Retail Pricing in Refractive Surgery, Part III

Signs of a turnaround.

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Three years ago, I became deeply concerned about the lowering of LASIK retail prices, and I wrote an article1 to try to shed some light on the issue of pricing and how it relates to consumers' adoption of LASIK. The key points of the article could be summarized as follows:

• lower prices were failing to stimulate additional demand for LASIK;
• the decline in LASIK prices, widely promoted by some ophthalmologists and corporate providers, devalued the entire value proposition offered to consumers by refractive surgery;
• a surgeon who cut his price in half had to work 2.5 times harder to achieve similar profitability; and
• with only 5% penetration, LASIK was only reaching the early adopters within the consumer population.

The following spring, I wrote a second article that quantified the impact discounting had had on the refractive surgery category.2 By that time, LASIK's dramatic drop in price had caused many surgeons to re-evaluate their desire to perform the procedure. Such a response was not surprising, considering the data from 2000 through 2002. When average LASIK prices declined from their high nationally by 24%, total procedural volume nationwide declined by 18%. I assessed the resulting financial impact on the category as follows:

• discounting cost the industry $1.67 billion, which amounted to $335,000 for the average refractive surgeon, and
• because the discounting was funded by a reduction in revenue (with costs remaining the same), every bit of this amount was lost profit. Ouch!

I also suggested that, although it took 5 years to build the value of refractive surgery in the mind of the consumer, it took just a few months in the year 2000 to destroy much of that value. Value pricing, as it was called by advocates back then, was a failed experiment. LASIK did not appear to follow the typical economic laws of supply and demand. To the contrary, most people continue to value their eyesight over their other sensory functions and think long and hard before allowing anyone to touch their eyes. The fear quotient about the LASIK procedure remains high today.
ANOTHER CROSSROADS

Now, more than 2 years later, we are at yet another crossroads in refractive surgery. The good news is that the past 36 months have shown a dramatic turnaround in LASIK pricing. As Figure 1 shows, average pricing has increased by nearly $100 each year and should reach $1,900 per eye for the year 2005. Notably, the total number of procedures performed has also increased during this time period. Moreover, the 10-year accumulation of data continues to reinforce the notion that lower prices do not lead to higher LASIK procedural volumes.

This turnaround did not happen by accident. For example, the industry made a concerted effort to develop technology that improved refractive surgery in the minds of consumers. Providers adjusted their fee schedules to simplify patients' operative choices and also offered creative financing to make the procedure more affordable. I want to review each of these points and how they shape the overall image of refractive surgery in the mind of the public. This topic is timely, because we are now at the early stages of refractive IOL technology, for which the lessons learned from LASIK are equally applicable.

MAKING IT BETTER

In late 2002 and early 2003, two technologies emerged that significantly impacted laser vision correction: customized ablation and femtosecond lasers. Both required expensive upgrades that promised to improve LASIK's outcomes and safety for patients. Manufacturers invested heavily in developing the right messages for surgeons to use when promoting the technologies and educating consumers, and the messages shifted from the marketing of the technology itself (a feature) to what the technology could do for the patient (a benefit).

Doctors increased their fees to offset the cost of these new technological upgrades (Figure 1) and reported that patients were not balking. Seemingly, the new technologies have helped reduce patients' concerns about the risk of bad outcomes and increased their willingness to consider surgery. For example, surveys of surgeons who offer flap creation with the Intralase FS laser (Intralase Corp., Irvine, CA) have shown that the “no blade” message has proven easy for the clinical staff to communicate and for patients to understand. The bottom line here is that patients are more willing to pay for a surgical procedure when they can see its value. New technologies have proven to be an antidote to the disease of discount pricing.
COMPARING MODELS

Granted, some argue that factors such as the economy and the Iraq war are behind fluctuations in procedural volumes. I acknowledge that a correlation does seem to exist between consumer confidence and LASIK procedural volumes, and the Market Scope newsletter tracks this relationship very closely. However, what if we could find a controlled comparison for the market of refractive surgery? Is there another product or procedure subject to the same environmental factors? Indeed, there is. Breast augmentation is the most widely performed surgical procedure by plastic surgeons, and its surgical fees of $3,400 per patient are in the same ballpark as LASIK’s. So what’s happening in that category?

As Figure 2 shows, the relationship between price and volume in breast augmentation has been very different than for LASIK. During the 9-year period ending in 2004, plastic surgeons have increased their fees by nearly 21%, and procedural volume has tripled. Same time period, same economy, and same catastrophic events (9/11, Iraq war). Furthermore, the plastic surgery industry has withstood negative PR similar to LASIK’s (the rupture of implants).

