

# About the high cost of hearing aids

By Stephen O. Frazier

## *A consumer's search for the answer to an apparent conundrum*

Having recently had to replace my seven-year-old hearing aids and experienced sticker shock at some of the prices being tossed about, I began a serious investigation of the business of selling hearing aids. As a former retailer it seemed to me that if electronic marvels like smart phones, smart watches could be profitably retailed at a fraction of the price of the average pair of hearing aids that *Consumer Reports* says is \$4,680, and certainly for less than the \$7,000 to \$8,000 some places ask for a pair of Resound Enzo or Starkey Livio models, then hearing aids are grossly over priced. It seemed apparent that someone, somewhere had to be making a bundle while serving the needs of people with hearing loss so I tried to find out who's getting the money.

David Lazarus, a business columnist at the *Los Angeles Times* called such pricing “an example of manufacturers exploiting a captive market with excessively high list prices,” but in much of the business it's actually the retailers, not the manufacturers who are setting prices. I did, however, find the hearing aid business to be remarkably incestuous with manufacturers paying each other for the use of patents, causing confusion by manufacturing under the umbrella of multiple brand names, owning a substantial percentage of the brick and mortar hearing care offices and a growing number of online hearing aid sales businesses where they're selling hearing aids to themselves, or by otherwise controlling a good portion of the retail sale of hearing aids.

### **Economies of scale**

World wide, Apple shipped over two-hundred million iPhones last year compared to just under twenty million hearing aids being sold by all makers so the economies of scale are different but, with the market pretty much under the control of just five international companies, it seems that should still make it possible to keep prices down and have money for research and development. Their financial statements show that GN Nord spent under 10% of its gross income on R&D in 2020 and WS Audiology's showed they spent only 5%. A little research found that health care technology firms spend over 10% and software companies average 19% so, any claims to the contrary, the money's not going to R&D. GN Nord reported their net profit in the last fiscal year to be 12.98% of revenue and Amplifon reported 8.32%. The CFA journal reports that the current net profit margin in the technology sector is around 12% so the money's not going into excessive profits either.

Here in the US it seemed to me that for long established chains like Miracle Ear and Beltone, each reportedly having up to 1,500 offices, their size would allow them to undersell independent hearing care offices and be competitive with Costco and their 500 plus stores yet their prices don't appear to reflect that. The parent company of Beltone is GN Nord, Miracle Ear is a subsidiary of Italian hearing care giant Amplifon with some offices corporately owned and some franchised. According to Dr. Brad Ingrao on seniorliving.org, their retail prices are no lower than those charged for comparable Widex or Resound hearing aids.

### **MARKUP**

The conventional wisdom is that hearing aid retailers take an enormous markup on the devices so this

was the next place I looked and that belief turned out to be true in spades in some areas of the business. Contrary to Mr. Lazarus's assertion, it's retailers not manufacturers who are taking big markups most of the time. BizFluent, a firm that mentors new business owners, reports that supermarkets have an average price markup of 15% and *New York Magazine* says retailer H&M uses a 50% to 70% markup on clothing. This would be consistent with the markup I took as clothing buyer for a chain of department stores on Long Island, New York of 60%. That meant that 60% of the retail price was markup and 40% was cost.

Amy M. Amlani, PhD, the President of Otolithic Consulting, did an extensive multi-sectioned study of US Hearing Aid Pricing that was reported on in *Hearing Health and Technology Matters* between September of 2020 and March of last year. Her study found that the increase in the unadjusted average wholesale price of a single unit hearing aid, between 2004 and 2019, exceeded the rate of inflation by 47.5% which, in itself, confirmed my impression that hearing aids are more expensive than previously. Further, she found that in 2004, the average wholesale invoice for a hearing aid was \$457 and the average retail price for that hearing aid was \$1,785. To a retailer that would be a termed roughly 75% markup but nonretailers would call it nearly 400% markup and it's substantial regardless of how you define markup. The lowest wholesale price of hearing aids averaged \$326 in 2019 and retailed at \$1,656 or a markup publicly perceived as over 500% or 5 times its cost. Obviously those huge markup dollars are going someplace so I looked further.

