

High Level Category Analysis and Procurement Strategy

Category: OPTICAL

For Ministry of Social Development

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1. Executive summary

High Level Category Analysis

Category:	Optical		
Total Spend (12 months):	\$6.54 million		
No. Suppliers:	203		
Total transactions:	13,780		
Average cost per transaction:	\$475		
Spend with Top 4 Suppliers by \$ value:	\$3.65 million		
% of Total Spend with Top 4 Suppliers:	56%		
Top 4 Suppliers by \$ and % of Total Spend:	Spécsavers	\$2.27 million	42%
	OPSM	\$0.57 million	8.7%
	Visique	\$0.56 million	8.6%
	Budget Eyewear	\$0.25 million	0.25%

(Note OPSM and Budget Eyewear are part of same Luxottica Group)

Market Place: One dominant supplier, second keen to obtain increased share of MSD “directed” business

Good profit margins at upper end of supply market due to Eyewear as a fashion statement 1st and functional need 2nd

High barriers to entry (High Street shop, inventory, competition, reputation)

Technology changing cost to dispense at upper end of supply market

(lenses ground on-site and lower cost frame manufacture in China [own brand])

A number of opticians working with high end branded frames, not catering for the masses

Suppliers are a mix of owner operators, corporate/franchises, chains.

Beneficiaries can select frame brand and lens preference (one supplier's data indicated 70 different frame types (\$125-480)).

Options Available:

Soft Option

Do nothing – let the two larger suppliers (Specsavers and OPSM) find a natural balance in the market.

No MSD benefit and market behaviour may not change. Beneficiary can still be 'sold to', wide range of frames, lenses, costs for similar functional need

Medium 1 Option

Conduct negotiations with Top 4 suppliers nationally (Specsavers, OPSM, Visique and Budget Eyewear) to secure better deal for all MSD beneficiaries.

No commitment to volume is being made by MSD. Unlikely to attract real benefit over 'special retail offers' due to lack of control and commitment.

Medium 2 Option

Negotiate with a small list of suppliers by urban centres (say maximum of two [or three] suppliers as long as geographic coverage is sufficient to meet MSD needs)

Have large urban suppliers provide assistance with purchasing power for those smaller suppliers in outer areas where urban suppliers do not operate for frames and lenses.

Expect between 20 and 30% benefit over current in return for commitment and some level of control over range. Need to balance Beneficiary functional need against supplier desire to up-sell frames/lenses based on fashion statement.

Hard Commercial Option

Negotiate with only one major supplier as the sole supplier to MSD for a contracted period.

In rural areas where supplier has no direct representation arrange alternative supply.

Have set range of frames and options that a beneficiary is able to purchase with the MSD funding.

MSD can expect a significant benefit from this arrangement, possibly 30% + reduction in cost.

PMMS Preference(s):

Hard Commercial Option or Medium 2 Option (focus on providing functional eyewear; function leads fashion)

Expected Savings Range:

Hard Commercial Option 30 plus percent.

Medium Option 2 between 20 and 30 percent

MSD Benefits:

Control of spend

Ability to set product range and availability with one or two large suppliers

Ability to take advantage of technology advances earlier than otherwise possible

Improve position of Customer Preferencing model

Good detailed spend feedback from supplier

Beneficiary Benefit:

Knows where to shop,

Reduction in choice may cause some negativity

Same for less dollars therefore reduction in repayments of advance.

Risks

There are risks to be managed here. A more complete Risk analysis and management approach will need to be completed as part of the more detailed strategy however, the following should be appreciated when considering which strategy option best fits MSD's needs. We have identified 3 risks below. Each of these will need to be further evaluated and mitigation actions developed to either remove the risk or move it to a lower level.

Risk	Possible Impact	Probability
Specsavers and OPSM do not cooperate	High	Unlikely
Selected supplier(s) not capable of providing NZ wide service nor will support rural areas	Medium	Unlikely but will need careful management
Clients do not follow process and use their grant to buy specs other than preferred supplier then ask for Adv/RAP/SNG for other areas of spend	Low is good clear policy in place	Likely but manageable

2. Detailed category analysis

Service Category: Optical

Description of Assistance Service as it is operated today:

This category of spend is focused across a significant number of suppliers (203) for the size of spend (NZ\$6.54m). In each region, the top 4 suppliers represent over 70% of total spend. MSD provides a guideline for spend limit of NZ\$1000 or 6 weeks of the appropriate benefit able to be received. Average transaction value is less than 50% of the NZ\$1000 level. From a total spend in this category of NZ\$6.54, the top supplier “Specsavers” dominates with 41% of national MSD spend on Optical.

