



OPTIC NERVE

New competition is fuelling rapid growth in the national optical market.
Report: Jane Lindhe

● Consumers and independent optometrists have been paying the price for the lack of competition in Australia's \$1.28 billion optical industry for years, new market entrant Specsavers claims.

Since its arrival almost two years ago, the privately owned British company claims to have taken a 16 per cent stake of the market and driven down prices. But the industry's biggest player, Luxottica – owner of OPSM, Budget Eyewear, Sunglass Hut and Laubman & Pank – says it will continue to grow despite the new competitor.

Specsavers, which has 190 stores throughout Australia, is on target to reach \$200 million in sales for the year to next February and its new Asia-Pacific headquarters in Melbourne, which opens on October 8, will give it the ability to take an even larger slice of the pie, Specsavers Australia managing director Peter Larsen says.

"As an independent optometrist, I could see the shackles on the industry," he says. "There was an archaic distribution model where the overheads were too high. We had one dominant retailer and inevitably the costs to the consumer were going up."

At first glance, the Australian optical market seems an unusual choice for Specsavers. Industry growth has been stagnant for years, increasing by about 1.9 per cent a year, and OPSM controls about 30 per cent of the market, research group IBISWorld says. "It is bizarre that we have an ageing population and [optometrists] sit back and they think that 1.9 per cent growth is normal," Larsen says. "But to people outside the industry, they would see that as a total disengagement from the consumer."

Luxottica chief executive Australasia Chris Beer agrees there is huge potential for growth. But IBISWorld's prediction that the industry will grow at an average annualised rate of 1.4 per cent in the five years to 2013-14 is too conservative. He says his company has continued to increase profits year-on-year and store numbers by 20 per cent in the past three years despite predictions of a growth plateau.

"We see market growth as being significantly higher than that, given the ageing population and the increasing number of people needing to wear glasses," Beer says. "There's also an interesting statistic showing that one in seven children in the country have some sort of eye problem

NATIONAL OPTICAL INDUSTRY OUTLOOK

Forecast	Revenue \$ million	Growth %
2009-10	1,279.0	-0.2
2010-11	1,293.2	1.1
2011-12	1,314.0	1.6
2012-13	1,341.7	2.1
2013-14	1,370.1	2.1

Source: IBISWorld

that is not being detected because they are not getting their eyes tested frequently enough."

Larsen, an optometrist by trade, says many independent optometrists are insular and have lost focus of customer needs. This, combined with a lack of competition, gives them no incentive to change. "Typically, the skills are not there to look beyond what you are doing and actually ask the consumer what they want," he says. "It's about building businesses and educating them how to run a business better."

Specsavers, which takes a stake in independent stores and rebrands them, has cut its supply chain to deal directly with manufacturers. This allows it to cut product prices by 40 per cent and its competitors have followed suit, Larsen says.

Luxottica, an Italian company that entered the local market in 2003, says it is targeting a different customer to Specsavers and not encroaching on its market share. It says Specsavers is targeting budget-oriented customers and independent optometrists, which are not Luxottica's primary focus.

OPSM has 330 stores in Australia and New Zealand, 80 per cent of which are company owned and 20 per cent are controlled by franchisees. It also has 140 L&P stores and 110 Budget Eyewear stores. It plans to launch Budget Eyewear in NZ by the end of next year.

The company operates in three regions, Australasia, Europe and the Americas, and plans to expand significantly in Asia in the next five years, Beer says. It also operates in South Africa, China, Hong Kong, Singapore and Thailand and will announce a new region in Asia in the coming weeks. "In the next five years, we will probably have another 200 to 300 optical stores in Australia and NZ. We will be aiming for a 50-50 mix of company and franchised stores."

Luxottica's premium sunglasses retailer, Sunglass Hut, has 350 stores in Australia and NZ. It recently signed agreements with department stores such as Myer in Australia and Edgars in South Africa to operate concession Sunglass Hut stores within their stores.

"All 65 Myer stores will have a Sunglass Hut concession store," Beer says. "We ran some concession stores for them about 12 months ago and that showed that when we put a strong brand like Sunglass Hut in a strong host like Myer ... that the sales exceed our expectations. It's a great alignment of brands."

Beer says Luxottica often uses its Sunglass Hut business as a gauge of a new international market. It did so three years ago in South Africa where it is currently holding talks for the launch of an optical business.

"It's highly likely that we would move into that business in 2010," he says. "We see sunglasses in some ways as a simpler model that doesn't have the complexities of optometry. It gives us the opportunity to start a business in a country and learn." **BRW**