STRATEGY WITH VISION

OPTICAL MARKET TRENDS IN EUROPE

ECOO GENERAL ASSEMBLY, DRESDEN

24th October, 2010

AGENDA.

1. Strategy with Vision (SWV).
2. SWV research method.
3. Why are markets as they are?
4. Economic stagnation: How does it affect the optical market?
5. Trends and opportunities in the market place.
6. Questions and answers.

1. STRATEGY WITH VISION:
WHO ARE WE, WHAT DO WE DO?

- **SWV founded in 2001, privately owned.**
- **Optical consultancy services.**
- **Independent market research company – bespoke market research for optical businesses.**
- **An international team of consultants specialising in eye care and eyewear – having held senior marketing positions in the vision care market.**
- **Consultancy and research assignments across Europe, Russia, the Near East, USA, Japan and China.**

2. SWV RESEARCH METHODOLOGY.

Analysis of Retailer Stockholding and Sales in Each Segment	• On the Ground Analysis • Face to Face Interviews • Telephone Interviews
Analysis of Distribution Channels	• Wholesaler Performance Offering in Each Market Segment • Face to Face Interviews • Telephone Interviews • Accounts Analysis
Desk Based Research	• Import/Export Statistics • The SWV International Market Model • The Internet • Data from Optical Organisations

This research method remains the same, whether SWV is carrying out research in Europe, the Near East or USA.

2. SWV RESEARCH METHOD –
TODAY'S PRESENTATION SOURCES.

MARKET RESEARCH ORGANISATIONS AND TRADE PUBLICATIONS	JOBSON, SOFRES, GFK, YANO RESEARCH INSTITUTE EYE GLASS WHITE PAPER EYEWEAR INTELLIGENCE L'OPTICIEN LUNETTIER
INTERVIEWS	MANUFACTURERS OF OPHTHALMIC LENSES WHOLESALERS OF OPHTHALMIC LENSES RX LABORATORIES DISTRIBUTORS OF CONTACT LENSES MANUFACTURERS AND DISTRIBUTORS OF OPHTHALMIC FRAMES MANUFACTURERS AND DISTRIBUTORS OF SUNGLASSES MANUFACTURERS OF LASERS AND SUPPORTING EQUIPMENT REFRACTIVE SURGERY CENTRES OPTICAL RETAIL CHAINS and INDEPENDENT OPTICIANS
ASSOCIATIONS	F SYFFOC D ZVA D SPECTARIS E FEDAO EU EUROMCONTACT GB FMO TURKEY TAOOP POLAND PTOO CZ SCOO

3. WHY ARE MARKETS AS THEY ARE?
THE CONSUMER BASE.

YEAR	2007	2009	2011
Europe Top 5 Markets	Million People		
Population Needing Vision Correction	167.2	171.3	174.5
Population Using Vision Care	162.0	166.1	169.3
Spectacle Lens Wearers	155.8	159.8	162.8

People needing vision correction are made up of:

1. **People using vision correction**
2. **People needing but not correcting**
3. **People having refractive surgery in that year.**

Sources: France; Essilor University, Sofres, InFocus (Worldwide distribution of visual refractive errors) Italy, Sofres, InFocus. Germany; Allensbach, InFocus . Spain Libro Blanco, InFocus UK Sofres, InFocus

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People using vision correction are made up of 3 groups:

1. **People using only contact lenses**
2. **People using only ready readers**
3. **People using spectacles.**

