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Corporate Vrs Private optics ?



Without prejudice.

Optics is about to change

Optics as we know it is about to change into an industry, which will be dominated by large corporate players. They are posturing and positioning themselves to win a large slice of this lucrative cake.

Far from being a gentle contest, we are about to witness an ugly commercial war. This commercial war will pitch the limitless greed of investment money, technologies, lawyers, spin-doctors, business strategists and advertising cannons against the pathetically small and inadequate Pd ruler of the humble, small time optician or small optical chain.

I have been in the optical Industry for over three decades and have seen small relatively unknown companies, grow into international corporate giants and have witnessed, as large and small private companies disappeared overnight. Through all this tumult, the last decade in particular has seen a largest decline in independently owned optical companies.

This poses interesting questions for every one in the industry.

Is the rise of corporate optics good for us as individuals, or is it going to deprive us of independence, making us mere wage slaves in a future world, which will be dominated by optical giants? The question we really have to ask is: Where does the corporate's economic power come from and how are they using it to manipulate us into becoming servants to their cause ?

To gain an understanding of corporate strategy, allow me break the issues down by over-simplifying them.

Optical economics

To answer the question of where economic power comes from, we have to look at the issue of demand and supply.

The demand for optical goods and services naturally comes from our human need for clear and comfortable vision. We value our sight highly and are prepared to pay optical specialists handsomely for the provision of vision science based services.

This has been the case ever since the early Chinese made the first lens out of crystal nearly six thousand years ago. Up until the industrial revolution, optics was hand made and labour intensive.

In the early days of my optical training, I still saw the remnants of old hand-operated lens grinding and frame making machinery in the backrooms of my bosses old optical shop in Frankfurt and later again in Australia (which was in the mid 70's still in the optical stone age). The important point to remember is this:- Not that long ago, it took nearly a day to make a pair of spectacles. So a pair of glasses was about the same value as one day of labour plus the materials, a mark-up to run the shop and a profit for the boss. This established the value of a quality pair of specs at about 1 week's pay- of an average wage earner. This holds true almost anywhere in the world. The Chinese pay under US\$20 for a pair of specs, while we pay US\$500-800 in the western economies. The price difference reflects the differences in income.

Then the world changed during the industrial revolution and we no longer needed the manpower of our own people as well as the man-power of the multitudes of people we dominated during the colonial days. We can now produce almost any pair of glasses- irrespective of the brand- for under \$5 in material and manufacturing value (excluding western labour).

The labour content has been reduced to a minimum and the ritz and science-spin-doctor babble and shopping centre rents associated with selling spectacles, now demands the lion share of the product costs. This means that we can make a pair of spectacles for \$5 and sell it with the

help of clever manufacturing, patent rights and selling techniques for \$500.

But to be able to make a pair for \$5, we need investments that total in the millions. This is clearly outside the capacity of most small independent chains and operators. Even direct imports from China are a minefield that costs reputations and frequently loses optical entrepreneurs serious dollars. Therefore, every small operator is facing a seemingly insurmountable threat posed by corporate competition.

The important point to remember is that we no longer engage in a fair exchange of our optical know-how for a justified payment. We now exploit the process by syphoning off a large percentage of this profit into corporate coffers.

The astonishing thing is not that it happens, but that the corporate overheads are so large. Up to 60 percent and if we count the shopping center's corporate structure and advertising costs as well, then this inches past 70%, just in overheads. Our \$500 pair of specs is now making \$320 dollars profit for the optical corporate sector alone and the remaining \$180 pays for materials and our wages.

There was once an investigation into the 350% mark-up German opticians charged and it was discovered, that due to the many fee services offered, 350% was actually quite low.

The 350% mark-up example meant that a \$100 item had to be sold for \$350- in order to stay in business.

The trouble now is, that the manufacturing of specs no longer cost \$100 wholesale. They cost less than \$5-10.

This means that the mark-up of 350% no longer works. But the practitioner still needs \$350 to keep the doors open.

