

# Survival Strategies in a Competitive Hearing Healthcare Market

## Part 1: Consolidation and events leading up to our present market environment

By ROBERT M. TRAYNOR, EdD, MBA

To formulate any reasonable strategy for thriving in today's hearing healthcare market, it is useful to understand where we are today, how we got here, and what might come in the future.

Part 1 of this 2-part article offers a perspective about how industry consolidation has changed the hearing healthcare market and the current major trends that could influence the future strategies of an independent practice owner.

Fueled by the economic promise of an enormous baby boomer generation, competition has doubled and even tripled in many markets in the past few years. While some of this new competition is from independent audiologists setting up new clinics, the larger portion represents the expansion of big box stores, franchise hearing aid sales, and manufacturer owned hearing aid sales operations. Since branding has traditionally not been a major factor in consumer purchases,<sup>1</sup> all of these venues are considered the same or similar by consumers, and an intense rivalry continues to evolve between independent audiology practitioners and these hearing aid sales operations.

Generally, the challenges to success and the hurdles that must be cleared by a new audiology practice in this new competitive marketplace have been discussed mostly negatively. Building an independent audiology practice is deeply personal and time consuming, as well as a financially risky. The very thought of someone else playing in your sandbox elicits feelings of rivalry, anxiety, and

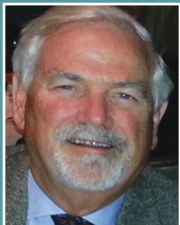
defensiveness.

The naysayers forget that we now have a substantially larger sandbox in which we can all play (Figure 1). Our challenge, however, is not to leave the sandbox but to *find the correct place* in the sandbox to build our castles. To fully understand competition, we need to appreciate that industries, such as audiology and hearing aid dispensing, naturally evolve and are constantly changing according to technology, knowledge, and economics. The process of adjusting business operations to meet these new competitive challenges requires an understanding of:

- Why does this happen?
- When and how did this happen?
- What is the result of the process?

### Industry Consolidation: Why Does This Happen?

Myers<sup>2</sup> indicates that natural industrial evolution is almost inevitable and begins by consolidation or integration of product manufacturers. Bofah<sup>3</sup> describes industry



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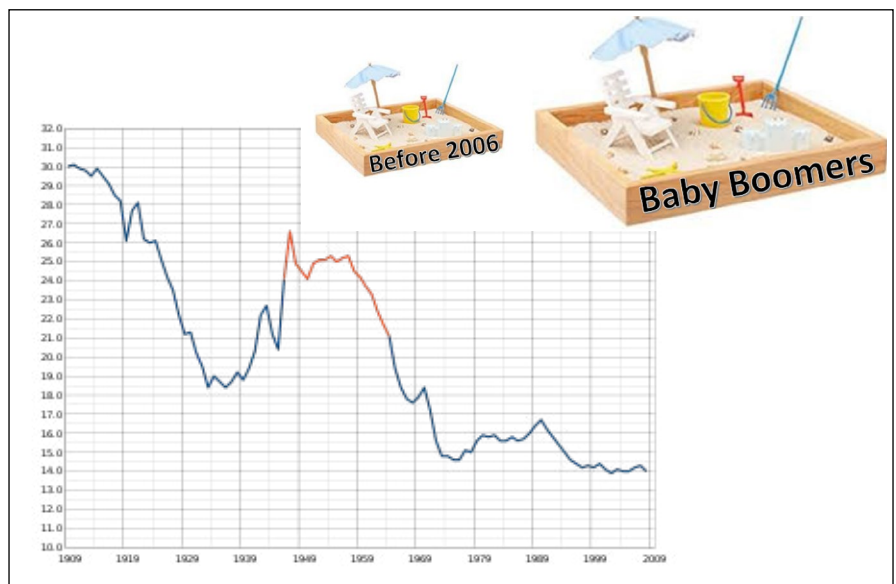


Figure 1. US birth rates per 1000 people as reported by the CDC. The baby boomer generation (1946-1964) is highlighted in red, representing some 76 million people. With the average first-time purchaser of hearing aids being age 63 (according to MT9), it is clear that the hearing healthcare market has a much larger sandbox in which to play. By 2029—when all of the baby boomers will be 65 years and over—more than 20% of the US population will be over the age of 65, according to the US Census Bureau.