A beneficiary who needs glasses is assessed and then referred to an optometrist who will fit them with glasses. The supply chain will depend on the Optical services provider. OPSM in Australia has just announced the installation of advanced lens grinding equipment whereas a smaller operator will outsource this activity to a 3rd party. OPSM and Specsavers offer similar “branded” frames plus their own “basic” frames. A smaller service provider would buy frames from a wholesaler (both branded and more basic non-branded).

<p>Category Objective Key business needs and stakeholder drivers</p>	<p>MSD provides approximately 14,000 transactions in Optical over a 12 month period. The spend is NZ\$6.54 million. MSD wishes to better lever its spend with the supply market. It has had an approach from a supplier of optical services that suggests a better outcome is possible if MSD spend is focused. If the resulting outcome results in simplified internal processes, then this benefit should be pursued.</p>
<p>Market Analysis</p>	<p>The supply market saw a new aggressive entry into the New Zealand market in 2008 with the arrival of Specsavers. They currently have 51 stores in New Zealand and OPSM is now unlikely to view themselves as “the largest provider of optical services in New Zealand” (39 outlets mostly in Urban Centres).</p> <p>With the ability to source from emerging economies, the economics of this industry have been re-invented. For instance, in reviewing the financial highlights of the parent of OPSM (Luxottica), Gross Profit is 65.6% of sales. Cost of sales (manufacturing) 34.5% and is the same in percentage terms as Selling expenses. In addition Advertising expenditure is a relatively large 7% of revenue. This implies that this is a very profitable business for the major players if run well. It is worth noting that Specsavers produces annual reports but only shows revenue figures and store openings implying that the financials are very good indeed. This suggests there is room for a supplier to move if they are keen to construct an</p>

	<p>arrangement with MSD in return for additional business. Already OPSM have hinted at their potential interest to provide MSD with a 'deal'.</p> <p>At the retail level, there are many 'special offers' seen in outlets and on websites.</p> <p>For instance, 30% discount for 'tertiary students' and 30% discount for over 60's are 2 examples with 55% off eye examination and 2-for-1 offers also being made. This suggests that MSD can achieve at least a 30% improvement in current buying prices for its beneficiaries.</p> <p>The major suppliers (Specsavers, OPSM/Budget Eyewear, Visique) have sourcing activities in emerging economies for frames and a growing activity for sourcing/grinding of lenses. There is extensive mark-up on some Frames (10-20 times cost) and also good economies on lenses and grinding when using emerging economy labour rates. The smaller "one-man-band" operators will need to deal with a wholesaler for frames and lenses or may in fact combine lens purchase with grinding services. IE Specsavers and OPSM/Budget eyewear, Visique have a major advantage in buying power. This allows them to invest in stores and advertising and positioning leading the individual towards thinking they are getting a great deal. Specsavers have been spectacularly successful in the New Zealand marketplace since 2009.</p>
Spend Analysis	<p>The following charts explain how the spend is shared across the regions. Overall, MSD spent NZD6.54million in the Optical category.</p>

OPTICAL												
Region	ALL	Auckland	BOP	Canterbury	Central	East Coast	Nelson	Northland	Southern	Taranaki	Waikato	Wellington
Transactions	13,768	3,787	1,140	1,562	1,064	995	565	823	684	754	1,201	1,193
Spend Value	\$6,536,780	\$1,719,896	\$521,048	\$766,125	\$523,314	\$468,422	\$287,152	\$421,616	\$324,937	\$407,906	\$546,067	\$550,297
Avg \$/Transaction	\$475	\$454	\$457	\$490	\$495	\$471	\$508	\$512	\$475	\$541	\$455	\$461
# Suppliers		81	22	35	12	12	11	14	16	21	25	21
Top 4 Suppliers												
1		Specsavers	Specsavers	Specsavers	Visique	Specsavers	Specsavers	Specsavers	Specsavers	Specsavers	Specsavers	Specsavers
2		Visique	Visique	OPSM	Specsavers	Visique	Matthews Optometry	Lows & Partners	Visique	Goldsbury Optometrists	Paterson Burn	OPSM
3		OPSM	Eyes On Taupo	Budget Eyewear	Budget Eyewear	Eastland Eyecare	Harrington Eyecare	OPSM	Eyecatchers	Wanganui Eyecare	Rose Optometrists	Clearvision
4		Budget Eyewear	Ross Gordon	Curtis Vision One	Horowhenua Vision Cent	Napier Optometry	Coast Optometrist	Waipapa Eyecare	Eyeview Optometry	icare Optometrists	OPSM	Capital Eyes
Top 4 % Total Spend		70%	81%	68%	73%	82%	75%	93%	71%	68%	63%	73%