However, a 350% mark-up for a bulk importer is quite Ok. ...and that is where our main vulnerability stems from. We are operating at a 900% disadvantage, when compared to the corporate branded sector.

Should the majors lower their prices significantly, then we would quickly disappear as competitors.

Issues of general branding and stupid

consumer behaviours, are of course another point of weakness. But they are not impossible to overcome with a sensible strategy.

We must begin to understand that corporate optics is not about us, or about patient care, but simply about a lot of money and a lot of power!

Business & Politics

The politics of this phenomenon are interesting and deserve a brief introduction. The Harvard business model is the ideological foundation of corporate governance and its greed-is-good based think tanks. This model advocates the destruction of private, civic power created through our toil and instead develops means and methods to channel our consumption through monopolies, which extract a percentage at every stage of the production, distribution and retail cycle. They argue for low material costs, low wage manufacturing, low cost shipping, low cost warehousing and high margin selling at the retail end.

Their opponents argue that this commercial mechanism keeps over half the world's population in a cycle of poverty, which forces them to live on just \$2 per day. It is widely believed that the antidote to endemic poverty can be found in our personal and business behaviour. We can all live in a better world if we simply begin to stand up to corporate tactics, by taking charge of our own destiny through a better business model. Remember the golden rule, which governs our world. "Whoever has the gold makes the rules!"

The last thing we need is a political lecture, but it does us good to see the bigger picture, because sooner rather than later, we cast our vote either with the corporate or with the independently owned sector.

Through our consumption and business activities, we can keep our just share of the "Gold" and create a just world and reduce Poverty!

Currently, poverty kills 11 million children every year. That is the same number of children that live in both Europe and the USA. It is a travesty that we can turn around if we are willing to act and exercise our economic muscle.

So the issue of whether we should happily become lazy corporate employees or stay independent has consequences which force us to examine our conscience. If we are happy with the corporate model, then we must stop babbling about poverty and low paid Asian workers, because we are the direct beneficiaries of this system, either directly as employees of corporations, or indirectly as shareholders and consumers.

The alternative is to develop a stronger international independent sector, which consists of tiny, small and larger, but privately owned optical companies and Co-operatives. The corporate model syphons the wealth towards the banks and the super rich, whereas the independent model spread earnings among a much larger number of independents and their allies. We can either vote for the defacto government of commerce, which already dominates the world-stage through warmongering, poverty and profiteering from "Free trade". Or we can do our bit to keep our independence and strengthen our ambitions to eradicate poverty and to build a peaceful world.

The key to independence

The key to independence is simply this:- If we continue to believe in brand-names, and if we only buy corporate brand name lenses, then every wholesale and retail purchase we make plays into the hands of the corporate schemers.

We like to hide behind well-recognised brand names to give our own optical shops the illusion of being bigger than we really are. We also think that selling well-known brand names gives our patients more confidence in purchasing from our tiny stores.

This illusion is indeed very powerful. So much so, that we have been conditioned to believe that a celluloid acetate frame that carries a brand-name is worth 100 to \$150 wholesale, whereas in reality we ignore, that we can buy the same quality for only \$10 to \$20. The difference is pocketed by corporations- who will use their profits to invest new money into the optical retail market.

The ownership of optical corporations is internationally intertwined and even the few that are not connected are connected through their owners or the banks which own other banks etc... In other words, when we buy brand name frames and lenses, we give a large portion of our profits to our competitors who will use it to unfairly compete against us.

We will touch on the various forms of competition in the following chapter.

New competitors & friendly corporate players ?

We have new corporate players, which pose as friendly suppliers. They promise us cheap optical wholesale goods and the possibility to buy their international brand name at a future point in time.

They further promise to build their local profile through advertising to a point, where people will come into our shops and demand to buy their brand of frames, lenses or widely advertised specials. When this point is reached, then their corporate strategy has been successful, because they will have gobbled up much of the private, independently owned optical shops and paid nothing for them.

