

## **DEC 2011- I HAD A DREAM by Gary Shepard**

### PRELUDE TO DREAM

#### **Some Myths:**

- Audiologists are the only qualified people capable of performing a hearing test and making a product/hearing evaluation.
- Audiologists are electrical engineers and computer programming experts and are the only people capable of programming hearing instruments.
- A hearing aid must be marketed with a bundled front loaded prepaid 5-7 year servicing cost necessary to support a Provider/Audiologist running a small business.
- A carefully chosen Provider/Audiologist will always be available to fulfill the servicing obligations.
- Audiologists will not move out of state, lose their license, retire, merge, change locations, or go out of business. They will never take your servicing money and tell you “I have done all I can for you” and keep your money.
- Hearing aid’s must be controlled and regulated by the vast federal health care bureaucracy.
- Lack of hearing loss “awareness” is the reason people with loss are not using aids. (It’s the cost-stupid!).
- Smaller is better (Does best full bodied sound come from small sound systems? Are watch size TV’s better? Is best typing/texting done on keyboard keys 1/16<sup>th</sup> the size of a finger? Does a concert pianist perform on a laptop piano?)
- Advocacy groups do an industry benefit by lobbying for more and more restrictive federal regulations and subsidies that force taxpayers without a hearing loss to unwillingly foot the bill for the legislative costs, bureaucratic labor and administrative costs (leaders, supervisors, office supplies, pensions, employee benefits, housing with automatic budget self perpetuating increases, federal waste and abuse, and attorney fees.

What makes a hearing aid different and more expensive than other comparable technically advanced electronic devices? **NOTHING!**

A hearing aid is:

1. A computer programmable battery powered microprocessor and common electronic components enclosed in a plastic shell produced in large numbers for less than \$100.
2. Comparable to thousands of other highly developed electronic devices such as TV’s, cell phones, voice recorders, computers, digital cameras, etc.

What three things are the main contributors to the high price of

hearing aids and how they could be addressed to reduce the cost to the consumer in the neighborhood of 10 times:

### **1. Research and Development**

Manufacturers in all industries are motivated by profit and work hard to come up with something different that will benefit consumers with R&D cost included in their pricing.

After they discover several of these “different” things they announce a “new revolutionary breakthrough”.

They call these Platforms and/or new models.

The R&D process results in wholesale duplication of efforts capped with slightly different marketing approaches.

NOT EASILY ACCOMPLISHED BUT WITH SOME THOUGHT AND A LITTLE EFFORT THE DUPLICATION PROCESS COULD BE DONE ON A SHARED BASIS. THE “CHINA METHOD” IS A COST BUSTING ALTERNATIVE.

### **2. The Hour Glass Distribution System**

Core manufacturer’s mass produce the hearing aid product and distribute it to secondary manufacturers (Assemblers).

Assemblers perform R&D and redistribute the altered product to Retailers (Audiologists and other Providers).

Providers (THE NARROW PART OF THE HOUR GLASS) add a long term servicing price tag to the hearing aid for marketing to the consumer.

A DIRECT MARKETING APPROACH SIMILAR TO CELL PHONES, DIGITAL CAMERAS RECORDERS, ETC., WOULD UNBLOCK THE NARROW PART OF THE HOUR GLASS AND PROVIDE REDUCED CONSUMER COSTS, CREATE MORE COMPETITION AT THE ASSEMBLER STAGE AND ALLOW SERVING CHOICES TO CONSUMERS THEY DO NOT NOW ENJOY.

### **3. Bundled VS. Unbundled**

#### **Bundled: (80% of the market)**

The price of the hearing aid and post-sale service cost is combined and represented as the cost of the aid.

With cost of servicing being offered for the life of the aids it is a guessing game to determine how much to add to the cost of the aids for servicing. The guess

includes provider operating costs, a profit margin, and an inflation factor.

To determine operating costs there would be a guess as to the average of servicing labor hours, and the average life of the aid.

The guessing process cost is self-perpetuating in that a patient is likely to incur frequent return visits because they are “free” (prepaid) and these return visits must be incorporated in the guessing game.

The actual real separate cost of the aids and the provider’s added servicing is a top secret.

If the provider moves out of state, loses their license, retires, merges, change locations, or go out of business or if the patient moves or dies there is no servicing fee adjustment.

Bundling serves as a financial “lock” that makes for a multitude of unpleasant situations.

- The patient discovers they made a poor choice in providers after the sale.
- The provider suddenly “sells” their patient rights to a provider across town or to a provider the patient ruled out before buying their aids.
- The provider acquires a large base of patients and the waiting time for service goes from 1 week to 2 months or the patient suddenly finds themselves dealing with a trainee instead of the Audiologist they carefully chose before purchase.

### **Unbundled: (20% of the market)**

In this approach the actual cost of the hearing aid is SEPARATED from servicing.

Servicing is on a fee-for-service basis with many options that eliminates the undesirable “locked-in” situations.

This approach is similar to medically-oriented practices. The pricing menu formerly hidden from the patient comes out from under the table and becomes readily available.