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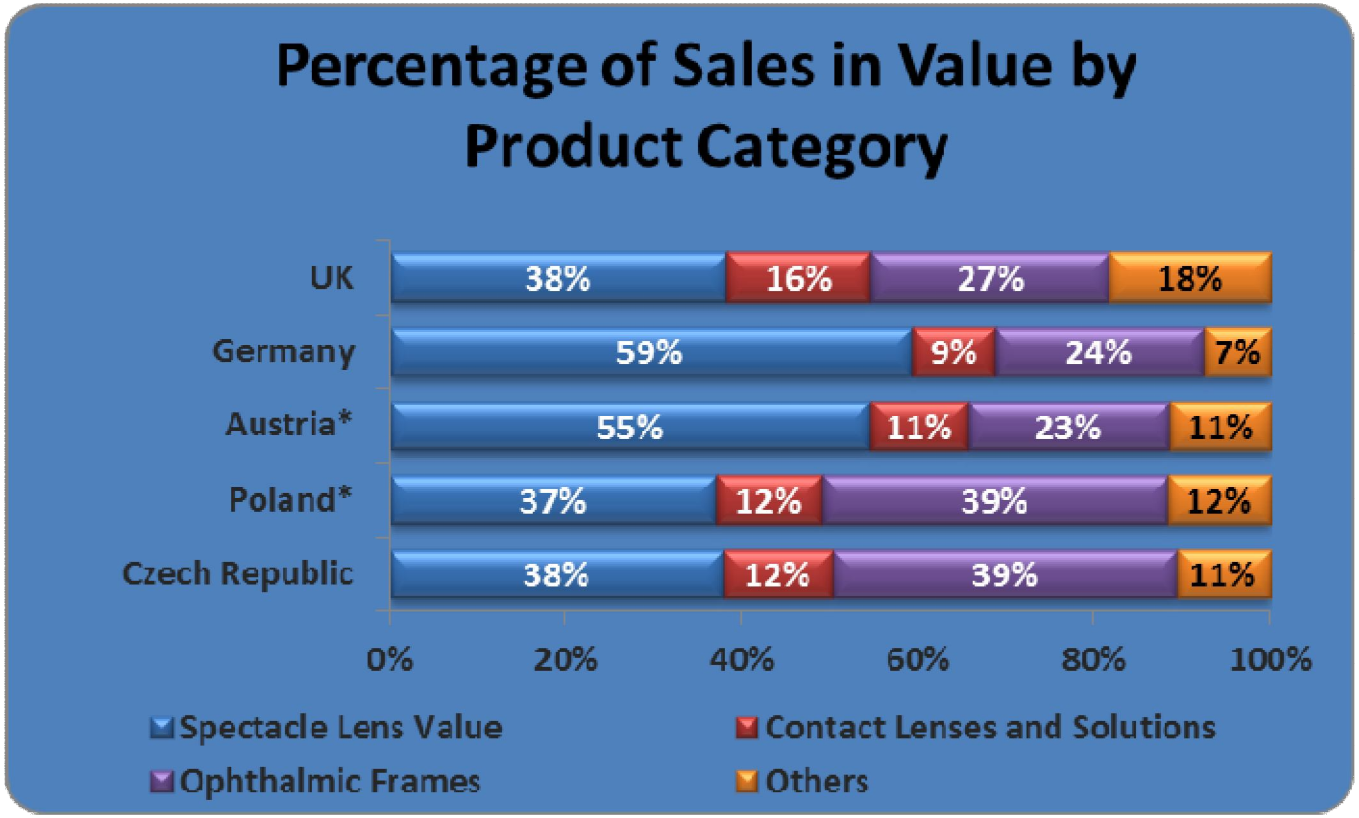
There is a trend for consumers to avoid using vision correction or to just use ready readers.