consolidation or integration as a process that begins with product manufacturers purchasing or obtaining a controlling interest in other companies within the same industry, resulting in the reduction of competitors within that industry. The main goal of corporate consolidation is to grab market share, cut costs, boost productivity, gain patents and technology, as well as improve investment returns through economies of scale. Industry consolidation is usually characterized by one of the three categories:

- *Horizontal integration* combines similar companies and products within an industry and, as a result of binding the companies together, the purchasing company becomes larger and often realizes greater market share.
- *Vertical integration* consolidates companies so that each member of the supply chain produces a different product or service that works together to satisfy the common needs of the corporation.
- *Forward integration* is a vertical business strategy whereby business activities are expanded to include control of the direct distribution of a company's products to the consumer. A good example of forward integration is the sale of hearing aids directly to the consumer by manufacturers and bypassing audiologists and/or other "resellers." Forward integration is a deliberate operational strategy implemented by a company that intends to increase control over its distribution channels, so it can increase its power over the market. For a forward integration strategy to be successful, a company needs to gain ownership over businesses (or practices) that were once customers, such as the purchase of independent audiology clinics and hearing aid dispensing practices.

In the author's recent book<sup>4</sup> with Robert Glaser, we suggest that an excellent historical example of natural industrial consolidation is the auto industry. Consider that, in the early part of the 20th century, there were literally hundreds of small automobile companies in the United States. For a few years, they all flourished as companies struggled to manufacture enough cars to meet the consumer demand. Initially, the need for vehicles was so great that consumers did not care too

much about brand—only that automobiles were available, affordable, and reliable transportation.

After a few years, the large demand for vehicles diminished and, by the mid-1920s, these small automobile companies struggled against each other as well as the larger, more efficient competitors for essential manufacturing materials and market share. Many of the smaller, less efficient companies eventually went out of business or were purchased by the larger, better managed automobile companies.

To compete with these larger companies, the surviving smaller manufacturers banded together into buying groups to purchase their building materials in bulk and, in return, they were given more favorable prices. Although those that banded together had to deal with buying group politics and other issues, the non-buying group participants paid a higher price for component parts, metals, and rubber, as well as other essential materials. This resulted in these companies having less funds for marketing and other operating expenses.

In the auto industry, a shining example of consolidation was General Motors under the leadership of Alfred P. Sloan, Jr (Figure 2). In the 1920s and 1930s, Sloan and his staff invented the concept of planned obsolescence by putting a new emphasis on largely cosmetic annual model changes and a planned 3-year major restyling that coincided with the service life of the factories' production tools. The goal was to make consumers want to "bring in and trade up" to a more expensive new model long before the useful life of their present cars had ended. Sloan's philosophy was "the primary object of the corporation... was to make money, not just to make motor-cars."<sup>5</sup>

By the 1950s, industrial consolidation and other innovative corporate philosophies had dwindled the major competition down to the "Big 3" auto makers: General Motors, Ford, and Chrysler. Later, having horizontally consolidated as much as possible, vertical consolidation began and flourished as the automobile manufacturers began their purchase of companies that

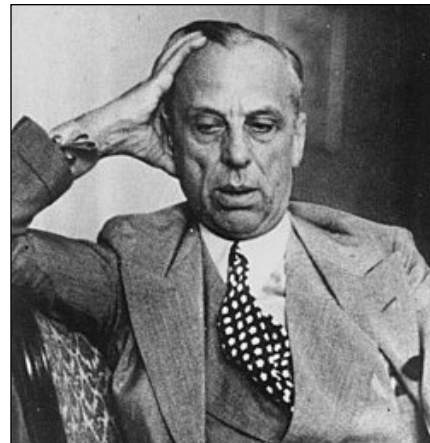


Figure 2. Alfred P. Sloan, the key competitor of Henry Ford, headed General Motors for decades, transforming it into the largest corporation in the world during his tenure.

used to make the engines and other vehicle components.

Forward integration also began by purchasing dealerships to offer their products directly to the consumers. Although they purchased dealerships outright, they offered loans and other incentives to the dealers that, over time, were difficult to pay back and eventually the manufacturers took over the dealerships. This acquisition process was so successful that the manufacturers eventually owned a significant number of distribution points, where they could manufacture the products with components from companies they owned, and could sell the finished vehicles directly to the consumer without the "middle man" taking a share of the profits. This put the Big 3 auto manufacturers in full control of both the manufacturing and distribution of their products, greatly increasing profits.