The above suggests:

- Average transaction cost reasonably consistent across New Zealand
- Total number of suppliers is 203; top 4 suppliers in each region account for more than 70% of spend. Total transactions approximately 14,000.
- Data supplied by OPSM provides a very good insight into how beneficiaries spend MSD funds in terms of glasses. OPSM report that Branded Frames are approximately 50% more expensive on average than 'basic' frames. Jan-Oct 2011 figures show that beneficiaries using OPSM chose 37 different types of branded frames ranging in price \$125-\$483 and 33 different basic types of frames ranging in price \$77-\$417.
- Top 4 suppliers were Specsavers (NZ\$2.27million, 42% of total spend), OPSM (part of Luxottica) (NZ\$569k, 8.7% of total spend, Visique (NZ\$562k, 8.6% of total spend) and Budget Eyewear (part of Luxottica) (NZ\$255k, 3.9% of total spend) which constitutes over 60% of total spend.

MSD processes Analysis

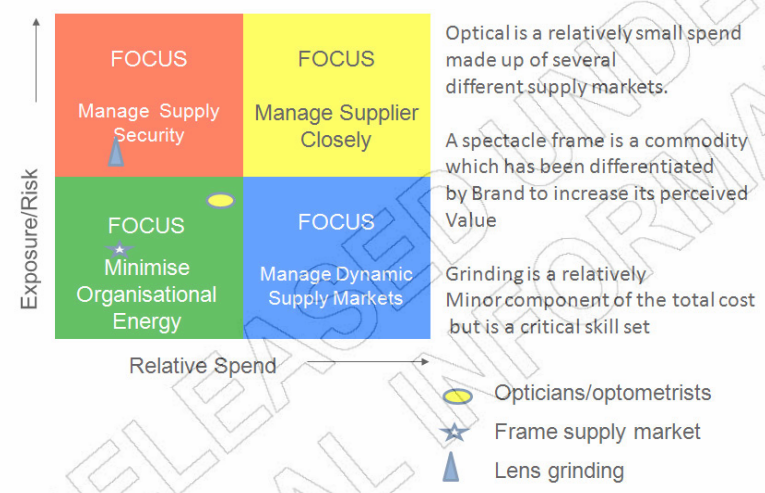
MSD guidelines suggest guidelines for provision of optical services of NZ\$1000 or 6 weeks of a beneficiary's normal benefit. It would appear that most if not all transactions can be completed inside this guideline. A beneficiary is assessed and need confirmed. Beneficiary is requested to seek quote(s) and then provided with Purchase Order. It would appear from data

supplied by OPSM that guidance as to what type of frames are allowable is at best adhoc.

It is unknown how extensively the beneficiary is pointed towards 'special offers' or how they are guided towards supplier who offers the best offer. The long tail of suppliers of Optical Services suggests that many beneficiary may be more comfortable with 'their' optometrist. I.e. a personal selection based on personality and relationship.

**Sourcing Analysis
Specific
procurement/business
tools and conclusions**

Supply Positioning is a business procurement tool that enables a differentiated view of the different supply markets versus MSD Social Services total external spend on benefits, Advances, SNGs and RAPs.



The vertical axis is a measure of the complexity of the supply market, the ease of substitution, and the overall business impact. An Optical service is made up of several components. Each of these components has its own supply market and each their own different dynamics. The Optometrist packages these up into a bundled service so as to ensure the individual elements are less visible and the perception of value is increased.

