

March 2018 Newsletter

Now Hear This! Why the \$8 Billion hearing aid sector is ripe for disruption



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Dear Colleagues,

Schumpeter said it decades ago – incumbents in a sector are always vulnerable to “**waves of creative destruction**” that sweep away the old and outdated and introduce the new and more desirable. Among the more interesting aspects of this process are the inevitable arguments between those who have previously staked out a territory and those who argue that they deserve to be relegated to the trash heap of history. You heard it when the incumbent taxi companies complained about ride-hailing services, such as Uber and Lyft. And today, we’re hearing it from incumbent providers of hearing assistance services with respect to new technologies that put consumers, not “hearing healthcare professionals” in charge.

If it looks like a consumer product, and it's sold like a consumer product...

A favorite barrier to entry employed by incumbents is the creation of regulatory barriers that make it difficult for newcomers to compete. State regulations in insurance, capital requirements in banking, and once-upon-a-time restricted licenses, like taxi medallions, all had the effect of keeping those without the legal green light from competing.

The hearing aid business is similar – incumbents rail on about why only highly trained and educated experts should be able to pass judgment on which devices a person should use, and claim that their expensive and high-end services are essential to a satisfactory

outcome. Unfortunately, the expense of these services contributes to a situation

in which 80 percent of adults between the ages of 55 and 74, who might benefit from a hearing aid, don't have them and many that have them don't use them.



This is bad, and not just because people are missing out on gossipy conversations. A recent study by Frank Lin of Johns Hopkins University found that hearing loss is associated with an increased risk of developing dementia, of social isolation and even of an increased risk of falling. Uncorrected hearing loss makes eventual treatment even harder and increases the cognitive load of the brains of people struggling to make out what others are saying.

The traditional battle lines

Incumbent service providers insist that what patients need is the “gold standard.” As one observer described it, this involves buying a hearing aid in the context of an audiologic, diagnostic evaluation.

Since hearing aids are regulated as medical devices, providers and manufacturers are regulated by the Food and Drug Administration (FDA). The dilemma for patients who might benefit from these services is that traditional hearing aids are incredibly expensive for the ordinary person. A recent New York Times article reported average prices of \$900 to \$3,500 or more per ear.

This dilemma is a quiet crisis (no pun intended). More than 60 percent of those in their 70s and nearly 80 percent of those over age 80 suffer from mild to moderate hearing loss, yet only one in five of those affected wear hearing aids. Medicare also does not cover hearing aids, resulting in a situation in which Barbara Kelley, the executive director of the Hearing

Loss Association of America, reports that “The number one complaint we get in phone calls every day is, ‘I need help, I can’t afford hearing aids,’” Ms. Kelley said.

Only six companies **manufacture** classic hearing aids today, giving them privileged control over what some authorities say will be an \$8 billion market by 2018, ensuring comfortable profits and relative stability.

And, the incumbent experts aren’t eager to back down any time soon. No less than the American Academy of Audiology suggests that any device that amplifies sound should be subject to FDA regulation. Taken literally, their position could be seen as requiring such regulation for everything from earbuds to headsets. As they say, “The Academy believes that this absence of regulation could lead to unsafe, careless, and ill-advised use of such devices, which could result in a detriment to the consumer’s overall hearing health. **Consumer protection** should require consistency with all types of amplification devices, regardless of their classification.”



Digital barbarians at the gates – taking on the hearing aid gatekeepers

The Academy aside, the cost and intransigence of the incumbents has led to an odd coalition of bedfellows determined to change the system. Last year, for the first time, the regulatory structure the Academy is trying so hard to preserve has begun to be dismantled. In a classic, **Christiensen style** of disruption, new technologies are proving to be ‘good enough’ and expanding the pool of people who might benefit from improved ability to hear, what Christensen has often described as “competing with non-use.”

The vast improvement, in both functionality and ease of use made possible by advances in digital technology, have convinced experts across the political spectrum that it is time the gatekeepers lost their grip on determining what a hearing aid is, and how it should be used. The President’s Council of Advisors on Science and Technology and a National Academy of Sciences report both recommended that an over-the-counter category be created.

The prospect of over the counter sales of hearing aids became a lot closer to reality last year, with the FDA re-authorization act containing a provision for a path to over the counter hearing aid sales.

