

Amplifon in the US: A Story of Customer-Centric International Growth

Antonio Majocchi
Luiss University

Alessandro Zattoni
Luiss University

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Our objective is not only to maintain our role as a worldwide industry leader, we want to reinforce our position in the market even further through a mix of organic growth and acquisitions that we are already planning.
- Enrico Vita, CEO Amplifon (Il Sole 24 Ore, 2021 21 August)

Introduction

Amplifon is a multinational corporation, headquartered in Milan, that operates in the retail hearing aids sector. The company has an extensive network of shops, and it specializes in customizing and fitting hearing aids and in distributing an extensive range of accessories to solve problems related to the loss of hearing.

Since 2001, Amplifon has been listed on the Italian Stock Exchange. It joined the STAR segment in 2008, the FTSE-MIB Index in 2018, the Stoxx Europe 600 in 2019, and the MSCI Global Standard index in 2020.

Amplifon is expected to have close to €2 billion in sales in 2021. It operates in 27 countries, and it has around 18,000 employees in a network of 11,500 points of sale.

Amplifon competes in the hearing aid retail market, an industry that is highly fragmented at the global level. Amplifon is the global leader, with almost twice the market share of its largest competitor, but its worldwide share is just over 11%. The major players in the industry compete fiercely to lead the consolidation of the space. The sector is undergoing rapid development, thanks in part to the modernization impulse given by Amplifon in recent years. Hearing devices are highly technological products with continuous innovation, and distribution models are now experimenting with digitalization opportunities. Moreover, renewed interest in consumer hearing devices like Apple AirPods is bringing new products and technologies to market.

The challenges facing competitors are diverse and complex. The market that best exemplifies the size and the depth of the challenges in the US market where Amplifon has been present since the early 1990s. Giulio Pizzini (Chief Strategy & Business Development Officer at Amplifon) explained the company's challenges in the US market: "In the US we are the leader in the premium market, but we want to further increase our market share and consolidate our competitive position. Leadership in the US is fundamental not only because it is the largest retail market, covering around 40% of the world market, but also because this is the most innovative market where new technologies and innovation in retail tend to emerge first."

Amplifon: A Brief History

Amplifon S.p.A. has been, since its inception, a retailer of hearing care products and services. The company was established in Milan in 1950 by Algernon Charles Holland to provide hearing care for people who had suffered injuries during World War II.

The company has expanded constantly over the years, with impressive growth since its listing. In 2000, just before being admitted to the Milan Stock Exchange, Amplifon was still a mid-sized company with a turnover of approximately €345 million. However, the company had achieved sales of €533.5 Million by 2005 and €708.1 million in 2010. In 2015, Amplifon hit a milestone, generating sales above €1 billion for the first time. Sales growth has continued, reaching €1.7 billion in 2019. After a temporary decline to €1.5 Billion in the pandemic-hit 2020, the company is expected to generate close to €2 billion in sales in 2021. Figure 1 shows the growth of the company's sales in the last decade.

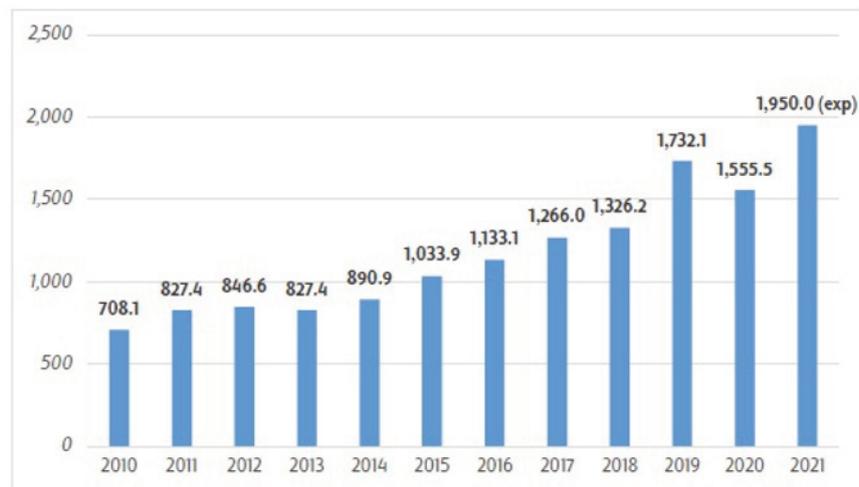


Figure 1. Amplifon sales in the last decade.