3. WHY ARE MARKETS AS THEY ARE?

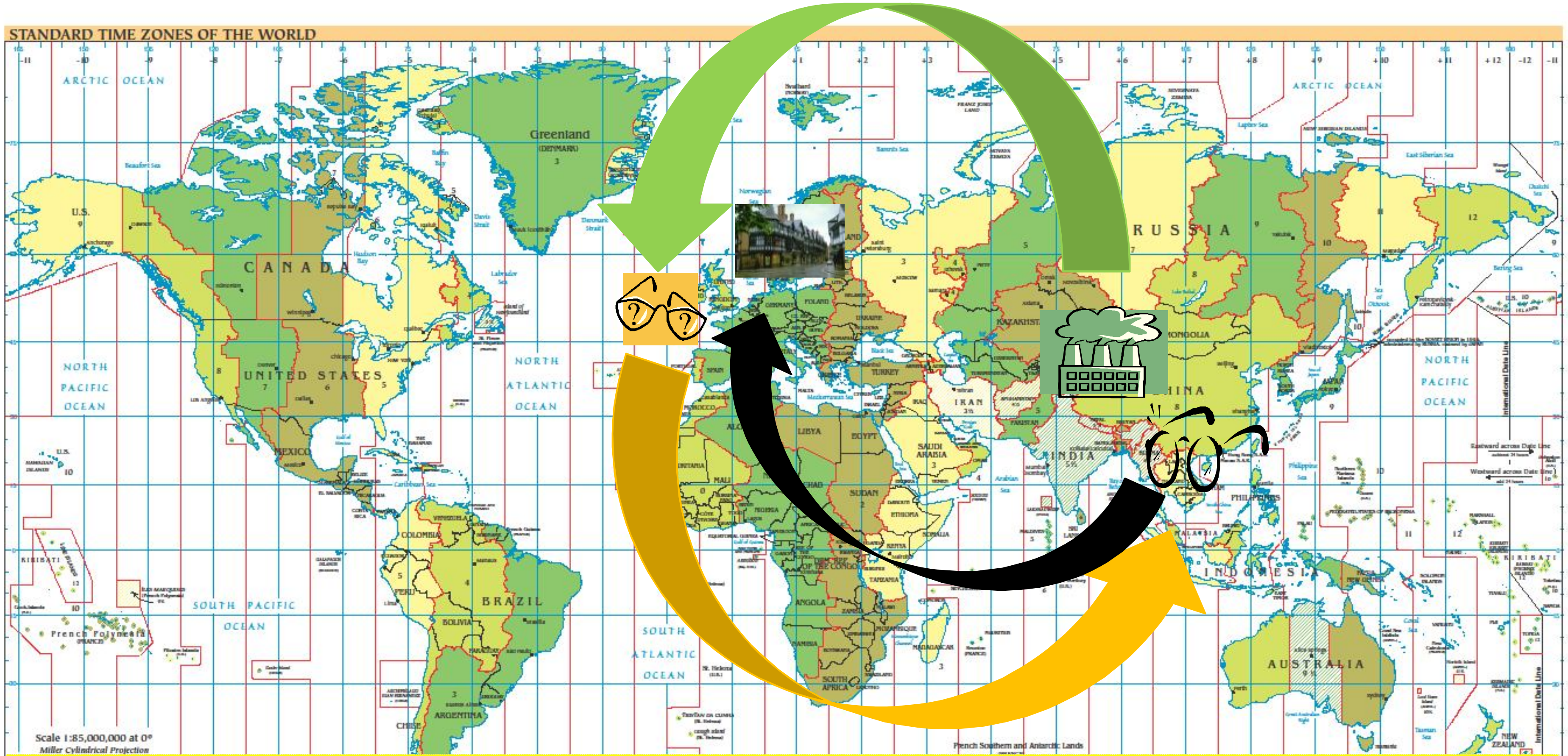
THE SALES MIX.



*Source: The SWV International Market Models * = 2007 data.*

National differences influenced by tradition, the level of value added especially for spectacle lenses and degree of training in the country.

3. WHY ARE MARKETS AS THEY ARE?
IMPACT OF GLOBALISATION ON SUPPLY CHAINS.



The above describes a real journey taken before a frame and lens reach the consumer, this is done to reduce the manufacturing cost of the final product.

3. WHY ARE MARKETS AS THEY ARE?
THE IMPACT OF GLOBALISATION ON PRICES.

- Far East and low cost manufacturing is the key to keeping prices down.
- Companies are sourcing direct with associated cost savings.
- Far Eastern companies are actively looking to sell direct and potentially establish European bases.
- In Europe, there are many distributors of prescription lenses.

3. WHY ARE MARKETS AS THEY ARE?

THE IMPACT OF GLOBALISATION ON RETAILING.

Trends, which started in the USA, are coming to Europe.

The number of B to C Internet sites, allowing consumers to purchase ophthalmic lenses online, is growing.