This story might sound familiar to those in the hearing industry, particularly for independent practitioners who are currently dealing with intense competition. This natural industrial consolidation, both horizontal and vertical, has been going on for quite some time in hearing healthcare. In fact, the pro-

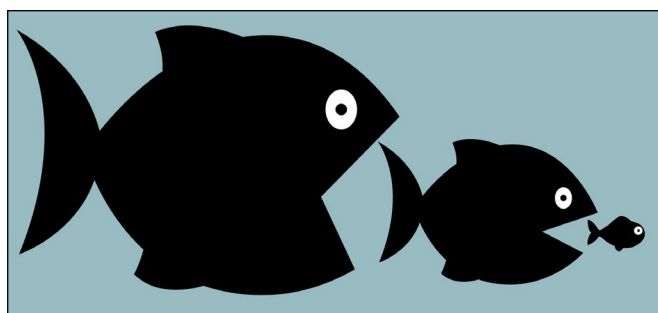


Figure 3. Industry consolidation and the "Law of the Fishes": The big ones eat the little ones, so the little ones must be fast and numerous. Image: ©Vertes Edmond Mihai | Dreamstime.com

cess is considered normal for any maturing industry, and the transformation has obvious similarities to the 20th Century's automobile industry consolidation. The goal of industry consolidation, to restyle Alfred Sloan's quote, is "to make money....not just hearing aids."

### Industry Consolidation: How and When Did This Happen

Deans, Kroeger and Zeisal<sup>6</sup> report that, once the industrial consolidation process begins, there are four stages of progression:

- **Stage 1: Opening.** Building products that do a good job for the end user.
- **Stage 2: Scale.** Companies building reputations. Major players purchase weaker ones and empires begin to form (horizontal integration).
- **Stage 3: Focus.** Successful companies begin purchases of allied companies (horizontal integration). Vertical and forward integration begins.
- **Stage 4: Balance and Alliance.** Forward integration continues aggressively. Successful manufacturers are now competing with their customers—hopefully, but not necessarily, in a smart and mutually profitable manner.

Figure 4 illustrates an adaptation of the Deans et al<sup>6</sup> model to several decades of evolution within the hearing industry. Stage

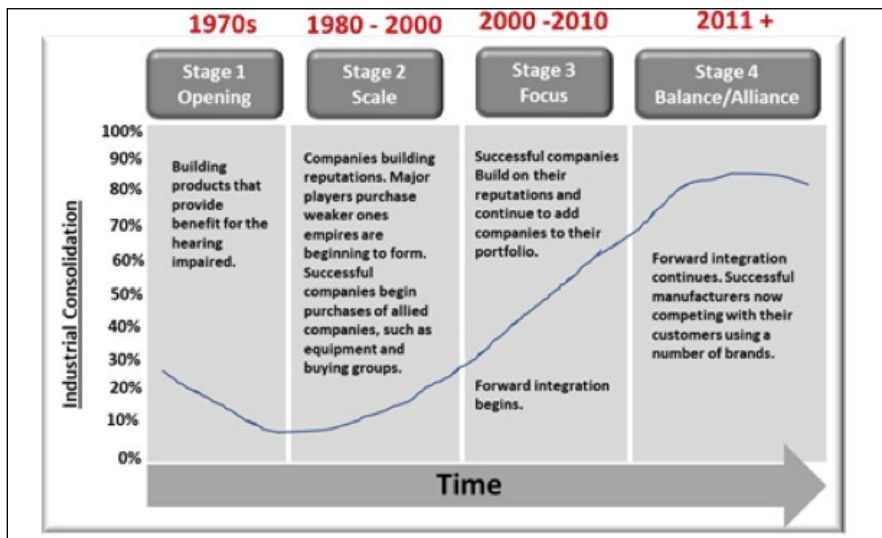


Figure 4. The four stages of industrial consolidation, according to Dean et al.<sup>6</sup> Graphic from "Strategic Practice Management: Business Considerations for Audiologists and Other Healthcare Professionals", 3rd Edition (p 60), by Robert G. Glaser and Robert M. Traynor, Copyright © 2012 Plural Publishing Inc. All rights reserved.