A typical breakdown of MSD spend with OPSM over 10 month period is shown below

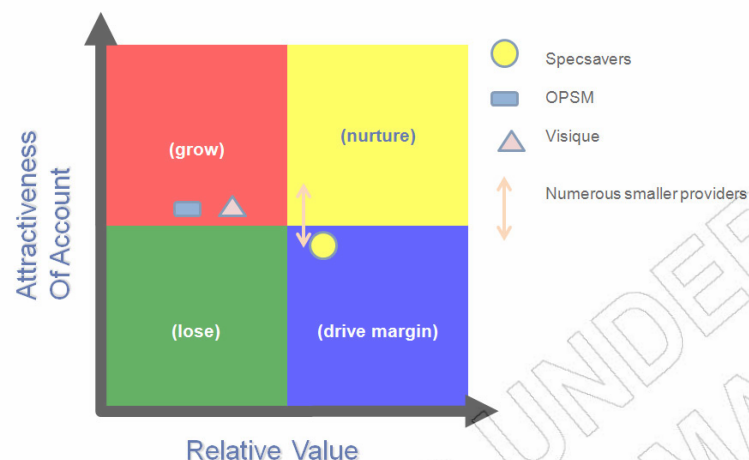
Item	Qty	\$,000 pre GST	%	\$	%
Coating	1265	46.1	7	36.44	7
Contact Lenses	99	7.4	1	74.98	14.3
Eye Exam	936	55.3	8	59.13	11.3
Frame Basic, 33 diff. brands	668	84.5	13	126.50	24.2
Frame Brands, 37 diff. brands	511	112.3	17	219.79	42.0
Lenses (incl. grinding) (note generally 2 lenses per set)	3398	362.5	54	106.68	20.4
AVERAGE UNIT COST of each item				522.83	
6877 sales at \$668,178, Ave. "sales" value	6877	668.18	100	\$97.16	

Data analysis shows that the average Transaction Value ranges from NZ\$450 to NZ\$540 across Regions. OPSM represents 8.7% of total spend; Their "sales" volume is higher than MSD transactions accorded to OPSM indicating multiple visits each of which is recorded as a separate sale.

Frames, given the emergence of emerging economies, is a commodity which has been differentiated via brand to become a fashion item. So, in many ways analysing the above Supply Positioning, The Optician is only successful if they can up-sell on frames and quality of lenses. Otherwise the 'eye' exam is unlikely to provide them with a useful income.

Thus, a focus on Frames and the modifications to lenses (progressive, coatings, etc) is likely to be an opportunity for improved value whereas, discounting the eye-exam is likely to be recovered elsewhere and hence a false benefit.

Customer Preferencing is an analysis that has the suppliers looking at MSD as a customer. This analysis considers that suppliers do not treat all customers the same. They have differentiated strategies. Specsavers have been most successful in building a major position with MSD beneficiaries. They are the number 1 supplier in every region except 1 and are number 2 in that region.



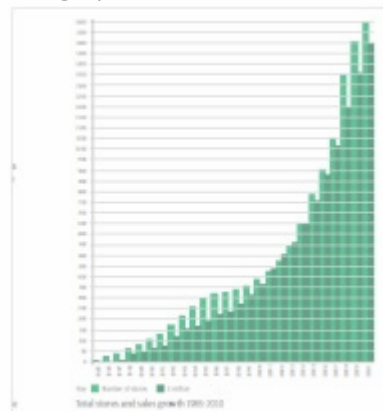
MSD revenue with Specsavers is NZ\$2.74m which is 3% of Specsavers New Zealand sales. We do not know whether Specsavers recognises MSD as the ultimate customer or not. We have suggested that Specsaver's dominant position allows them to take advantage and 'up sell' to clients, thus being in an exploitable position. Although we do not have data for OPSM's sales in New Zealand, we can assume that MSD is a relatively small customer at this stage (hence their proactive interest to grow market share). We have positioned OPSM as wanting to grow/develop MSD business. Visique is also positioned and we have assumed that again, although each Visique outlet is individually owned, there is interest to develop MSD as a customer. We do not know whether Visique customer data is centralised and hence whether MSD is identified.