Source: Company reports, various years- (,000 €)

Between 2010 and 2021, the compound annual growth rate (CAGR) of the company's sales will have been close to 10%. This has been achieved through a mix of organic and external growth (see the section on the internationalization process, below). Moreover, the company maintained its profitability during this torrid growth, and it has increased in recent years (see Table 1). Between 2010 and 2020, that profitability occurred by increasing EBITDA and profits, and a return on sales in double digits in 9 years out of 10. Remarkably, the significant number of acquisitions did not worsen the company's financial ratios. The debt issued by the company has been kept under control; its financial leverage has always been between 1 and 1.5.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EBITDA on sales (%)	14.4	17.5	17.1	14.1	15.5	16.2	16.7	17.2	17.2	22.7	23.8
Ebit on sales (%) (ROS)	11.3	14.0	11.6	8.3	10.2	11.2	11.9	12.2	11.9	11.6	10.8
Profit (Mil €)	30.5	42.6	43.2	12.8	46.5	46.8	63.6	100.6	100.4	108.6	101.0
Debt-to-Equity Ratio	1.1	0.90	0.70	0.70	0.56	0.41	0.40	0.50	1.41	1.13	0.80

Table 1. Amplifon profitability and leverage (2010–2020)

Source: Company reports, various years

The Hearing Care Business

This business is a fast-growing and complex one. Recent estimates suggest that the global market could be close to \$15 billion. According to Global Market Insights, the “hearing aids market size... is poised to grow at a CAGR of over 7% between 2021 and 2027. Rapidly increasing demand for hearing aids and rising prevalence of hearing loss across the globe is anticipated to stimulate the growth for hearing aids devices.”

Several structural factors explain the expected growth.

The largest segment in this market is represented by people more than 65 years old. Recent estimates show that most adults in the US with hearing trouble are older than 55 years (Jorgensen & Novak, 2020). Less than 10% of people 55 report hearing troubles. This percentage jumps to 13.1% for people between 55 and 64 years of age; 21.9% for the 65–74 age range; 32.8% for the 75–84 age range, and 50.5% for those over 85.

In developed countries, the continued decline in fertility rates and increased life expectancy have resulted in increasing numbers and proportions of people who are over 65. This trend is structural, and it is not limited to developed countries. People aged 65 and older currently represent 9% of the world’s population, and this share is expected to grow to 12% in 2030. Overall, the world’s population is progressively aging.

This demographic trend, together with the growing relevance of health-conscious behaviors, has increased the awareness of hearing problems, with a higher percentage of persons testing their hearing.

The hearing aid industry has made tremendous technological advances in recent years. Hearing aids have allowed many people to increase the quality of the sound they hear dramatically. On top of this, new features continue to be added to the devices: mobile apps connected to the devices, language translation services, audio streaming, sophisticated sensors, alerts, and feedback on physical activity promise to increase customer satisfaction even more and shorten the product life cycles.

Overall, these factors represent great opportunities. Around the world, the penetration of hearing aids among people with hearing loss continues to grow. In the US and Europe, the penetration rate is slightly above 30%. Countries like Denmark or the UK, where penetration is close to 50%, show a large potential for additional growth in markets like the US or continental Europe.

However, great opportunities are also present in emerging markets where the penetration rate is very low, ranging from 5 to 10%. Moreover, the prevalence of hearing loss is higher in low-income countries than in high-income ones because measures to prevent hearing loss are almost non-existent and deficiencies are not always treated properly. China and Latin America are fast-growing areas with double-digit growth in the last decade.

The projections for people in the world with disabling hearing loss (i.e., more than 40db) are shown in Figure 2.

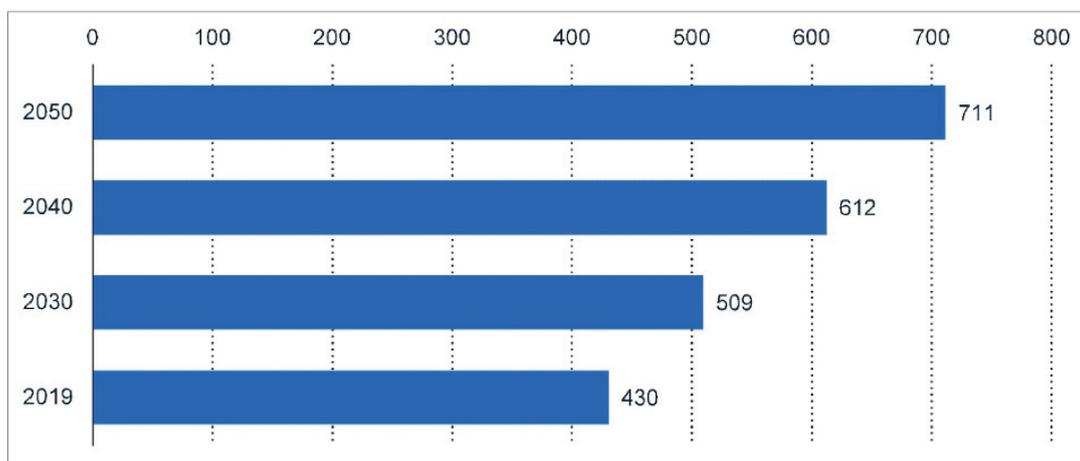


Figure 2. Projected number of people with disabling hearing loss worldwide in 2019, 2030, 2040, and 2050 (in millions).