## **PROVIDER PAY**

The next place I looked was at the income for the people who actually sell and fit the devices for consumers. The Bureau of Labor Statistics says annual pay for an audiologist ranges from \$56,550 to \$128,160, the median is \$81,030. GlassDoor.com, the job search website, reports an \$88,191 average salary for an audiologist at WSA and, for comparison purposes, the average salary for a speech-language pathologist is \$83,651. That top audiologist figure is pretty substantial but, with the national median pay for all workers being \$94,700, the \$81,030 figure is both below the national median and not indicative of anyone acquiring great wealth. Hearing aid dispensers (AKA Hearing Instrument Specialist or HIS) will earn between \$55,000 and \$60,000 so, again, nobody's getting rich here.

This still leaves me wondering where all the money goes at an independent hearing care practice that sells a \$326 hearing aid for \$1,656 and with no reasonable answer apparent.

## **The COSTCO model**

The business model for delivering care for hearing loss for privately run offices began to look less than efficient to me and I found other models that address that inefficiency. One is big box stores like Costco whose buying power is such that they can buy hearing aids in huge quantities and qualify for equally huge discounts on the wholesale cost of the devices. This, and an obviously substantially lower markup, allows them to sell hearing aids at retail for prices often below the wholesale price paid by Harry Hearing Aid for his stand alone hearing care office on main street. *Hearing Review* reports Costco now does 11% of all US hearing aid sales and annual growth exceeds 20% so their business model seems to work both for them their clientele. They distribute almost as many hearing aids in the US as the Veterans Administration and, with Afghanistan combat over, that gap could narrow or even close.

In addition to their private label Kirkland brand, Costco sells several well known and respect brands that sometimes contain the newest generation technology and sometimes older technology. Their actual

markup is not known but it is low. In other products Costco reportedly targets markup to be only 15% so now I began to wonder, if Costco, with 500+ stores, can sell hearing aids profitably on a smaller markup and dramatically lower retail prices, why can't Miracle Ear and Beltone do the same with their 1500 stores each? Again, I was unable to find any reasonable answer.

## HEARING AID MARKET SHARE

My research found that independently owned and operated hearing care offices account for only about half of the total volume in hearing aid sales with Costco being the largest of a handful of companies that do the other half. Italy based Amplifon actually accounts for more business than Costco in the US if you combine the 6% market share of Miracle Ear and 8% for Elite hearing both of whom are subsidiaries of Amplifon. Beltone at 10%, controlled by GN, and Starkey at 8% were the major players in the non-independent half of the market back in 2015 according to *Hearing Health and Technology Matters*. This information raised even more questions about Beltone and Miracle Ear as to where that big markup goes without offering any answers.

## ONLINE BUSINESSES

Another somewhat confusing approach to the markup situation is online hearing aid sellers. Zip Hearing, a pioneer in this business model a decade ago, is still a major player in that field. They don't have the overhead the typical hearing care office encounters so they can take less markup and still make a profit. They are still dealing with one more player in the supply chain than Hearing.com, an online retailer owned by WSA Hearing, the maker of Signia, Rexton and hearing aid brands. Consequently the same pair of Signia hearing aids that will cost you \$4,500 at Zip can be purchased from Hear.com for \$2,750. Precise Hearing and Lively Hearing are among the other such firms using this business model and one, Lively, caught the attention of decision makers at GN, the maker of Resound and other hearing aids, and it bought Lively as a vehicle for selling their hearing aids directly to the public at significantly lower prices than brick and mortar retailers or than ZIP can. This is what is known as "blended distribution" but none of the online retailers appear to offer their devices at prices competitive with Costco.