In conclusion, OPSM (and maybe Budget Eyewear who are part of the same Luxottica Group) and Visique will be interested to offer MSD a better commercial deal. Specsavers may be confident of their position and capability and are likely to offer a token improvement in deal while seeking to continue to up sell via targeted frames and specialised lenses.

Supplier Analysis

In looking at the financials of each of the major suppliers, Specsavers produces an annual report but this is purely a sales/marketing related document as it lists Sales Growth, Sales by Geography and number of stores but does not provide any financial data. This may be interpreted as a company in very good shape and preferring to keep this story close to their chest.

The graph below demonstrates the spectacular growth of Specsavers.



OPSM is the Australia and New Zealand retail brand of Luxottica. A related brand is Budget Eyewear. Both are providers of Optical Services to MSD. Luxottica produces annual reports and their limited financial results are shown below.

Item	2008		2009		% Trend 09/08	2010		%Trend 10/09
	Value	% of Sales	Value	% of Sales		Value	% of Sales	
Sales (€m)	5.2	% of Sales	5.1	% of Sales	-2	5.8	% of Sales	13.7
Cost of Sales	1.75	33.6%	1.76	34.5%	0.05	1.99	34.3%	13.0
Gross Profit	3.45	66.3%	3.31	64.9%	-4.1	3.81	65.7%	15.1
Selling & Adv.	2.14	41.2%	2.1	41.2%	-6.1	2.37	40.9%	12.8
PBT	588	11.3%	464	9.1%	-2.1%	605	10.4%	30.3

Luxottica splits its activities between Manufacture/Wholesale and Retail. Thus the Selling and Advertising spend as a percentage of Retail sales is 86%. A very high figure indeed.

We do not have sales figures for Australia/New Zealand but do have indications that sales increased 7% over 2010 and have increased 3% in 9 mths of 2011 versus 2010.

	<p>NOTE: It would be reasonable to assume that Specsavers enjoys similar if not better financials than Luxottica. If OPSM and/or Specsavers are focused suppliers to MSD, then they do not have the same need for selling and advertising spends with respect to their sales to MSD. This suggests that MSD should be able to negotiate better commercial benefits in excess of 30% from marked price.</p> <p>Purchase Price and Cost Analysis</p> <p>As can be seen from the above brief financial analysis, A detailed Price and Cost analysis will prove very valuable intelligence prior to any negotiations. There are obviously large margins at play here. Suppliers will not be keen to give it all away so further analysis is needed to build arguments.</p> <p>It will be valuable for Cost analysis to be carried out. IE, build a set of spectacles from scratch. (i.e., purchase frames from a variety of sources (including emerging economy), buy a set of lenses, get them ground (again test out emerging economies) and assess the COST and then compare with PRICE.</p> <p>An enhanced knowledge of each of the major supplier's supply chains is essential plus to better understand whether/how OPSM/Budget Eyewear and/or Specsavers or Visique use Transfer pricing to minimise tax in New Zealand. All these variables will need to be better understood before deciding where to negotiate and how to negotiate.</p> <p>It is important to recognise the elements that make up a PRICE. The chart shown earlier shows how the average cost is developed and hence the relative contribution of the eye exam compared with frames (branded or basic) and lenses. From the financial reports, these costs include a massive Sales and Advertising component. The majors do not need to sell or advertise to MSD so again, better understanding of these costs will assist any negotiations.</p> <p>The presence of so many 'special offers' of 30% from marked prices, 2-for-1 offers, 55% off eye exams etc etc suggest that MDS must target a commercial offering that is transparently better by at least 30% that how your beneficiaries are buying today.</p>
<p>Summary of findings (As is)</p>	<p>This category offers good opportunities for MSD (potentially 30%+ improvement from market pricing). The major providers are aggressive growers of market share, sell and market strongly and at least one of these "OPSM" is keen to do a deal with MSD in return for market share growth.</p>