Source: Statista, 2021

These factors are expected to fuel market demand for hearing aid devices in the coming years. These perspectives, together with the continuous technological innovation in the devices and software and the increased sophistication in the communication and marketing efforts of the leading players, are promoting structural changes.

Today, the market structure is characterized by a high level of concentration in production and a relatively high fragmentation in the distribution stage. The manufacturing stage is dominated by 5 players: Sonova Group (Switzerland), Demant A/S (Denmark), WS Audiology (Denmark), GN Group (Denmark), and Starkey (US). These five companies cover almost 95% of the market. Sonova, Demant, and WS Audiology are the market leaders, all with a global market share of around 25%. However, market share varies significantly from country to country. This concentrated structure is the result of the high—and increasing—fixed R&D costs that make the industry scale-intensive. Continuous innovation and the introduction of new applications led by artificial intelligence promote the launch of new products across the world. This generates the need for higher marketing expenditures, which favors large players over small and medium companies. While production is quite concentrated, the distribution remains relatively fragmented. Amplifon currently has a global market share of around 11%. However, this share varies significantly from country to country, ranging from over 40% in Spain and Italy to less than 10% in the US and Germany.

Traditionally, distribution has low barriers to entry, allowing numerous small independent players—even those with only one or a few points of sale—to enter and play in the market. Moreover, the peculiar nature of the service, with its strong medical consultancy component, creates strong links between hearing aid retailers and consumers. Therefore, customers tend to stay

with the hearing professionals that helped them to identify and measure the degree of hearing loss and to tailor the hearing aid to their specific type and degree of loss. Consequently, consumers tend to be sticky, making brand recognition extremely important in the market. Interestingly, consumers recognize only the retail brands. Manufacturers’ brands, as is typical for medical devices, are often unknown to the end customers. On top of this, the hearing aid distribution market is highly regulated. The very different rules across countries create barriers to entry in many markets.

Table 2 lists the main players in the distribution market, ranked in terms of units sold. Amplifon is the only player with a global presence that is not a manufacturer of hearing aids.

Player	Model	Geographical Scope
Amplifon	Specialty retailer	Global presence
Sonova	Manufacturer	Global presence
Demant	Manufacturer	Global presence
WS Audiology	Manufacturer	Global presence
Costco	Grocery Chain	Mainly US
GN Resound	Manufacturer	Global
Specsavers	Optical chain	The Netherlands, UK & Australia
Starkey	Manufacturer	Mainly US
Kind	Specialty retailer	Mainly Germany
Neuroth	Specialty retailer	Mainly Austria & Switzerland

Table 2. Main players’ business model and geographical scope in the hearing aid distribution sector. Ranking based on estimates of units sold

Source: different analyst reports, internal sources

In recent years, the continuous pace of innovation and the shift toward digitalization have increased the average size of the investments at the distribution level and in the points of sale. This has further highlighted the importance of brand recognition in driving consumer choices, and it has increased the need for marketing expenditures. Market research shows that, on average, consumers only know 1.3 hearing aid retail brands, making the top brands very valuable. As noted earlier; the brands of hearing aid manufacturers are mostly unknown to consumers. Technology and marketing investments are promoting a global trend toward concentration and consolidation.

Amplifon Business Model: Reshaping The Hearing Care Retail Business Around The Customer

Amplifon does not produce hearing aid devices; it only distributes them. Its commercial success is based on its ability to focus on client needs. The current strategy was adopted by Amplifon at the beginning of the new millennium when the company combined its medical services with a modern retail focus. The shift has some traits in common with businesses like eyewear, which, in the same years, moved from a predominantly medical approach to a mixed fashion–medical concept. The company’s 2020 report presents the strength of this business model: “By focusing on the process of service provision and adopting the customer perspective, the firm has reinterpreted the role and the impact of the in-store experience in the process of value creation. The starting point was the development of new solutions to solve the hearing impairment problems of people as a result of close collaboration between research and development (R&D) and front-line employees. (Amplifon Annual Report, 2020).