The menu options include a testing fee, evaluation fee, fitting fee, consultation fee, adjustment fee, and various packages and combinations ranging from life-of-the-aids

to a one-year to six-month to by the hour.

## THE DREAM!

I was watching a long black 1950's coal burning noisy freight train approach, billowing black smoke and sounding its loud whistle warning all to stay clear or get run over.

As the slow moving black train approached I was able to see that the engineers at the controls were hearing aid manufactures and audiologists and their marketing and distribution model. The first car pulled by the engine was heavily laden with costly self perpetuating government bureaucracy, next came a car full of cumbersome, costly and innovation stifling government regulators. I recognized the Food and Drug Administration-Federal Trade Commission-State Attorney's General Offices-Department of Health and Human Services-Federal Communications Commission and the American Disabilities Act , then came a car full of lawyers and lobbyists. The next car was loaded with well intentioned but ill advised consumer advocacy groups bent on feeding at the government trough at taxpayer expense and convinced that hearing loss awareness is the industry problem. At this point I noticed my head shaking and thinking "how sad"-the awareness thing will go away effortlessly in a "New York minute" with affordable hearing aids. The caboose finally rolled by stuffed with unhappy consumers.

About that time I saw another train fast approaching and going in the opposite direction. It was much shorter, colorful, sleek looking and on a high speed rail. I could see it was a late model passenger train with consumers at the controls. Conspicuously absent were the heavy cars containing federal bureaucracy, government regulations , lawyers and lobbyists but it did have a car containing happy advocacy groups shouting "Make Hearing Aids Affordable". As the passenger train sped by I noticed the hearing aid manufacturers and audiologists enjoying a ride in the caboose.

Suddenly, I woke up! I looked at the clock and saw that it was time to get up, so I put the coffee on, retrieved the paper from the drive way and settled down to read about what was going on in the world. I was startled when I noticed the date of the paper was November 28, 2014 and then I saw a full page Fry's ad containing nothing but hearing aids, assistive listening devices and hearing accessories. The hearing aid prices were astonishingly low, ranging from \$19.95 to \$395.50. The prices reminded me of printer/copier pricing in the same range based on features.

I quickly got dressed and headed to the Fry's store to see if this could be true.

Upon entering Fry's I asked an employee if they carried hearing aids and he said they would be in the hearing aid section pointed in a direction adding the usual "you can't miss it".

The employee was right as the section was clearly marked and was composed of several long isles and a large customer service area. There was literally row after row of hearing aids in plastic boxes packaged similar to other electronic products. I saw familiar names like Sony, Panasonic, GE and many other brands. Everything seemed to be color coded in yellow, green, blue, red and black. Seeing my confusion a salesman explained that the colors were designed to help customers locate hearing aids compatible with their hearing loss and lifestyle. He explained that the yellow isle was for those with mild loss and moderately active lifestyle. Having a profound loss I walked over several isles to the red section and picked up a hearing aid box containing a pair of behind-the-ear aids and noted that the cardboard insert was also in red and specifically stated the hearing aids were for severe-profound loss and active lifestyle and included a graphic description and list of features. All boxes had a warning label about being the importance of proper testing and getting a medical evaluation plus the usual liability disclaimers. I read where the aids came with a multi-page instruction manual and computer tutorial/programming disk. Also, included in the box was an electronic wire connector for connecting the aids to a USB port on a computer. The programming appeared to be a matter of answering questions by checking boxes with an advanced area for use by a technologically literate or service trained individual. The boxes also contained an array of different sizes and shapes of tubes and domes. The box indicated the aids came with a two year warranty, and 60 day free on line or telephone help after which it would be fee-for-service.

My next destination was to the service center get answers to questions and additional information.

On my way I passed the black coded accessory section where I grabbed a combination kit containing a \$99 Bluetooth compatible remote controller with tone and volume adjustment for use with TV, MP3 players, telephones and computer streaming and T-coil neck loop for noisy places like restaurants, parties, meetings and large rooms. The kit also provided the wire for auto and room looping with connectors on the controller.

I learned a lot at the service center; like, they had trained and knowledgeable personnel including an accredited audiologist, a free self testing sound proof booth where you come out with an audiogram in hand. I picked up a service pricing menu sheet for a range of services and repairs including extended warranty plans for aids and

programming assistance.

On the way home I passed several hearing aid small specialty stores that advertised hearing aid service, repair, programming, testing, professional evaluations and hearing aids. I thought about my sister and others who are technologically challenged and would never attempt what I had just done. A conveniently located store could be the perfect solution for them and the cost justified. It would also be a nice option to me for menu servicing and repairs. I decided I would investigate a shop near home at the first opportunity.

After spending the remainder of the day reading the manual and using my computer to set up my new aids, I was exhausted and slept through the night. When I saw the morning newspaper was dated November 29, 2011 and the Fry's ad contained nothing about hearing aids, I ran to check on my aids and found they were missing and yelled out loud "WHY DID THIS HAVE TO BE A DREAM!!"

Gary Shepard