The Future of Hearing Aid Purchasing: Ensuring Independent Practices’ Profitability

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Speaker Disclosure: Joseph Alden, Au.D.

- Relevant Financial Relationships:
  - co-owner/partner of Alpaca Audiology
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Why Does Purchasing Matter:

• Purchasing is one of the most important aspects of the future of Audiology
  • Yet it is rarely discussed.

• Clinical practices take precedent at conferences; and manufacturers spend time on educating about their product.
  • These are their respective “comfort zones” so it is expected

• “Best practices” in purchasing for Audiology has become my area of expertise.

• Current purchasing habits of Audiologists are counter productive to the goals many of us have for the future of our profession
Why Does Purchasing Matter:

• Where you buy your product and who you buy it from has an immediate impact on your individual clinic

• But it greatly impacts the future of Audiology
Common Question:

• “Why doesn’t a manufacturer give me the same deal they give Costco®?”
Adoption Rate:

- Hearing aid adoption rate: 25%
- Average time before seeking help: 7 years
- Technology has significantly advanced
  - Satisfaction rates have remained unchanged
Barriers to Increasing Adoption Rate:
(Kochkin, 2012)

• Hearing aid features
  • perceived benefit

• Hearing aid utility
  • perceived benefit

• Psychosocial
  • stigma; cosmetics/invisibility

• Financial
International Adoption Rates:
(Hourgaard & Ruf, 2011)

• England:
  • Provides free hearing aids
  • 38.6%

• Germany:
  • Provides partial reimbursement
  • 31.8%

• France:
  • Private market (similar to US)
  • 29.8%
Barriers to Increasing Adoption Rate:
(MarkeTrak VIII)

• What percent of non-adopters would wear hearing aids if they were free and invisible?
  • 55%

• Think about that!
Financial Inelasticity:
(Aaron, 1987; Kochkin, 1992, 1994b; Amlani & De Silva, 2005)

- Multiple studies have shown hearing aid prices to be inelastic
  - No matter how much you reduce the price, you cannot make up the revenue by an increase in demand
  - This is extremely important to manufacturers!

- The adoption rate for “free” aids in England is 38.6% and our current adoption rate is already 25%.
  - That means if a manufacturer reduced your price by 50%, they would have to sell twice as many hearing aids in order to just break even.
  - The numbers tell us that it won’t happen on it’s own

- All hope is not lost!
Question:

• Does cost have an impact on patient satisfaction?

• It’s complicated.
Cost, Benefit, and Patient Satisfaction:

• Cost and patient satisfaction
  • No direct correlation; however there is an indirect correlation
• Cost has a direct relationship to \textit{expected} benefit
• Benefit and patient satisfaction
  • High direct correlation
    • Highly satisfied when obtaining substantial benefit
    • \textbf{Most satisfied paying moderate price for substantial benefit}
    • Highly dissatisfied paying top dollar for mediocre benefit
    • Highly dissatisfied when paying low dollar for low benefit
Cost, Benefit, and Patient Satisfaction:

• It has been proven that “benefit” is the key to patient satisfaction
• Signal processing and sound quality are the most important features that impact patient satisfaction
• The higher the cost, the higher the benefit the patient expects
• Patients are most satisfied when paying moderate price for substantial benefit
• Therefore, from a purely pricing perspective, providing a premium product for a moderate price is the most likely scenario to result in increased patient satisfaction
Cost, Benefit, and Patient Satisfaction:

- If cost has a direct relationship to expected benefit; and benefit has a direct relationship to patient satisfaction...

- Cost has an effect on patient satisfaction!!!
Questions:

• Why do we fit hearing aids that are not top of the line?

• Does Costco® fit non top of the line hearing aids?
  • “From a purely pricing perspective, providing a premium product for a moderate price is the most likely scenario to result in increased patient satisfaction”
  • What is their model missing?

• Does the VA?
How do they get the deal?

• How can Costco® (big box stores in general) and the VA have such low pricing?
  • Volume

• Contractual relationship
  • Guaranteed revenue

• Premium only technology
  • Reduces operational expenses (SKU’s)
Hearing Aids Sold:

• VA Calendar 2015:
  • 710,223 hearing aids
• US Commercial Market 2015:
  • 2,646,626 hearing aids!!!
  • Over 3x as many hearing aids than the VA
  • Yet the average comparable hearing aid is 3-4x more expensive for the independent professional
Why can’t we get the same deal?

• No independent entity, that represents a large enough amount of units has ever prioritized price.