This strategic move had an impact on the organization as it emphasized:

1. The role of the **Customer Experience Innovation (R&D)** department, combining elements of audiology, digital tech, service design, and retail. The increased role of innovation has allowed Amplifon to develop several proprietary assets that improve its customized service to clients, the customer experience and loyalty, and the company’s financial performance.
2. The **distribution network** with a focus on nationwide presence and capillary coverage. This is coherent with the shift from a purely medical concept to a mixed medical–retail concept, and shops have been completely redesigned.
3. The **international scope** of the firm has grown exponentially. This has made Amplifon a global leader in the hearing retail sector. Except for China, where Amplifon entered the market with two joint ventures and a mixed model in the US (see below), the company operates through direct points of sale in Europe, Asia, Oceania, and Latin America. This business model allows customers to buy products and services from Amplifon, which selects and buys the products from different manufacturers (see Figure 3).



Figure 3. The Amplifon Business model: Business to consumers (Europe, Oceania, Asia, Latin America)

Source: author’s own elaboration based on Amplifon data

Amplifon's business model allows it to focus and specialize on the end customers, offering highly complex and articulated services that require intensive interactions with consumers. However, this approach must be supported by relevant investments in both technology and people. The shop salespersons are hearing care specialists who not only perform hearing tests with the most advanced technologies but also create a strong link with the clients based on trust and competence. The company constantly invests in training to update staff competencies and to motivate and empower the staff. Overall, Amplifon hearing specialists receive around 167,000 hours of training each year.

Amplifon salespersons combine innovation, scientific knowledge, and a highly personalized approach in line with the "Amplifon 360 protocol" aimed at ensuring a superior customer experience. The protocol defines a complex process to identify the hearings needs and the personal perception of hearing. It does this through several tests and check-ups that every Amplifon expert performs using advanced equipment at the point of sale. Through the years, Amplifon has developed a proprietary system for the interactive fitting and fine-tuning of hearing aids, to deliver customized solutions to customers. The system allows for a high level of customization of the hearing test based on the profile of each client. This makes it an interactive experience in which the customer provides information about his/her lifestyle.

Based on the results, the Amplifon experts suggest a customized hearing solution that is tested during a 30-day free trial period. Then, if the hearing aids are purchased, Amplifon's assistance and support last for the life of the product, generally 4-5 years. The Amplifon app is part of this assistance package. It provides personalized daily assistance to customers and continuous interaction between the clients and the company. For the company, the app is a primary source of information and data about clients, and it is a direct channel to communicate and interact with them.

Adopting the mixed medical-retail concept has driven the company toward new approaches. The network has developed in corporate shops and shop-in-shop corners, as well as through the large US franchising network. At the same time, stores have been redesigned to reduce the negative associations with medical experiences.

In this regard, Amplifon states: "We totally changed our traditional stores, shifting from functional but often unfriendly and impersonal spaces, to bright, comfortable, modern and cozy shops... The aim is to actively interact with each individual discovering a hearing problem, step by step, from its diagnosis to the selection with him/her of the best solution, and thus making this process a positive, rich and emotionally engaging experience" (<https://corporate.amplifon.com>).

The Internationalization Process

After its foundation, Amplifon rapidly became the leader in the Italian market, and soon the company looked outside the domestic market to expand its activities. The internationalization of the company dates to the early 1990s, and it was initially limited to Europe. However, by 1999, Amplifon had made a significant leap forward by acquiring Miracle-Ear, the largest US retailer of hearing aids, which operated through a franchising model. By the end of 2010, Amplifon had gained significant positions in many national markets. The company was the leading operator in the domestic market with a market share of over 40%, and it was a significant player in other important markets: the US, Canada, the Netherlands, France, Portugal, Switzerland, Hungary, Germany, and the UK.

Between 2010 and 2020, Amplifon took additional steps to become a truly international retail company. The strategic shift toward the mixed medical–retail model was paired with accelerated international expansion. In this period, Amplifon entered Asia by acquiring NHC in 2010 (with a presence in Australia, New Zealand, and India). Then it entered Latin America, and finally China, in 2018.

Since 2010, the number of acquisitions has increased significantly. The most important acquisitions and investments between 2010 and 2020 are shown in Table 3.