1 or Opening stage of the consolidation process began while still working with conventional analog circuitry in the 1970s. While manufacturers were formidable competitors in the marketplace, their altruistic motives were paramount in their attempt to provide the most technologic, reliable, and beneficial products for the hearing impaired. The Stage Two or Scale period began as the digitally controlled, analog circuits were available to the marketplace in the late 1980s. Some hearing care manufacturers were building reputations for better products over others and,

due to competitive issues, horizontal consolidation began as more efficient companies purchased technologically outdated competitors. During this period, consolidations were primarily conducted to obtain patent rights as well as for hardware, software and programming innovations. Further, it was also to acquire famous brand names that had not kept up with sales and marketing of their products or that were financially troubled. Stage 3 or Focus phase began somewhere around the year 2000. At this point, hearing care corporate executives adopted the "Alfred Sloan philosophy" that, "the primary object of the corporation ... was to make money, not just to make hearing aids". This was summarized by Kirkwood<sup>7</sup> who noted, "As in virtually every industry, hearing care has seen a trend of bigger companies buying up smaller companies." Kirkwood<sup>6</sup> and Strom<sup>8</sup> (Table 1) noted an especially hectic period of consolidation from 1999 to 2002 highlighted by:

- Beltone purchasing the hearing aid division of Philips Electronics.
- Starkey Laboratories purchasing Micro-Tech.
- Siemens Hearing acquiring Electone.
- GN Store Nord A/S purchasing ReSound and Beltone.
- Unitron Industries acquiring Argosy and Lori Medical.
- Phonak AG (now Sonova Holding) purchasing the Argosy/Lori/Unitron group.

<ul style="list-style-type: none"> <li>◆ Phonak Group purchased the Argosy/Lori/Unitron Group;</li> <li>■ GN ReSound purchased ICS Medical (VNG/ENG equipment manufacturer)</li> <li>→ GN ReSound purchased Bass &amp; High (Spanish chain retailer);</li> <li>◆ Magnatone acquired Perfect Ear;</li> <li>→ The formation and building of the Audibel and AVADA chains (affiliated with Starkey and William Demant, respectively) attracted a number of dispensing offices (including several ex-Beltone offices);</li> <li>→ Amplifon, owner of Miracle Ear, purchased Acoudire BV (a leading Dutch retail distributor);</li> <li>→ GN ReSound acquired Dana Japan (their Japanese distributor).</li> <li>→ Phonak Group acquired Hansaton (Austrian distributor).</li> <li>→ Siemens entered into an agreement with HEARX;</li> <li>→ GN ReSound entered into an agreement with Sonus;</li> <li>→ Sonic Innovations purchased ME-Hearing (Australian dispensing chain);</li> </ul>	<ul style="list-style-type: none"> <li>→ Hearx and Helix agreed to merge and to form HEAR USA.</li> <li>→ William Demant Holding purchased 49% of American Hearing Aid Associates (AHAA);</li> <li>→ GN ReSound acquired 25% of Ultravox Holdings (UK/Irish retailer);</li> <li>◆ Interton purchased Authorized Hearing Systems;</li> <li>→ Helix finalized an agreement with National Ear Care Plan;</li> <li>* Phonak acquired Telex wireless CROS technology;</li> <li>■ William Demant purchased Tremetrics audiometer division;</li> <li>* Plantronics acquired Ameriphone;</li> <li>◆ Starkey and William Demant embarked on joint wireless consortium project;</li> <li>◆ Telex prepares hearing instrument group for sale.</li> </ul> <p>Source: HR and Carnegie Research<sup>5</sup></p> <p><b>Key to acquisitions/agreements/affiliations:</b></p> <ul style="list-style-type: none"> <li>◆ Manufacturer + Manufacturer oriented</li> <li>→ Manufacturer + Chain retailer oriented</li> <li>■ Manufacturer+ Special equipm. mft. oriented</li> <li>* Assistive device oriented</li> </ul>
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Figure 4. A list of acquisitions that took place in only the 2-year period from December 2000-December 2002 (from Strom 2003<sup>8</sup>).

This flurry of acquisitions resulted in a group of six larger and increasingly global companies, now often referred to as the “Big 6,” that dominate hearing care worldwide. The companies that form the “Big 6” are Sonova, William Demant Holding (WDH), GN Store Nord, Sivantos (formerly Siemens), Starkey Hearing Technologies, and Widex.