So, how does one explain the different outcomes between these similar markets? The history and dynamics of the plastic surgeon’s relationship to his patients is based more on the skill of the surgeon than the precision of the technology. These surgeons have done a very good job of maintaining the value of their role in the surgical process. Their professional societies closely monitor advertising and have strict rules governing what surgeons may and may not say to patients in terms of promising results. Moreover, as a group, plastic surgeons tend to have a much better understanding of what it takes to deliver an overall experience that reduces patients’ fear of surgery and builds on physicians’ primary asset, word-of-mouth referrals from satisfied customers. In contrast, the approach in refractive surgery has been to overpromote technology, price, and results.

MAKING IT SIMPLER

The second positive trend in refractive surgery during the past few years has been the reduction of tiered pricing, which began in the late 1990s as an attempt by providers to give their patients greater surgical choices at different price points. Patients were allowed to choose between different technologies or even different surgeons, each at a different price point. Some surgeons even stratified price by refractive error. However, there are unintended consequences to expanding the
range of choices for patients. In his book, The Paradox of Choice: Why More Is Less,3 psychologist Barry Schwartz illustrates how choice overload can make a consumer second-guess and stall his decision. More options mean more effort, and any postoperative problems will be interpreted by the patient as a bad decision. In refractive surgery, which inspires fear in many consumers to begin with, offering too many choices may cause patients to simply say, "I'll wait."

Because the new refractive technologies have allowed surgeons to clean up their fee schedules, many have reverted back to a single-price philosophy that sets the fee to include whatever technology is best indicated for each patient. Multiple-year surveys of Intralase customers4 have confirmed this trend: the percentage of those surgeons incorporating the femtosecond laser into their basic surgical fee has increased from about one-half to two-thirds. Single-option pricing has simplified the discussion of cost between the counselor and the patient.

MAKING IT EASIER

The third trend that has helped displace the discounting mentality in refractive surgery has been providers' increased adoption of zero-interest financing. A spinoff of the successful model used by automakers, no-interest financing has created the perception of value: patients can spread their payments for LASIK over 12 months or longer and not have to bear the interest. This message has been used effectively both to attract and to convert interested consumers into patients. Consumers are familiar with financing, and this method of payment is easier to fit into a monthly budget than a large cash outlay. No-interest financing provides more motivation to act than simply getting a lower price, and the option makes sense in the refractive category, where lower prices are associated in consumers' minds with lower quality.

Oddly, refractive surgery lags far behind other consumer categories' adoption of financing. As Figure 3 shows, only 22% of consumers use third-party financing (not including credit cards) for refractive surgery, a rate much lower than that used in the consumer electronics and furniture categories. A survey of 25 refractive practices that rank in the top one-third regarding LASIK volume showed a financing rate of 25% to 40% (data on file with SM2 Consulting). Many of those practices indicated that patient financing has expanded their marketing potential. My guess is that refractive surgery's lower average adoption rate is outdated thinking on the part of providers who view patient financing as a necessary evil rather than a strategic weapon.
Reality dictates that financing will become more important in the future. Household debt has nearly tripled in the past decade in the US (Figure 4). Factor in the introduction of premium IOLs at retail price points of $8,000 to $11,000, and financing becomes even more necessary in order to expand market acceptance. Just like the technological advances described earlier, patient financing is another antidote to the disease of discounting fees.

**IMAGE MATTERS**

Although the past several years have brought a healthy rebound in refractive pricing, the aftereffects of discounting will persist. Perceptions can become firmly planted in the minds of consumers, and the idea that LASIK is available for $299 hurts the image of refractive surgeons in patients’ eyes. Secondary to refractive surgery’s primary benefit—that it can get rid of glasses—consumers focus most on price. The industry must therefore work hard to change its image so that patients think about how great the surgeon is, not what price he charges.

**SUMMARY**

My goal in this article has been to put to rest any notion that price can be pulled like a lever to stimulate the demand for refractive surgery. A multitude of issues affect consumer demand, but price has not proven to be one of them. Unlike the economy, population demographics (eg, aging baby boomers), war, hurricanes, and avian flu, price is one issue that the surgeon fully controls. Additionally, physicians who plan to offer refractive IOLs can benefit from the lessons learned with refractive surgery over the past decade and thus help the field to grow and positively impact the lives of the spectacle-dependent population.

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