Table 3. Main international investments by Amplifon (2010–2020)

Year	Target country	Description
2010	Australia, New Zealand, and India	Acquisition of 100% of National Hearing Care Group (NHC), the second-largest hearing aid retailer in Australia with around 102 audiology shops and 16% market share and strong brand recognition and leadership in New Zealand with 45% market share and 78 shops (Bay and NHC brands). NHC was also present in India with 11 shops.
2014:	Israel	Expansion in the eastern Mediterranean region by acquiring Besides, which holds a 60% share of Medtechnica Orthophone, the Israeli market leader with strong R&D expertise.
2016	Germany	Acquisition of two high-quality retail chains in Germany –Focus Hören AG and Die Hörmeister GmbH–gaining 86 shops. Throughout the year, 110 points of sale were acquired in Germany, bringing the local distribution network to 370 shops.
2016	Canada	Acquisition of 21 Hear More shops in Ontario, allowing Amplifon to double its presence in Canada under the Miracle -Ear brand reaching over 40 direct points of sale.
2017	Portugal, France, and Germany	Acquisition of 359 shops and shops-in-shops from different sources and in different countries. Amplifon acquires 75 Minisom shops in Portugal – part of the retail activities of Audionova – and 55 new shops in France and Germany from Sonova Holding AG.
2017	India	Acquisition of the retail activities of the Bloom Senso Hearing Centre company.

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2018	Spain, Portugal, and Latin America	Acquisition of the Spanish specialty retailer Gaes from the Gassó family. The company is the leader in the sector in Spain with around 500 shops, but it is also present in Portugal and different Latin American countries. Overall, Gaes operates a network of around 600 points of sale. This acquisition, the largest in Amplifon history, allowed the company to consolidate its global leadership position thanks to its leading positions in the core markets of Spain and South America.
2018	China	Amplifon enters a joint venture with the Beijing Cohesion Hearing Science & Technology Co. Ltd., a leading specialty retailer in the Beijing area. Amplifon owns 51% of the joint venture, and the remaining 49% is owned by local partners. The joint venture operates around 30 points of sale in the Beijing area.
2020	Australia	Acquisition of Attune Hearing, Australia’s largest independent hearing healthcare player with 55 points of sale in the country.
2020	US	Acquisition of the hearing care business of PJC Investments, the second-largest Miracle-Ear franchisee in the United States.
2021	Australia	Acquisition of Bay Audio. Founded in 2007, Bay Audio is a leading private independent hearing care retailer with over 100 points of sale along the east coast with a well-known and recognized premium positioning.
2021	China	Amplifon enters a second joint venture with a local partner, allowing it to expand its presence in the Zhejiang region and Southeast China. Amplifon holds 51% of the new joint venture, while the local partner, a leading specialty retailer headquartered in Hangzhou, holds the remaining 49%. The joint venture, named Shengqiao (Hangzhou) Health Technology Co. Ltd (“Sound Bridge”), operates 45 shops located in Zhejiang, Fujian, Henan, and Jiangxi. According to Amplifon “the transaction perfectly fits Amplifon’s strategy aimed at expanding the Company’s coverage in the fast-growing Chinese market, complementing the current presence in the Beijing area thus reaching a total network of around 100 points of sale and an expected combined turnover run rate for 2021 of around €15 million” (Amplifon press release).

After almost 20 years of international acquisitions and expansion, in 2021, Amplifon covers five continents. Amplifon’s international presence, through its different brands, is shown in Figure 4.



Figure 4. Amplifon international presence.
Source: Amplifon annual report 2020

Amplifon’s aggressive growth strategy has made it the main global player in the distribution of hearing aids and the only player with a double-digit share (recent estimates state that its market share is around 11%). The geographic coverage of the company is significant. Amplifon is present in both North and South America and almost all European countries. It also has strongholds in Asian markets (especially India and China) and Australia and New Zealand. The company is the market leader in the EU with a leadership position in many national markets (like Italy and Spain). However, it has significant room for growth in important countries like France, Germany, and the US. In less mature markets like India, China, and Latin America, Amplifon has abundant room to grow toward a leading position. The geographical distribution of the sales in Fiscal Year 2020 (see Figure 5) shows that Europe remains the company’s most important market, but its footholds in non-European countries contribute significantly to the company’s turnover.