A recent study by SWV identified the following:

UK	**80 sites**
France	**18 sites**
Germany	**16 sites**
Spain	**6 sites**
Italy	**2 sites**

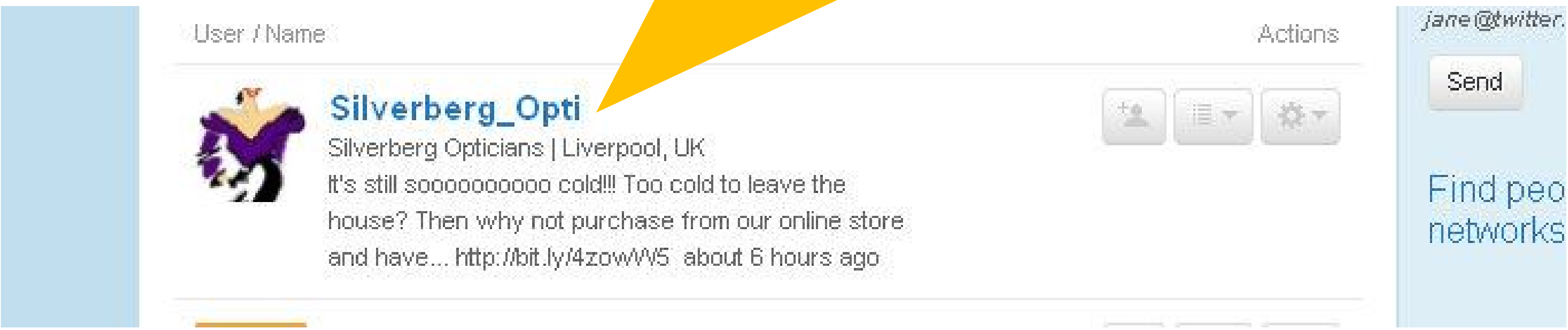
3. WHY ARE MARKETS AS THEY ARE?
THE IMPACT OF GLOBALISATION ON COMMUNICATION.

Social networking sites identify good deals, bad deals and counterfeits.

3. WHY ARE MARKET AS THEY ARE?

THE IMPACT OF GLOBALISATION ON COMMUNICATION.

Example of UK Optician encouraging business and driving buyers to their website as shopping is restricted because of severe weather conditions.



Social networking sites allow an optician to differentiate himself/herself.

3. WHY ARE MARKETS AS THEY ARE?
THE IMPACT OF GLOBALISATION ON PRICING.

Values are in €

2009	Spain	The Netherlands	Czech Republic
Net Average Selling Price of 2 progressive lenses to the optician	74.22	51.44	112.84
x Mark Up	3.6	4.1	2.7
x VAT	7.0%	19.0%	5.0%
Consumer Selling Price 2 lenses	285.91	250.98	319.89
GNI per capita	25,656	39,728	13,935
Number of days needed to work to buy 2 progressive lenses	2.9	1.6	6.0

Consumer prices tend to be similar across all of Europe.

3. WHY ARE MARKETS AS THEY ARE?
THE IMPACT OF GLOBALISATION ON TRAINING.

How do I sell more progressives?

The results of a workshop held with optometrists in the Czech Republic at the beginning of October 2010 came up with the following suggestions:

- **Train the owner of the shop**
- **Train the staff**
- **Train the consumer**
- **Ask a Dutchman.**

4. ECONOMIC STAGNATION
HOW DOES IT AFFECT OPTICAL MARKETS?

TWO CASE STUDIES: JAPAN 2000-2003

Year	Number of people needing vision	Spectacle lens	Number of ophthalmic lenses sold in millions			
	Millions		Total	Single Vision	Bifocal	Progressives
2000	73.6	63.4	36.5	27.8	1.5	7.2
2001	73.9	63.7	34.3	25.9	1.4	7.0
2002	74.1	63.9	32.3	24.4	1.3	6.6
2003	74.3	64.0	31.7	23.7	1.3	6.7

Although the number of people needing vision correction grew, during the period sales declined. The average repurchase cycle grew from 3.7 years to 4.2 years

4. ECONOMIC STAGNATION
HOW DOES IT AFFECT OPTICAL MARKETS?

JAPAN	1998	2000	2003
Volume percentage of ophthalmic frames sold in the mid price segment	29%	28%	24%
Complete spectacle offers (frame + 2 lenses) as a percentage of total frame sales	26%	29%	38%
Volume percentage of sunglass sales in the price segment 5,000 to 10,000 Yen		14%†	28%
Volume percentage of sunglass sales in the price segment over 20,000 Yen		31%†	25%
Sunglasses sold to consumers in Japan			26 m

Ready readers 1996-2000	minus 4.9% per year
Ready readers 2000-2003	plus 6.2% per year

† Similar effects were seen in Italy, Spain and the UK in 2008/2009.