• Any that have potentially existed have been purchased by manufacturer parent companies, or they prioritized “value adds” over pricing.

• Until now...
Purchasing options: Micro-analysis

- Traditional Buying Groups:
  - Originally marketed as collective purchasing to drive down costs
  - Has morphed into an organization that offers “value added” services at a premium
  - Purchases the hearing aids from a manufacturer and marks them up, some 100-110%, before reselling them to members
Purchasing options: Micro-analysis

- **Traditional Buying Groups:**
  - **Pros:**
    - Offers value added services to members
  - **Cons:**
    - Completely ineffective against Costco® model
    - No longer directly purchasing from manufacturer
    - Highest cost of goods on average
    - Bundled model: You pay for services you do not utilize, that are not offered to you, or that they promised but did not deliver. Make sure you utilize all of the services that were promised to you.
Purchasing options: Micro-analysis

• Direct Purchasing:
  • Leverages your individual clinic’s business in order to get the best pricing possible based on the finite number of units you produce/commit.
  • Relationship remains direct from manufacturer to business.
Purchasing options: Micro-analysis

• Direct Purchasing:
  • Pros:
    • Typically cheaper than traditional buying groups
    • Manufacturer may provide some value add services based on volume and loyalty
  • Cons:
    • Most clinics are only big enough to have aggressive pricing with one manufacturer
    • “Silo effect”
    • Unable to compete with Costco® model as one clinic does not fit enough aids to warrant such an aggressive price point (financial inelasticity)
Purchasing options: Micro-analysis

• Audiology Negotiating Network:
  • Created as a direct response to big box store expansion of hearing aid sales for independent practitioners (private practice, ENT, Hospital, University clinics, etc.)
  • Combines the benefits of direct purchasing with collective purchasing power that traditional buying groups were supposed to provide
  • Results in achieving lower invoice prices for members than what can be achieved alone...especially as the network grows!
  • The more the network grows the more significant the savings become
Purchasing options: Micro-analysis

• Audiology Negotiating Network:
  • Pros:
    • Able to compete with and potentially overcome Costco® model
    • Allows for Direct purchasing from manufacturers
    • Manufacturers can still provide additional value adds direct to members based on volume and loyalty
    • The Network does not purchase the aids and mark them up 100-110%...so the increased profitability goes to the members
    • The business of all units put into the network is leveraged when negotiating
    • Aggressive pricing for many companies can be achieved
    • Value add services are ala carte (do not pay for what you do not use)
    • Free to join! No fees, dues, or costs
  • Cons:
    • Value add services are ala carte
Purchasing options: Macro-analysis

• Traditional Buying Groups:
  
  • Units going to a larger good; however, what is the goal of the organization they are going to?
  
  • Who owns the organization the units are going to?
  
  • What is the group doing to further the profession of Audiology?
Purchasing options: Macro-analysis

• Traditional Buying Groups:
  
  • Traditional buying groups are holding independent Audiologists back from being competitive against big box stores, third party insurance, and manufacturer owned retail
  
  • They are operationally so bloated that they will never be able to offer its members a "Costco®-like" deal...
  
  • And they do not want to because most are owned/funded by manufacturers
    • Financial Inelasticity!
Purchasing options: Macro-analysis

• There is no independent professional purchasing power resulting from traditional buying groups.

• They keep profits for themselves

• Almost all are owned or funded by manufacturers

• Might as well flush your market share down the toilet
Purchasing options: Macro-analysis

• Direct Purchasing:
  • No impact on the profession of Audiology.
  • Your units count for your clinic only.
    • This can result in very good pricing for 1-2 manufacturers, but typically not all
  • Silo Effect
Purchasing options: Macro-analysis

- Direct Purchasing:
  - Silo effect
  - "Head in the sand"
Purchasing options: Macro-analysis

- Audiology Negotiating Network
  - Ability to enact change by working together
  - Eliminates the ”silo effect”
  - Ability to challenge and overcome the big box store model, third party insurance, and manufacturer owned retail by leveraging the collective towards one goal!
Purchasing options: Macro-analysis

• Audiology Negotiating Network

• Power in numbers!!!

• Imagine a network that wants its providers to receive credit for the hearing aid sale while the third party only receives a small referral fee...are you buying through them?
Who Owns What?!

- Elite Hearing Network
- Amplifon “The Leader of Hearing Healthcare Benefits”
  - Miracle Ear (retail) “The Most Recognized Brand in the Hearing Industry”
  - HearPO / Amplifon Hearing Health Care (third party insurance)
Who Owns What?!