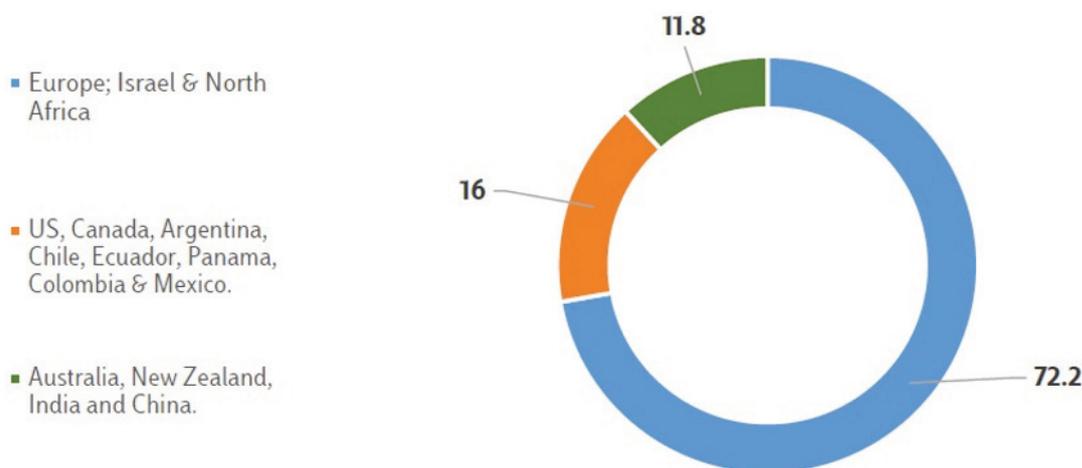


Figure 5. Amplifon turnover by geographical area (percentage, %), Year 2020

Source: Amplifon annual report 2020

Overall, this strategy has allowed Amplifon to develop a strong competitive position from at least three aspects:

1. Amplifon’s economies of scale allow it to absorb the increasing marketing and R&D fixed costs. In recent years, Amplifon invested heavily in a cutting-edge, integrated, global cloud-based platform that allows it to simplify, optimize, and integrate its back-end operations. It also invested significant resources in the development of its own product line and technologies, as well as tools, to remain in constant contact with its customers.
2. From the marketing point of view, Amplifon’s investments have strengthened its brand recognition and its ability to provide high-quality services. It does this through a unique and innovative customer experience based on company brand products and a multichannel ecosystem centered around a proprietary app. The Amplifon app not only generates the first contact, but it also allows the company to be constantly in touch with its clients.
3. Third, its leading role in the market allows the company to attract talent at both the corporate and network levels. This visibility is especially relevant in attracting specialized audiologists that, in many national markets, are the only professionals authorized to prescribe and fit hearing aids and assistive listening devices.

However, to reinforce its competitive position, Amplifon must further consolidate its position in key markets such as the US and China. Overall, most markets—and the non-EU markets in particular—remain fragmented. The breathtaking pace of change creates great opportunities, but it also generates significant risks. New technologies are constantly developed, new competitors may enter markets, and alternative channels may be developed in the competitive arena. Further consolidation is expected in years to come. In this scenario, the US market will have a central role because it is still the largest and most dynamic market.

The US Market

The United States is the largest market in the world, with a revenues of almost \$8 billion and almost 40% of global sales. The number of adults with hearing loss in the US is estimated at around 38 million, representing 10% of the U.S. population. However, only about 34% own hearing aids (Jorgensen & Novak, 2020). The market is large, and it has bright prospects. The American market is also the most innovative arena for the hearing aid sector, with fierce competition between producers that developed their own network, independent retailers, hearing clinics, franchising networks, and pure distributors. Overall, there are approximately 19,000 licensed hearing professionals in the US, and they have different roles in the distribution sector.

According to Alessandro Bonacina, Executive Vice President of Amplifon Americas: “The American hearing care market is not only the largest in the world, but it is also a really fascinating and extremely complex market. We can say that it is a hyper-competitive and hyper-segmented market. To give you an idea of the complexity, consider how diverse consumers in the US can be. We have consumers who have private insurance but also—to a less extent—public insurance (at least 30% of the market). Another segment, that in Europe is very limited, is made by consumers that enter the market through an otorhinolaryngologist or through the hospital. This segment count for around 20% of the market. Then we have the classical retail consumers, that are the rule in Europe but only a segment in the US. This share is larger than 40% of the market, but should be divided into two broad and different categories: the price seekers and the premium segment. Finally, the remaining part of the market, so far very limited but growing, is covered by consumers that want a fully online experience.”

Fierce competition promotes innovation. For example, the US is the first market to have virtual distributors. EarGo, a company recently listed on the Nasdaq Stock Exchange, attracts customers with the promise to “complete their purchase over the phone with our sales consultant or directly on our website, without the need to navigate multiple visits to the hearing clinic for tests and fittings” (EarGo SEC Prospectus). The online market is still in its infancy, with a marginal share of the total market. The virtual segment is focused on price-sensitive consumers, but the effects of this distribution channel might be disruptive in the future. It could even attract producers of fitness devices and consumer electronic products such as Apple, Fitbit, and Samsung.