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The deregulation of hearing aids has managed a rare feat for public policy issues, which is to appeal to people with vastly different political convictions. Conservatives like the idea because they dislike regulation and ‘burdensome’ regulations even more. Liberals like policies that can potentially expand health benefits to many more people, particularly at the bottom end of the income spectrum. As a [New York Times](#) reporter suggested, the result of this bill’s passing could well be a shopping experience a lot more similar to buying reading glasses at the mall than visiting a doctor’s office.

The disruptors edging into hearing assistance territory

Although they are not – heaven’s no – absolutely not – selling hearing aids, there are no shortage of companies offering what in the industry are called “[personal sound amplification devices \(PSAD's\)](#).” Even today, these are not regulated by the FDA and are readily available over the counter to anyone who wants them. And, more worrying for the conventional manufacturers, for many hearing assistance applications, the products do just as good – or even better – a job.



Iconic manufacturer of speakers and noise-cancelling headphones, [Bose](#) (not a sponsored link), is making a product it calls Hearphones that sell for \$499. Despite advertising that makes it sound an awful lot as though the product is directed at people suffering from hearing loss (“we want to help you hear every word of your conversations”), Bose is emphatic that these devices are most

definitely not hearing aids, thus avoiding FDA oversight. Other heavyweight players are crowding into the market, including Samsung with its Gear Iconx earbuds and Apple with its AirPods – wireless earphones that can let you listen to music, time exercises and incidentally that connect to hearing aid apps on a phone or other device.

And, dozens of [new companies](#) are piling into the app space, with apps like Fennex, Petralex and Here One.

You thought \$8 Billion was a Big Number?

But really, all this excitement and energy about a market that hasn’t historically been seen as all that interesting? Well...

Experts have [projected](#) that even under the existing regulatory regime the hearing aid business could be an \$8 billion business by 2019. Some say that by 2023 it could be in

business could be an \$8 billion business by 2019. Some say that by 2025 it could be in excess of \$9 billion.

But, this is the interesting thing about disruptive technologies. When something that used to be complex and expensive becomes convenient and cheaper, one result is often an explosion in demand. If we extrapolate from the statistic that only 1 in 5 people who could use help with their hearing use hearing aids today, the market size in short order could be five times greater – perhaps as big as \$45 billion after the inflection point that allows anybody to get a discreet, self-adjustable device that might help with their hearing.

Moreover, you might even see quite dramatic changes in the use case for hearing devices, along the lines of how the smart phone changed the way people use mobile phones. People might find themselves purchasing more than one device, the way they do today with glasses. Perhaps one look and functionality for a Friday dinner out, and something completely different for the Sunday sports game, and maybe even something different for watching TV at home. Once something becomes inexpensive enough, the possibilities are enormous.

WHAT WE'VE BEEN TALKING ABOUT

Chris Rainey Podcast (2/20)

We discussed the evolving world of the HR leader and some specific things that are changing:

- The need for a 'tour of duty' structure for attracting and leveraging skills
- What today's most desirable employees are looking for – and it's all about development
- Why HR needs to let a lot of its assumptions about how it adds value go – for instance, measuring retention as a universally positive thing

How the disappearance of the old loyalty-for-security paradigm is shifting the loyalty balance and is blurring the boundaries of the organization.

LISTEN TO THE PODCAST (sound auto-starts)

IBM Disruption Study

How Numerous Incumbent Firms Are Refusing to Be Disrupted

There's no question that many big companies have been shaken by startups coming from Silicon Valley and elsewhere. However, a new study of 12,800 C-suite executives across

20 industries in more than 112 countries found these incumbents are refusing to be disrupted.

READ THE STUDY

Webinar with Steve Denning

As part of the launch of his great new book, *The Age of Agile*, Steve Denning and I did a [webinar](#) on the metrics that can lead would-be innovators astray and how these can be counter-acted. Some of the key points:

- Most conventional business metrics are lagging indicators – they only tell you the results from decisions that were already made;
- Forward-looking metrics such as the Imagination Premium™ can help you build a case for making investments in innovation;
- Incorporating option value in your forward-looking metrics is a great way to boost the market's perception of your growth potential.