4. ECONOMIC STAGNATION
HOW DOES IT AFFECT OPTICAL MARKETS?

UK 1988-1994

From September 1988: 15% VAT charged on the sale of ophthalmic lenses, frames and contact lenses.

From 1st April 1989:

- **Only people with special needs were entitled to an eye test voucher. Students and pensioners continue to receive free eye tests.**
- **The sale of ready readers was legalised. Non-optical outlets were allowed to sell the product.**

From the 31st July 1989: Mandatory for all private eyetests to include a check on the health of the eye, as well as a refraction.

16th September 1992 – Black Wednesday

4. ECONOMIC STAGNATION
HOW DOES IT AFFECT OPTICAL MARKETS? UK.

- The number of National Health Service eyetests fell from
  14.4 million in the year 1988/1989 to
  6 million in 1989/1990.
- The vision care market through optical retail fell from £1 billion to under £900 million in this time period.
- Reglazing increased from an average of 18% in the years 1985-1987 to 24% in 1990.
- Retail sales of eyecare and eyewear only recovered in 1994.

4. ECONOMIC STAGNATION
HOW DOES IT AFFECT OPTICAL MARKETS? UK.

However,

- **Long term, these five very hard years had a very positive impact on vision care in the UK.**
- **The number of optometrists increased from 6,600 in 1988 to over 9,000 in 2007.**
- **The number of dispensing opticians increased from 3,400 in 1988 to 5,200 in 2007.**

Could there be a lesson here for the provision of vision care in the French market which is about to enter a turbulent period?

5. TRENDS AND OPPORTUNITIES IN THE MARKET – NOT ALL THE NEWS IS BAD.

1. **Retail optical chains are gaining market share.**

2007	**36%**
2008	**40%**
2009	**42%**

(Source: SWV Top Five Markets in Europe.)

2. **Smaller optical chains (5 outlets or more) and marketing groups (independently owned optical outlets) have a significant share of the optical market for eyecare and eyewear.**

Figures below are for 2009:

- **Germany – smaller chains market share** **7% (value)**
- **France – marketing groups share** **39% (value)**
- **Italy – marketing groups share** **15% (value)**
- **Spain – marketing groups share** **31% (value)**
- **UK – smaller chains market share** **9% (value).**

5. TRENDS AND OPPORTUNITIES IN THE MARKET – NOT ALL THE NEWS IS BAD.

Buying Groups   Marketing Groups

GRUPPO GREENVISION
CENTRI OTTICI SELEZIONATI

5. TRENDS AND OPPORTUNITIES IN THE MARKET – NOT ALL THE NEWS IS BAD.

3. Micro segments are growing:
   a) Ophthalmic polarising lenses
   b) Business and occupational lenses.
4. Ready reader sales are growing – example from Italy.
5. Sales of multifocal contact lenses are growing – about 100,000 users in France.
6. Ophthalmic frames prices between £70-£100 to the consumer, including VAT, are growing. An optician can make a better mark up on this type of frame.
7. The number of refractive surgery operations in the top five markets of Europe is not growing.

5. TRENDS AND OPPORTUNITIES IN THE MARKET – NOT ALL THE NEWS IS BAD.

8. During the last three months, there has been a significant slowdown in ophthalmic lens sales in the Czech Republic and Slovakia. Careful management of stock level is essential.
9. The main suppliers of progressives in Europe have switched or are switching to digital surfacing – giving more accurate production and more sophisticated added value lenses to the end user.
10. 3D viewing could be a success story.

6. QUESTIONS AND ANSWERS.

Thank you!

Any questions?

DISCLAIMER.

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