American Hearing Aid Associates (AHAA)

- William Demant Holding Group
  - Oticon
  - Bernafon
  - Sonic Innovations
  - Hearing Life (retail)
  - AccuQuest (retail)
  - Whisper Hearing (retail)

- AHAA Third Party Payers:
  - Your Hearing Network (YHN)*
  - BCBS – North Carolina
  - United Healthcare / Health Allies

  - * “A unique affiliate program that provides no-cost access to managed care reimbursement opportunities, Your Hearing Network allows you to maintain a competitive edge in the era of big box stores and increasingly value-conscious consumers.”
Who Owns What?!

- OneSource
- Sonova
  - Phonak
  - Unitron
  - Hansaton
  - Advanced Bionics
  - Connect Hearing (retail)
  - Hearing Planet
  - EPIC
Who Owns What?!

- Audigy
  - GN Group
    - ReSound
    - Interton
    - Beltone
  - AGX (private label of Audigy)
  - Kirkland Signature (private label Costco...lost to Siemens/Sivantos/Signia)
Who Owns What?!

- Audiology Management Group (AMG):
  - Widex
    - Bloom Hearing Specialists (retail – Europe)
    - Helix Hearing Care (retail – Canada)
    - Audiofon
    - Hearing Rehab Center (18 locations in Colorado via AMG)
Hearing Tracker

• Shout out to Abram Bailey and Hearing Tracker for their efforts

The Cost of “Value” Adds: Case Study

• Audigy sold to GN Group for up front payment of $91 million and earn out payments of up to $60 million based on future success.
  • 80,000 units
  • 600 points of sale

• That means that the average Audigy point of sale was only doing 11 units per month
  • Despite all of the “value adds” that members were paying for...
The Value of “Value” Adds: Case Study

• So instead of using 80,000 units to negotiate better pricing for members to be more competitive with big box stores, third party insurance, and manufacturer owned retail...

• They used their purchasing power to sell for a potential $151 million and remove their units from being leveraged again.

• Just like all of the other traditional buying groups!
The Cost of “Value” Adds

• 10 units / month @ Traditional Buying Group pricing:
  • Paying $300 - $500 more per unit for the “value adds” on invoiced price
  • $3,000 - $5,000 per month in additional costs
  • $36,000 - $60,000 per year in additional costs

• This type of analysis is necessary on individual clinic levels in order to help determine the efficacy of value adds

• Ask yourself, are the services I’m receiving worth X per year?
Why are Big Box Stores the Dealbreaker?

• Audiologists have decided to draw a line in the sand
  • Some are boycotting key manufacturers that are present in big box stores
  • Pretty soon we will be left with no manufacturers
  • Manufacturers are joining big box stores because that’s where the growth is
    • They are a business. It is their job to grow

• Remember...Financial Ineslasticity!
  • Manufacturers will not give the same price to an individual clinic because they will lose money doing so.
Why are Big Box Stores the Dealbreaker?

• It is okay to be mad about the growth of big box stores!
• It is okay to be mad about third party insurance!
• It is okay to be mad about manufacturer owned retail!

• But lets make sure that we channel our anger into a solution!
  • Just being mad at one manufacturer doesn’t make sense. Let your purchases count for more.
• We cannot keep doing the same thing over and over again, but expect a different result!
Why are Big Box Stores the Dealbreaker?

• It is our job as a profession to change how we purchase in order to compete...or get left behind.
  • If we want the same price, then we need to come to the table in a new way. This type of model is not new...its just new to Audiology
  • Traditional buying groups with enough volume will not deliver this model because:
    • They are owned/funded by manufacturer money
    • They are operationally so bloated that they cannot afford to lower their profit model without massive layoffs
• The only current purchasing model capable of delivering change is an Audiology Negotiating Network
Best Practices of Purchasing:

• Get multiple quotes!!
  • Traditional buying groups
  • Direct pricing
  • Negotiating networks

• Determine the cost of “value adds”
  • Make sure that you receive all services you were promised because you are paying for them regardless.
  • Take advantage of as many services as possible if they are bundled into price

• Make an informed decision based on facts for your practice now and for the future of Audiology
Ensuring Future Profitability

• How we purchase (hearing aids, equipment, parts and pieces, services, etc.) impacts the profitability of independent Audiology practices now, and in the future.

• As the competitive landscape of Audiology continues to become more crowded and convoluted; it becomes inherently more important for independent practitioners to band together to ensure their future profitability and relevance.