They will have conquered the Australian market and paid nothing for it. In fact they will make the owners pay for the privilege of using their brand name and will extract handsome profits through the supply of cheap optical goods. They will be able to do all this, without having to invest in expensive retail shops or

staff, because the independents that support them have supplied the entire infrastructure for free. It remains to be seen how many independents fall for this "trust us- we are a friendly corporate optical player" strategy.

Large retail Players

Then there are the large retail players, the corporate supermarkets and chemists. They already are paying for retail space and can fence-off a small optical section for peanuts. To attract customers costs them very little. They already have traffic flow and a few well-placed TV advertisements would not even make a dent in their budgets. They can manufacture custom made specs for US\$5 in China and sell then for \$10 in Australia. We might think that this is not going to happen. Well, it happened to everything else we wear or use on a daily basis. Even, literally the shirts on our backs, so why can't it happen in optics?

Take binoculars for instance. The manufacturer's selling price lies between US\$1 and US\$20. Sharp marketeers place them on the shelves in price groups of \$10, \$25, \$45, \$65 etc... right up to the ones which cost five or six hundred dollars. This phenomenon is called market segmentation.

The actual value of the goods is irrelevant to the retail price. What determines the retail price is a system, which relies on a "perceived value". We all know that some people won't buy cheap spectacles because they think that they are damaging their eyes. Only expensive frames and lenses would satisfy such customers. Their belief is so strong, that they would refuse to wear cheap specs.

The same goes for many opticians who think that a \$200 brand lens is substantially better than a \$50 generic lens. Corporate operators thrive, when both consumers and opticians have no idea of the real value of things.

The value concept!

I have encountered many young optical professionals who have no idea of the real value of lenses or frames. They even believe in brand names, which are not known to their patients. They buy frames and lenses from wholesale corporations at near retail prices and forget that their patients trust their advice. If they would simply learn the real value of goods and pass this knowledge on to their patients in the form of good products, then they would automatically create a win-win for themselves and their patients. This process would deprive corporations of undue profits and strengthen the private practitioner.

Are you ready for real competition?

Imagine how we would live, if we had to compete with custom made specs priced from \$10 ? Most of us simply could not compete and would end-up as an employee of a corporate optical company. Not everyone would close shop. Some of us are good marketeers and live in a small community which has cheap advertising available. But for most of us, who live in large cities, we can't afford to advertise. So I predict that there would be a flurry among opticians to seek protection under a corporate umbrella.

It is becoming obvious, that independent optics is about to be screwed, not through violence or threat, but through simple corporate cunning.

Current solutions

This begs the question if there is another way to overcome this threat to our profession. To be clear, I love competition and believe that it is a necessary commercial element. But there are other workable solutions to the problem of the dominance of corporate optical companies.

Professional organisations have offered a marketing package under a corporate umbrella for years.

I observed a private practice in western Sydney. It clearly illustrates the unsuitability of the professional association-marketing model. The practice's owner was retiring and sold the practice to a young practitioner. The practice looked tired and needed a face lift. So the new optometrist decided to adopt the name of a prominent optometrical marketing group. Business took a turn for the worse and marketing paraphernalia came down in only a few years, to be replaced with a unique name, which has remained ever since. So what went wrong with this apparently good move? The answer lies in the structure of professional organisation. They simply make everyone look the same and offer no commercial advantages. Most of the promised benefits are freely available anywhere and offer no additional value.

The easy-to recognise professional logo, also worked against the practitioner, as patients went to more conveniently located members of the same organisation. In fact the professional organisation had become too successful and customers saw no advantage to return to their original practitioner and deserted him in favour of partitioners of the same professional organisation, who were located in convenient shopping centres. Professional organisations are great when it comes to lifting optical standards, but lousy when it comes to hard nosed business marketing.

