A tale of two lens markets: independents and chains

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For the 12-month ending (ME) period closing Sept. 30, 2005, the vision-care industry in the United States generated nearly $26.2 billion in revenue, an increase of 3.8% compared with the previous 12-month period.

The lens market, which accounted for 29.3% of all vision-care industry revenue, grew by 1.8% during the September 2005 12 ME period and generated $7.67 billion in sales.

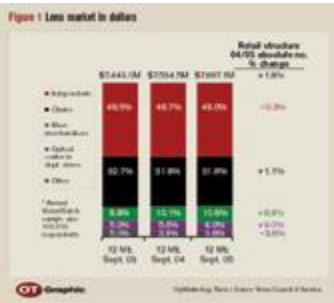

Figure 1 Lens market in dollars

Before examining the specifics of the lens market, let's quickly examine the vision-correction market from a macro point of view to get a better idea of the environment in which lenses and lens companies currently operate.

Going to market

As of September 2005, there were 155.7 million American adults wearing some form of vision correction, representing 70% of the adult population. For people using vision correction, eyeglasses were the dominant choice.

In September 2005, 144.6 million American adults regularly wore prescription eyeglasses, representing 65.2% of the adult population. This number has gradually decreased over the years, both in absolute numbers and as a percentage of the total population. In September 2003, 69% of the adult population (149 million people) regularly wore eyeglasses. Most of those moving away from using eyeglasses as a method of vision correction are young (under the age of 24) males.

Despite the slight decline in eyeglass usage, the lens market has been fairly resistant, with more than 78.1 million pairs of lenses being dispensed during the September 2005 12 ME period. This represents a 0.4% decline in terms of units sold. However, because of price increases, the aggregate value of the lenses sold in the United States increased 1.8% during this period, generating $7.67 billion in sales.

Approximately 43.5% of all lenses sold in the United States were sold via an independent optical shop, representing more than 32.5 million pairs of lenses. In terms of dollars, roughly 48% of all lens sales were generated in an independent optical shop, translating into roughly $3.68 billion. It is interesting to note that during the September 2005 12 ME period, more than 58.8 million eye exams were conducted at independent optical retail establishments. Roughly 64.8% of all eye exams conducted in the United States were conducted at an independent retail location by an eye-care professional. For every 100 eye exams conducted at an independent retail location, an average of 55 lenses were dispensed and sold. Also, every eye exam conducted at an independent optical retail location generated an average of $69 in lens sales.

Of the 32.5 million lens pairs sold by independent locations, 14.5 million pairs were single-vision lenses, 8.7 million pairs were multifocal lenses, and 9.2 million pairs were progressives. There were 5.4 million pairs of photochromic lenses sold at independent retail outlets and 6.4 million pairs sold possessed anti-reflective (AR) coating. When compared with chain locations, independent retail outlets were more likely to sell multifocal lenses, progressive lenses, and photochromic lenses.

During the past 2 years, independents have slowly lost ground to other optical distribution channels. Since September 2003, independent optical shops have seen their share of lens units sold decline by 0.6 share points while their share of lens dollars generated declined by 0.5 share points.

A large portion of the slide in outlet share can be attributed to single-vision lenses and multifocal lenses. The loss in outlet share would have been worse had it not been for the slight increase in sales of progressive lenses and the steady sales performance of photochromic lenses.

On the positive side for independent outlets, the average price for a pair of eyeglasses increased during this period from $110.41 in September 2003 to $113.80 in September 2005.

Linking to chain outlets

Chain outlets, the "mass merchandiser" chains in particular, picked up the loss of lens share among independent retail locations. During the September 2005 12 ME period, 49.5% of all lens pairs sold in the United States were sold via a chain location, representing just over 37 million pairs of lenses. The lenses sold in chain locations during this period had a value of $3.25 billion, indicating that the average pair of lenses sold in a retail outlet was priced at just $87.78.

Despite the fact that independent locations were able to get a higher price per pair of lenses sold, chain locations were able to outperform the independents based on lenses sold per exam.

For the September 2005 12 ME period, there were slightly less than 32 million eye exams conducted at a chain location indicating that 115.8 pairs of lenses were sold or dispensed per every 100 eye exams—a ratio that is more than twice as high as the exam to sales ratio for independent retail locations. On average, every eye exam conducted by a chain location eventually leads to $101.68 in lens sales.

During the September 2005 12 ME period, chain locations sold more than 18.8 million pairs of single-vision lenses, 8.0 million pairs of multifocal lenses, and 9.6 million pairs of progressive lenses. Of the lenses sold in chain locations, 4.5 million pairs were photochromic and 7.7 million pair had AR coating. Relative to independent optical shops, chain locations sold a relatively larger amount of single-vision lenses and lenses with AR coating.

Over the past 2 years, chains have successfully increased their share of the U.S. lens market from 48.4% in September 2003 to 49.5% in September 2005. Interestingly, this growth was not evenly distributed among chain locations of all types. Conventional chain locations (such as LensCrafters, For Eyes, and Pearle Vision) actually saw their share of the lens market decline slightly. Mass merchandiser chain locations (such as Wal-Mart, Target Optical, and Costco) saw their share of the U.S. lens market rise from 15.6% to 16.9% during that 2 years.

Most of the growth among chain outlets can be traced to an increase in the number of single-vision lenses sold and the number of AR-coated lenses sold.