LISTEN TO THE WEBINAR

I'VE JOINED INSTAGRAM

At the persuasion of my team members who thought I would enjoy it, I've taken the plunge and joined up. My handle is @ritagunthermcgrath. I'm just starting out, so be patient! Advice and suggestions are also welcome, as well as any input into what you'd like to hear about from me.



UPCOMING EVENTS

HBR Facebook Live Session (March 30, 2018)

I'll once again be at *Harvard Business Review's* headquarters to lead a Facebook live session on my new work. While we haven't pinned the topic down completely, it is likely to feature some of my newer work on strategic inflection points. If you want to get a feel for what it will be like, check out my previous Facebook live session [here](#).

Business of Software Webinar reprising Michael Sikorsky and Rita McGrath's presentation (April 9, 2018)

Our [presentation](#) on strategic inflection points in the software business was so well received, that CEO of Business of Software, Mark Littlewood, has asked us to do a "live" reprise to respond to additional questions from the community.

[SIGN UP HERE](#)

Digital Business Strategy (April 11 - 13, 2018)

I'll be joining my good friend and colleague, David Rogers, for a Columbia Business School Executive Education event that is part of our portfolio of digital development courses. David is the author of the *Digital Transformation Playbook: How to Rethink Your Business for the Digital Age* and together we help companies figure out where digital disruption might present opportunities. You can find out more about the course [here](#).

Leading Strategic Growth and Change (May 7 - 11, 2018)

Just a reminder that my [course on innovation](#) and growth will be running next in May of 2018. For this run, I'm delighted that we are going to be joined by [Future Partners](#) the "Think Wrong" company driving the next generation of design thinking. They will be working with our participants to learn how to apply the fast-paced and energizing properties of design thinking to the challenges they bring to the course, and I'm really looking forward to working with them. Also new for this edition is a business simulation of [discovery driven planning](#) which lets our participants experience the reality of the technique, not just read about it in a book. My colleague Alexander van Putten, a strategy consultant, will be with us to lead that.

Participants bring a real organizational challenge to the program and work on it throughout the week. Click [here](#) for more information. Or drop me a line at rdm20@gsb.columbia.edu.

Einstein's Alley Future of Work (June 4, 2018)

I'll be speaking about leading your workforce in uncertain times. I'll be **focusing** on how you manage a workforce under conditions of uncertainty, and also how you can find yourself centered as a leader by developing a leadership credo that expresses your authentic self and connects it to your strategic vision. The event will be held in Princeton, New Jersey and open to the public.

Women in Leadership (June 5 - 8, 2018)

A timely and topical Columbia course is our own **Women in Leadership: Expanding Influence and Leading Change**. At the June course, we will be joined by **Sally Helgesen** who has co-authored the book with Marshall Goldsmith *How Women Rise*, which is available now for pre-order. Sally will be sharing her research showing how the practices that helped executive women as they began their careers, can become liabilities the further they advance. We will also be joined by Cindy Pace, an Assistant Vice President of MetLife who will share her **organization's journey** with respect to diversity and inclusion.

It isn't too early to start planning for the Drucker Forum's 10th Annual Meeting

An event I've really come to enjoy is the annual **Peter Drucker Forum**, held in Vienna. Next year marks the 10th annual meeting, and it promises to be a star-studded event at the Vienna Imperial Palace on November 29 and 30, 2018. The conference theme will be "Management; The Human Dimension." If past events are any gauge, the speakers will be world-famous management thinkers and scholars. We've never needed Drucker's wisdom more than now!

To get a flavor of the discussions at this year's Forum, see this **excellent overview** by Steve Denning.

Recent Articles and Press Coverage:

- **The 250 Most Influential Woman Leaders**
- **Democratization of geospatial technology encouraging active collaboration**
- **Focus on the overlooked feminine engine of growth**
- **How Numerous Incumbent Firms Are Refusing to Be Disrupted**
- **Business of Software Conference USA 2017**

As before, where there is uncertainty, there is also opportunity

We're going to be spending the next month laying the groundwork for the launch of a sister company to the Rita McGrath Group, Valize LLC. Valize, is designed to help companies make Discovery Driven Growth, a reality by linking leading experts and time-tested innovation tools to benefit its clients.

For years, people have been asking me about furthering their experience with my materials, frameworks and tools. With the launch of Valize we're working on doing just that...

Watch this space for new developments!

Here's to your next advantage!

Rita

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