## ADVENT OF OTC HEARING AIDS

The advent of over-the-counter hearing aids, expected to become a reality before the end of the year, could turn the benefit of fewer models and larger production runs to lower the cost of manufacturing the devices and, with lower overhead, the Walmarts and Walgreen's of the world would take a lower markup on the devices. Dr. Justin Golub, an ear specialist at Columbia University Medical Center in New York was quoted in *Fortune Magazine* as expecting OTC hearing aids to retail for \$200 to \$800 a pair and felt other big electronics names like Samsung and Apple might jump on board the OTC ship.

What this will do to the hearing aid market remains to be seen. The popular conception is that it will increase the sale of hearing aids to those who have claimed they cannot afford them because they're so expensive. Hearing aid distribution in the UK makes that statement questionable as a recent Marke Trak study found that in Britain, where hearing aids are free through the National Health Service, the percentage of people who could benefit from and had them was not appreciably greater than here in the US and, in some age groups, even lower except for the most senior of seniors. That would seem to portend to me a reduction in the sale of prescription hearing aids as people with mild to moderate hearing loss opt for OTCs instead.

## NEW ENTRIES

The final factor that might bring about a reduction in the markup and thus the price of hearing aids is the entry into the business by firms with the size and money to develop hearing aids that do not require the use of elements patented by the major current manufacturers. Those manufacturers are currently able to minimize entry of new companies into the business by requiring royalties from newcomers for using patented technology and otherwise control the market. What had been the “big 9” manufacturers, through acquisitions and mergers, has become the “big 5” so the entry of firms like Panasonic or Apple could break their hold on the business and pricing of hearing aids. Bose, Bose is best known for its home audio systems and speakers, noise canceling headphones, professional audio products and automobile sound systems is one of the first such companies to enter the hearing aid field and their Sound Control hearing aids retail for just \$895 a pair. Reports are circulating of Proctor and Gamble looking at marketing hearing aids under the Braun label, indicating another big budget player is giving the market some thought.

What did all of my research find? Prices for the exact same pair of hearing aids can vary dramatically depending on where a buyer looks. With manufacturers paying each other for the use of patents, exercising some control over hearing aid insurance coverage, being both retailers and wholesalers of the devices plus various other complicating factors, the whole hearing aid market is such an opaque business that nobody seems to have been able to come up with what I found to be a reasonable answer to the often asked conundrum “Why do hearing aids cost so much” or to explain into whose pockets all of those dollars are going. Many have put forth answers but their validity is questionable.

True Hearing, a hearing aid sales business owned by WSA with the claim that “TruHearing offers a layer of price control to prevent “unreasonable” markups by audiologists.” offers this answer: “A large percentage of the cost is due to the amount of research and development needed to continually improve the technology that powers your hearing aid.” The websites of most hearing care offices repeat that claim and even Money Inc. buys into it saying, “... the likelier answer is that the cost of hearing aids is connected to R&D.” If that's the reason why does WSA spend only 5% of its income on R&D while healthcare technology and software firms spend 10 to 20%? A report from the National Academies of Science, Engineering and Medicine put the blame on limited consumer choice and lack of transparency. Taking a look at the number of brands and models of hearing aids available and the various ways to buy them and the first answer doesn't appear to hold water. As for transparency, cyberspace is brimming over with information on pretty much every aspect of hearing aids and hearing care. HearingInsider.com, a website owned by an audiologist working for the VA, dispensing free hearing aids, offers this unique perspective: “The reason why people feel that hearing aids are so expensive is that most insurances don't cover them fully.”

What else did I learn from my research? I learned that, as a result of the current state of flux where the realignment and reorganization of an entire industry is ongoing, the consumer is likely to soon find that the upper tier of devices (and the services that usually accompany their prescription) may not go down and, in fact, history predicts they'll go up, but prices on lower end prescription hearing aids will go down. As for the answer to my original question as to where all the money goes, as the king of Siam said in The King and I, “is a puzzlement.”

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