The development of the market will also depend on regulations. Hearing aids are classified as medical devices in the US. This means that R&D, clinical testing, and distribution are highly regulated. Failure to comply with regulations is fined with a variety of administrative and judicial sanctions. Regarding distribution, most States require hearing aids to be dispensed by licensed hearing care professionals. This requirement has limited the development of the online market. However, in 2017, a law was passed that mandated federal health agencies to create a new category of hearing aid devices that allowed for over-the-counter (OTC) sales to adults with limited hearing disabilities without involving licensed professionals. The authorities are currently finalizing the regulations for this law, and when they come into effect, it will increase the options available to Americans to access hearing devices.

Another significant trend in the US market has come from private and public health insurance plans. Historically, Medicare (the largest public health insurance program, mainly got adults 65

years of age or older) has not covered hearing aids and related services. Following suit, until recently, private health insurance companies and other Federal and State programs have provided very limited coverage for hearing aids. However, in recent years, there has been an increase in healthcare plans offering hearing aid benefits. For example, according to recent estimates, less than 50% of Medicare Advantage enrollees nationwide had access to a hearing aid benefit before 2015. In 2018 this share was approximately 75% and growing. Consequently, new players may enter the business with companies in the hearing aid segment (mainly WS Audiology) and the health insurance industry (namely, United Healthcare) spotting the opportunity to integrate vertically into the business of managing hearing benefits.

These managed care entities—called third-party administrators—provide services to all stakeholders: the payor of the health plan, the hearing health provider, and the consumer. Third-party administrators develop their own ‘virtual’ distribution networks by credentialed audiologists and hearing aid dispensers, contract with producers of hearing devices, build capabilities to manage the claims securely and efficiently, and typically negotiate significant discounts off the retail price. The share of the market covered by managed care is increasing significantly, and today it is estimated to reach or surpass 20% of the market (Jorgensen & Novak, 2020).

While the managed care market is based on price competition, the market for private consumers is more articulated. The price-sensitive segment is dominated by Costco, a grocery chain that, with a share of approximately 15%, is the current leader. Costco is a large company with a network of membership warehouses and over \$160 billion in sales in 2020. Costco offers its members low prices on several products in a wide range of categories. Costco’s approach to business is somewhat unique. The company offers, at a very low profit margin, a selection of high-quality products sold in bulk to price-conscious clients. With such a low margin on the products sold, Costco relies on the membership fees from its customers to generate profitability. A very large base of approximately fifty million members allows the company to rely on a flow of stable income and have high profit margins. The hearing-aid products are part of a series of ancillary services that Costco provides to encourage the members to shop more frequently. These businesses also include gas stations, pharmacies, and optical dispensing centers.

Amplifon's Strategy in the US

In terms of units sold, Amplifon is currently the second-largest player in the US after Costco. However, it is the market leader in the premium segment where there are more service-oriented and less price-sensitive consumers. The other important players in the market are hearing aids producers: WS Audiology, Demant, Starkey, and GN. These manufacturers have developed their own distribution chains (mainly through acquisitions) with market shares (in units) around 5% each. The US strategy followed by the producers—based on vertical integration—replicates a larger worldwide trend in which manufacturers try to develop direct contacts with clients to expand and secure volumes and to improve their margins. However, organic growth for these companies has been relatively slow. This happened because the retail sector requires dedicated investments and specific capabilities that the producers struggle to develop, at least in the short run. This gives Amplifon, the only relevant specialty retailer in the market, a competitive edge that it might exploit.

The company operates in the managed care business and the retail sector with two different brands: Amplifon Hearing Health Care with health insurance companies (managed care businesses) and Miracle-Ear for private consumers. Another subsidiary, Elite Hearing Network, a hearing aid buying group for independent hearing health care providers, was dissolved in 2021 to increase the focus on the two largest, fastest-growing, and consumer-driven segments.

Amplifon's growth in the US was rather constant until the company accelerated its expansion in recent years. Besides acquiring several small shops and former franchisees, its landmark move was to acquire the hearing care business of PJC Investments, the second-largest Miracle-Ear franchise network in the United States, in 2020. That acquisition allowed Amplifon to combine PJC's 110 stores with the 59 corporate stores owned by Miracle-Ear under a single legal entity. Today, with over 1,500 points of sale nationwide, Miracle-Ear is the leading network in the hearing aid sector in the US. That network comprises around 200 corporate stores where Amplifon tests new solutions and experiments with innovations, while the rest of the networks are managed by franchisees.