	<p>With data from 1 supplier, MSD beneficiaries are selecting a wide range of Branded and Basic Frames with a wide range of prices. A variety of lenses are also selected. Whether these variations are the result of need, or of Fashion or up selling by the Optician is unknown. There is opportunity for MSD to look at what they are actually funding here.</p> <p>There are 203 suppliers used by MSD with top 4 suppliers in each region consuming over 70% of region's spend. There would appear opportunity to consolidate in urban centres where the major players are positioned.</p> <p>There are 13,678 transactions per annum. Sales data from OPSM suggest that each transaction creates multiple sales opportunities. (multiple visits).</p> <p>Specsavers dominate the spend (over 40% with one supplier). They are growing aggressively and PMMS knowledge of that company suggest it is very well run and can potentially take market share from others through special offerings.</p>															
<p>Business Needs and Stakeholder Drivers Initial only, will need confirmation with S/H</p>	<p>These needs will require that Stakeholders are consulted to ensure their specific needs are being met. Some key needs identified include;</p> <ul style="list-style-type: none"> • Simpler MSD internal processes from initial assessment until beneficiary receives good quality furniture that meets beneficiary's functional needs, at a cost they can afford and which fits within MSD guidelines. • Cost effective furniture that meets the functional needs of the beneficiary at costs that are both recognising MSD position in the market place and also enable the beneficiary to repay their grant. • Simpler beneficiary processes that result in them being able to satisfy their furniture needs quickly and effectively, at a cost that demonstrates MSD ability to buy well on their behalf, and provides them with a product that supports their personal esteem. 															
<p>Preferred Strategy Options for closing gap between "As Is" and Business Needs</p>	<p>PMMS have considered several options. In terms of best fit, please review below;</p> <table border="1" data-bbox="638 957 2047 1390"> <thead> <tr> <th data-bbox="638 957 981 997">Strategy Option</th> <th data-bbox="981 957 1384 997">Description</th> <th data-bbox="1384 957 1713 997">Support for</th> <th data-bbox="1713 957 2047 997">Commentary against</th> </tr> </thead> <tbody> <tr> <td data-bbox="638 997 981 1324">Soft Option</td> <td data-bbox="981 997 1384 1324">Continue as today. Still require quotes from Beneficiary, still use a variety of suppliers both new and used based on Case Manager preference, location, beneficiary situation. Let the supply market come to a natural balance (PMMS believe that Specsavers and OPSM will see increase in share of MSD spend.</td> <td data-bbox="1384 997 1713 1324">No disruption to current arrangements with beneficiary or with supplier</td> <td data-bbox="1713 997 2047 1324">Potentially little of no commercial benefit to MSD from Optical spend. Optician will continue to up-sell branded frames and special lens coatings whether essential need or not.</td> </tr> <tr> <td data-bbox="638 1324 981 1390">Medium 1</td> <td data-bbox="981 1324 1384 1390">Carry out negotiations with a Specsavers, OPSM, Visique and</td> <td data-bbox="1384 1324 1713 1390">Reasonably soft commercial option and supplier's likely</td> <td data-bbox="1713 1324 2047 1390">Supplier unlikely to offer significant benefits without</td> </tr> </tbody> </table>				Strategy Option	Description	Support for	Commentary against	Soft Option	Continue as today. Still require quotes from Beneficiary, still use a variety of suppliers both new and used based on Case Manager preference, location, beneficiary situation. Let the supply market come to a natural balance (PMMS believe that Specsavers and OPSM will see increase in share of MSD spend.	No disruption to current arrangements with beneficiary or with supplier	Potentially little of no commercial benefit to MSD from Optical spend. Optician will continue to up-sell branded frames and special lens coatings whether essential need or not.	Medium 1	Carry out negotiations with a Specsavers, OPSM, Visique and	Reasonably soft commercial option and supplier's likely	Supplier unlikely to offer significant benefits without
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			<p>Budget Eyewear to secure better deal for MSD. Beneficiary choice still maintained and no direction to any specific supplier.</p>	<p>to give only token benefit to MSD. No commitment by MSD to focus business or to prefer a provider means market forces will drive outcomes.</p> <p>Expected that OPSM will respond and make offer in belief that Case Managers will provide direction to beneficiaries.</p>	<p>some commitment on MSD behalf. Beneficiary still can choose frame and lens without restriction and hence supplier can recover any commercial deal through upwelling.</p>
	Medium 2	<p>Successful negotiation concluded with small list of opticians for urban centres. Where in a rural setting, then potentially possible to negotiate with major player to assist small player with buying power for frames/lenses.</p> <p>Suggest need to limit suppliers to 1-2 per urban area so as to gain advantage from supplier.</p> <p>Part of arrangement are stronger guidelines around range of frames and lenses that can be used.</p>	<p>Anticipated that supplier will give 20-30% benefit to MSD in return for increased market share (OPSM) or may offer deal based on need to preserve business already won (Specsavers).</p> <p>Beneficiary gains through reduced costs for glasses.</p>	<p>Beneficiary may not like range of frames restricted or range of lens to be kept to basic functionality versus need.</p> <p>Suppliers may use Fog to smother transparency of real offering.</p>	
	Hard Commercial	<p>Negotiate with one major supplier as 'sole supplier' for a set period for a particular Urban/Region (or whole of New Zealand even). Selection based on price across all service elements together with agreed range of each product element.</p>	<p>Significant benefit to MSD from this 'winner take all' in Urban area strategy. Expect 30%+ from combination of supplier negotiation and MSD actions on agreed frames/lens range.</p>	<p>Expect beneficiary to be less than happy that glasses advance will revert to functional need rather than Fashion statement or perceived value-added or up sold lenses etc.</p>	

