consumers who are ready and willing to pay. These are the same consumers who pay for other healthcare procedures with their disposable income. "Don't they get it?" he asked. Apparently not.

The problem has been less about price and much more about the ophthalmic profession's inability to deal with the issue of price. Contrary to conventional wisdom, price is not the barrier to patients' electing refractive surgery (that

award goes to fear). Failing to understand this truth, however, has caused a knee-jerk reaction by physicians and patient counselors whenever they hear the phrase, "It's too expensive" or "I can get it done cheaper down the street." These statements are typically used as an excuse by the patient to cease moving forward in the decision-making process.

These natural defense mechanisms protect against the fear of pain, blindness, and suffering associated with anyone touching their eyes. Until these fears

are properly explored and addressed, it's simply unreasonable to expect any patient to move forward.

No amount of discounting will succeed in overcoming consumer fear. The LASIK market has not grown at all, even with the wide availability of the procedure at prices as low as \$300 per eye. Those patients who respond to low-price advertising or the discount offered during the consultation are those who were already well on their way to making a decision to undergo refractive surgery.

CORRECTIVE MEASURES

How do we turn this market around? It will not be easy, because consumers have now learned to ask for a discount, shop around, and stomp their feet until they get a lower price. A turnaround can occur, but it will take a concerted effort in each of the following three areas.

1. Stop undervaluing your skills.

Every ophthalmic surgeon has completed years of training to be able to perform eye surgery. In the context of the greater marketplace and relative to other professions (such as real estate), laser eye surgery is a premium product that can only be performed by a select few professionals. Providers need to start acting the role of premium providers, which begins with vastly improving their levels of customer service (see "The Art of Customer Service" on page 55) to match the incredible technology and patient benefits afforded by refractive surgery.

2. Take patient financing much more seriously.

In the average refractive practice, approximately 10% of patients use some form of patient financing. This percentage is far below the norm in other consumer categories. However, those practices that have successfully weathered the storms of the past 3 years (and there are many of them out there) typically see 30% to 50% of their patients use financing. The reasons are: they maintained their price point (ie, they didn't lower their prices to try to match other

providers'), they have continued to spend money on marketing and advertising, and they have successfully made patient financing a core aspect of their overall offering. Zero-interest financing, now a popular financing tool, has long been part of the standard offering of these practices, rather than something pulled out of the desk at the last minute.

These high-achieving practices have seen procedural growth, or at least lesser decline, than industry averages. As I described in an earlier article on patient financing ("The Buck Stops Here," June 2002, available at www.CRSToday.com), their success has more to do with their attitudes

towards patient financing than anything else.

3. Leverage new technology to change your message to the marketplace.

Through customized ablation, femtosecond flaps, and (eventually) refractive IOLs, the ophthalmic industry is striving to make refractive surgery better for patients. From the perspective of the millions of consumers who are taking a "wait and see" approach, better must translate into safer. This is defined by the consumer as less risk of complications, elimination of night-vision problems, and an improved overall quality of vision.

The rapid advancement of ophthalmic technology has been a gift from industry because it allows physicians to address these patient concerns. Now, it is up to every single eye care professional to learn a new set of messages that replace the failed messages about 20/20 vision, price, or new technology. The dialog has to be about better vision, because that is what patients want and are willing to buy.

FINAL THOUGHT

The refractive surgery industry has often been measured by how fast it has grown (or, more recently, not grown). If nothing else, the debacle of discount pricing should turn everyone's attention toward how to make it grow stronger rather than just faster. This core foundation of strength will be needed to make sure we don't repeat the same mistakes over and over again. ■

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