The pivotal role of the franchising network in the retail sector and the central role of managed care are additional peculiarities of the US market. The two Amplifon brands in the country follow two different business models that are more complex and articulated than the European business model. In the retail business, Amplifon provides hearing care services through the Miracle-Ear franchises. The network of independent franchisees replicates Amplifon's approach and follows the company's strategic guidelines according to the model in Figure 6.

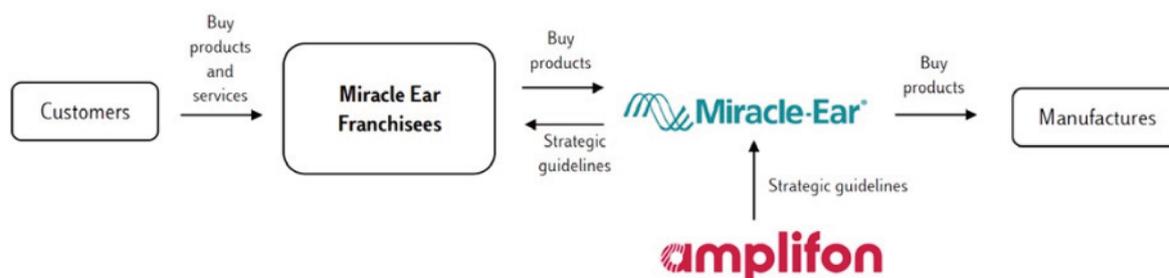


Figure 6. The Miracle Ear Business model in the US: retail sector

Source: author’s elaboration based on Amplifon data

Even if the independent franchisees follow the guidelines from the Miracle-Ear franchisor, the high complexity of the services offered and the autonomy of the franchisees create a quite heterogeneous execution of these services across the nation. As Raimondo Fusco (Vice President, Strategy & Business Development, Americas) states: “The original franchisee contract we inherited from the acquisitions in the US was somehow ‘light’ compared to other US franchising networks. Over the past years, our work has been to define the customer experience around the ‘Miracle-Ear Promise’ and standardize how it is delivered to consumers across the US. At the same time, we have progressively developed a network of company-owned points of sale. We have now more than 200 owned shops, but we are aiming at creating a network of around 500 in the medium term.”

This approach, which combines direct stores with franchisee outlets, allows the company to gain expertise and test innovations in the company-owned stores. Then they can be transferred to the entire network when they are viable. Moreover, directly operating a network of owned shops contributes significantly to Miracle-Ear’s ability to act as a credible franchisor.

In the managed care business, Amplifon offers, under the brand name Amplifon Hearing Health Care, hearing care solutions to health plan members through both Miracle-Ear shops and independent providers. Amplifon Hearing Health Care allows the company to cover a different segment of the American market, offering contracted services to managed care organizations, employers, third-party administrators, membership groups, and government agencies. The company’s business model is presented in Figure 7. It shows the central role of insurance companies in the market as mediators between customers and service – and product providers.

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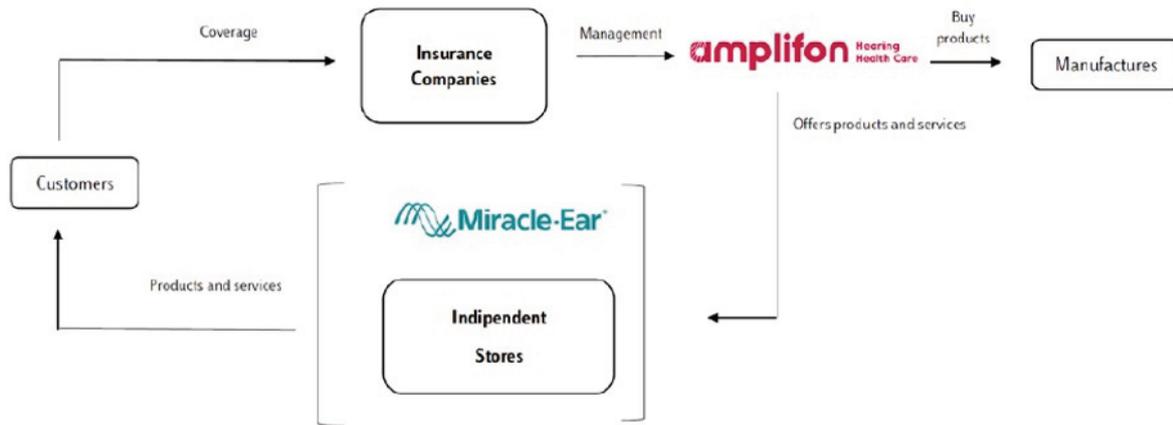


Figure 7. The Amplifon Business model in the US: the managed care business
Source: author's elaboration based on Amplifon data