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## Patients, value and the industry

### The cost-benefit equation.

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To survive long-term any business—and that includes your optometric practice—needs to clearly and positively answer three vital questions.

1. What does my business represent in the market place that makes it different from our competitors?
2. How well does what we offer match the requirements and expectations of our patients?
3. How will we make our offering real and sustainable?

In this article I have used two terms, **value equation** and **value proposition**.

A patient's **value equation** is the sum of tangible and intangible benefits relative to the cost of those benefits, expressed as their individual needs and wants. It is a personal expression of a desired outcome that each patient develops and holds. It is formed through personal experience, the experience of others, marketing, education and research.

**Value proposition** is the provision of a corresponding combination of three factors—tangible features, intangibles such as brand, and price.

### The New Challenge

The challenges for many optometrists are defining what makes them different from their colleagues, and countering the strong **value proposition** aimed at influencing buying behaviour put forward by some providers.

Until about five years ago, the formula was simple: people needed spectacles and you were optometrists. Provided you did not make a horrible mess of it, patients came and went away happy. Times have changed.

New market entrants are everywhere in optometry: Specsavers, BigW, Costco, Lenspro, Eyecare Partners. The list of players grows and many are expanding rapidly with acquisitions and new locations. Most are offering clearly stated **value propositions** that are calculated to educate and appeal to the market, and create an advantage for their practices and stores beyond a simple service relationship.

Profit margins are the attraction for new players. A business like BigW can add \$500,000 in store sales for \$200,000 in capital investment, and make 20 per cent or more net profit from its

operations, with a pay-back in two years or less if things go well. They have the floor space and the potential patients already. They would be silly not to do it.

Compare the profit margins of other service and retail businesses.

Fish and chips	12.5%	Shoe shop	12%
Hairdresser	25%	Liquor store	6.5%
Restaurant	12%	Supermarket	5%
Optometry	25%		

There are not really any economic barriers to market entry in optometry and the return on investment is very good compared to available returns from other opportunities.

New locations can be found or acquisitions can be sourced. Retiring baby-boomer optometrists are creating a big opportunity to acquire stable and developed practices along with experienced staff members. When considering new locations, the presence of existing optical providers does not deter those with a strong plan and a belief in the effectiveness of their value proposition and positioning in the market.

Labour is probably the single biggest limitation on the capacity of new entrants in the market to expand. Supply of optometrists is limited and will probably not change for some time, although in recent months there appears to be an increase in movement in this labour market. Skilled optical support staff is also hard to attract. In some parts of the country, finding a locum or replacement optometrist is nearly impossible, and expensive if one is available.

Basic economics dictate that high margins will encourage increased supply until the margins reduce to a point where entry no longer becomes viable and attention shifts elsewhere, but there will still be those that maintain their margins.

## **Competition and Strategy**

Market positioning is an essential element of an effective strategy. Years ago, most practices had little need for a clearly defined strategy. Just being a good optometrist was enough. Sometimes, it still is but there is a greater imperative now to be good at business as well as a highly effective health professional.

Driving the strategy of most new players in the market is the potential to fulfil the value equation of patients through a matching value proposition and present this to the market in a sophisticated and attractive way.

Correct assessment of the patient's value equation is essential, and the provision of a corresponding combination of three factors—tangible features, intangibles such as brand, and price position—is the key to success. If we refer back to the three essential questions posed earlier, an understanding of what drives people to buy in optics and what underpins their behaviour will allow us to create a successful value proposition.

In the past, the people who purchased optical products and services were relatively uneducated about eye care and eyewear, and generally they remain so but this does not prevent them from developing a value equation.

Two of the most active players and at least two recent entrants in the current market have value propositions based on price, and this position dominates in many smaller practices. The price of products and services seems to be a fundamental part of the value proposition of many optical providers. Why is this so? Our patients are not usually price shoppers.

For a patient to effectively balance their **value equation** they need knowledge and most do not have it in relation to the tangible and intangible features of optical products and services. What is left is a focus on price, the third component. Contrast this position with the brand buyer who asks for Fendi or Chanel. The intangible brand benefit outweighs the price for these patients.

## How To Compete

To compete in an increasingly competitive market place the challenge becomes apparent.

1. Have a real advantage that is sustainable and tangible for your patients.
2. Help them to complete their value equation in a way that meets their real and not just apparent needs and wants.
3. Present your value proposition through effective marketing and communication, and make your message clearly different from those of your competitors.
4. Make sure you deliver your promises.

The only way to achieve this is to know your strengths and weaknesses and have an action plan that guides you towards your goals. Constantly work on your practice. The practices that are content to rest on their past achievements, or fail to develop a greater understanding of what drives their patients, sooner or later will find the going tough in the new order.

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