	The preferred strategy is Hard Commercial with fall-back to Medium 2. I.e., a focus on providing functional eye-ware	
Evaluation criteria	Level	
• Risk	● ● ●	The preferred “hard commercial” strategy is a significant change for MSD and for supply market. MSD will need to be prepared for supply market shock and reaction. A beneficiary may have their preferred optician and be resistant to change. A single supplier may take advantage of their position and up-sell so as to weaken the benefit agreed. Today, Spectacles are a fashion statement. To change the MSD guidelines so that MSD is focused more on providing functional eyewear may find resistance.
• Benefits	● ● ● ●	The “hard commercial” strategy of focus on a single provider of optical services in Urban areas and taking advantage of reduced range of frames and lenses will see significant benefits gained. PMMS believe a minimum of 30% improvement can be achieved. This in part because very large selling/advertising costs do not need to be included in an MSD ‘price’. May be some added benefits if selected supplier agrees to support smaller players in rural areas with Frames and Lenses at reduced pricing.
• Costs	● ●	There are minimal costs associated with implementing the preferred “hard commercial” option.
• Benefit:Cost	● ● ● ●	Providing a competitive opportunity for one major optical service provider to win in an urban area is likely to stimulate a competitive offer. As costs are low then Benefit:Cost ratio is high.
• Constraints	● ● ●	Current MSD mandate may need Ministerial support for change so that MSD can take a strong commercial position in the market place. Likely that Minister will receive some flak from supply market and from beneficiaries who see their ‘rights’ to glasses as a fashion statement being invaded.
• Service Centre Impacts	● ● ●	Some Service Centre staff will feel pressured by having to confront beneficiaries who still feel that glasses are a fashion statement rather than a functional necessity.
• Administrative workload	●	For the Hard Commercial strategy, there is a reduction in administrative workload.
• Influence and impact on Supply Market	● ● ●	If the Hard Commercial strategy is implemented, then there is considerable impact on the optical services supply market. If Specsavers were to lose 3% of their existing sales or to miss the opportunity to grow their New Zealand sales more aggressively, then this would cause a reaction at

		their HQ. Similar with OPSM. Smaller players in Urban areas will lose out with this strategy. The data PMMS have analysed shows that these players are a relatively small component of an urban area spend.
<ul style="list-style-type: none"> • Political environment 	● ● ●	Change is such as to stimulate commentary to the Minister. Both the supply market and the beneficiary may make noise with this strategy. If a Medium 2 strategy was adopted, less noise as major supply market players still have business although beneficiaries will still feel aggrieved due to reduced ranges of frames and lenses.
Recommendation	<p>That MSD pursue a Hard Commercial strategy by offering all of MSD optical services business either for whole of New Zealand or Urban areas of one or more regions for a set period of time. At the same time, it is recommended that MSD focus beneficiary grant towards the functional need of eyewear and reduce focus on spectacles being a fashion statement. This will limit range of frames and lenses and hence reduce costs.</p> <p>PMMS would expect that such a strategy will see a minimum of 30% reduction in optical services expenditure in areas where this strategy can be brought to bear.</p> <p>If MSD reverts to a Medium 2 strategy, then PMMS would expect any benefits to be reduced by approximately 10 percentage points.</p>	

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