The Stage 3, or Focus period, also began the movement of hearing instruments into mass retail stores, such as Costco, Walmart, Sam’s Club (now other mass retail operations such as large pharmacy chains) estimated by some to make up 20% of overall hearing aid market by 2020.<sup>9</sup> The Big 6 companies also began to purchase the buying groups that had been established by independent hearing care professionals to reduce their purchasing costs. This allowed insight into independent practice and eventual control over some components of the market where there had been little influence in the past.

Initially, very controversial due to state legal and licensing issues, the Internet was also found to be an innovative new distribution channel, attracting new customers in an otherwise stagnant market. These new Internet companies ranged from low-priced hearing aid sales operations with no support for customers to businesses that encouraged customer interaction with “panel dispensers” across the country, available to provide fitting and follow up support as part of the purchase.

The Focus period also heralded the beginning of forward integration by some of the Big Six which served to increase corporate profits in the face of a stalled market for amplification, equipment, and other hearing care products. As in the auto industry, these new corporate retail acquisitions were dispensing practices where owners were retiring or in financial distress. Building upon their early success, forward integration spread to virtually all of the Big 6 hearing aid manufacturers.

Stage 4, or the Balance and Alliance phase, seems to have begun about 2011. By now, the hearing industry has been significantly consolidated and most are working with big box stores, some using their name brand (such as ReSound from GN Store Nordic, Phonak from Sonova) and others using one of the “sister brands” that they purchased in the consolidation phase (such as Bernafon from William Demant or Rexton from Signia). In this stage, many now own or have major financial interests in buying groups, such as American

Hearing Aid Associates (WDH) and Audigy (GN). There are also myriad hearing-related Internet portals, including Hearing Planet (Sonova), YourHearing.com/HealthyHearing.com (WDH), and Audibene/Hear.com (Sivantos), that use a variety of innovative distribution techniques. The forward integration process has developed into a lucrative corporate profit center that even competes with their own-store customers, such as Connect Hearing (Sonova), HEARINGLife (WDH), HearUSA (Sivantos), and All-American Hearing (Starkey). Additionally, to further complicate the market picture, there are corporate retail businesses that have been purchased by the manufacturers and allowed to keep their original name, operating procedures, and old employees—but they essentially operate as a corporate retail store.

Today, we are even seeing alliances between manufacturers and third-party insurance providers. For example, Twin Cities area manufacturer IntriCon has supplied United Health’s hi HealthInnovations with hearing aids since 2011.<sup>10</sup> More recently, Sivantos purchased TruHearing, a third-party managed care administrator of hearing aid benefits for managed care plans.<sup>11</sup> With intense competition within managed care and the desire for Medicare Advantage programs to offer hearing aid benefits, it’s likely we’ll see more of this type of activity. Perhaps even more disconcerting, online hearing aid and PSAP companies are attempting to get their foot in the door of this market, as well.

Finally, while the above discussion has focused exclusively on hearing aids, it should also be pointed out that many of the Big 6 own separate entities that develop and manufacture audiologic/balance equipment, headsets, cochlear implants, FM systems, personal sound amplifiers (PSAP), sound-field equipment, and tinnitus remediation strategies.

### Intense Competition as a Result of Industry Consolidation

Now that the hearing industry has gone through the natural business cycle evolution associated with industry maturation, patients are inundated with competitive marketing that present numerous options about where to go for hearing care, thus confusing consumers as to their best options for treatment. The 39% of independent practices who are left in this huge hearing care sandbox<sup>9</sup> need to build a competitive castle using all the infor-

mation available; we need to build a strategy that fits within the overall marketplace and within our respective communities. Part 2 of this series discusses a model of strategic competition that uses specific methods to gain intelligence on competitors. These methods will facilitate an understanding of how one practice compares to another and leads to the development of a strategic competitive plan in order to beat the competition in today’s marketplace.

### Acknowledgement

This article was adapted with permission for *The Hearing Review* from Chapter 3 of Dr Traynor and Robert G. Glaser’s new book, *Strategic Practice Management: Business Considerations for Audiologists and Other Healthcare Professionals, Third Edition* (Plural Publishing, 2018).<sup>4</sup>

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