Joining small independent buying groups is another way to get cheaper optical products. Sadly, many of them are closed shops and gaining or retiring from membership obligations is difficult and costly. I once send a sales man out to introduce practitioners to a new range of top quality- low, cost frames. The practitioners were delighted, but stated that they could not afford to be unfaithful to their buying groups, even when it ment having to buy frames from their buying groups at higher prices.

Then there are the buying groups, which congregate around successful practitioners. They invariably have a cult element which makes membership difficult and subjects practitioners to undue commercial and clinical influences which are not always based on reason or business acumen, but frequently on whims and personal likes and dislikes.

So what should we do to stay independent?

We need to train ourselves to buy goods based on their merit and real value and avoid believing in corporate spin-doctoring by voiding buying brand-power optical goods- whenever possible. I have run my practice for years without selling a single brand-power frame or lens. Those brands that I have to buy, I could replace tomorrow. But I did not get into this strong position over night and I had to pay a heavy price, learning the ropes. This path is definitely not for everyone.

Is there another way ?

To stay independent and strong enough to withstand the corporate push is actually quite simple.

It requires two companies. One that forms the retail and publicity arm and another that looks after the supply of optical products.

Logic dictates that to be truly independent optical professionals need to source their goods in a short cheap supply chain. Without delving into details, what is needed is a private / public company that is not traded on the stockmarket. It would need a constitution that gives both small and large shareholders equal voting rights. It would also need a board structure (Pentocratic / adversarial) that could not be stacked by interest groups or majority shareholders.

Such an umbrella company does sadly not exist. Most structures on offer today are strongly biased towards their instigators. I did however do some rough calculations and discovered that over

the professional life of a shareholder, a good structure could return about 2million in gross profit to every shareholder / customer.

I am not talking about a companies structure that is floated on the stock market, but a private public company that is restricting its share holdings to all optical professions- including supply line professions. What we need is expertise in marketing and supply-line issues not cheap money from the stock market.

The stock market is a cesspool of greed and sooner or later a floated company would be sold-out to a higher bidder and again be under the yolk of greed, money and power. Just look at recent private equity purchases of large optical chains. The small shareholders that did not sell in time are simply ignored and all profits flow now into overseas coffers.

Such a structure would be like a second super fund. One would simply earn money from 2 income steams. One from the supply line and one through the regular professional activities.

I already hear the corporate's cry fowl. But I would not worry about them. I once calculated how much product I shifted for just one of the corporate companies in my 35 years of professional life. During this time I acted as a low cost distributor for them. I paid for my education, shops, equipment and staff- which they did not. They benefited from me being a defacto / cheap distributor of their products.

In all fairness, every ODMA fair I get a free drink from them as my reward. ☺

Had I woken up to the supply-line issue earlier, I would now be a wealthy man with nearly 2 million bulging in my pockets.

Instead, now that I am nearing the end of my professional life, I am faced with some of the corporate's that I supported, scheming to open shops and launch expensive brand name advertising against me.

Compare the corporate and buying group model that are being offered carefully

The current crop of corporate spin-doctors are scheming in deadly earnest to win the major slice of the market.

Independents will quickly realise that we can-not win as either a member of their organisation or as an associate.

Their system is simply build to maximise the extraction of profits from your labour. It will never benefit you beyond your working life and definitely will not build a retirement nest egg or give you flexibility and extra income throughout your working life. The owners of the corporations however will win as soon as we purchase the next frame or lens from them.

The price we pay for stocking brand-name is higher then we think !

W hat could be done to stem the loss of opportunities, which will result from the corporate steamrolling of our industry?

The answer is surprisingly simple. To realise just how simple this answer is we must seek a way to finance a sound defence strategy of our interests.

Before you reach for your chequebook, it may be better to find a way, which does not involve spending additional funds. Instead there is an obvious method open to everyone. It could be used by one-man practices as well as by small independent chains.

Well, I have developed such a method and the means to execute it successfully. If you are interested in a doable solution... simply give me a call.

Rob ...02 4721 3386