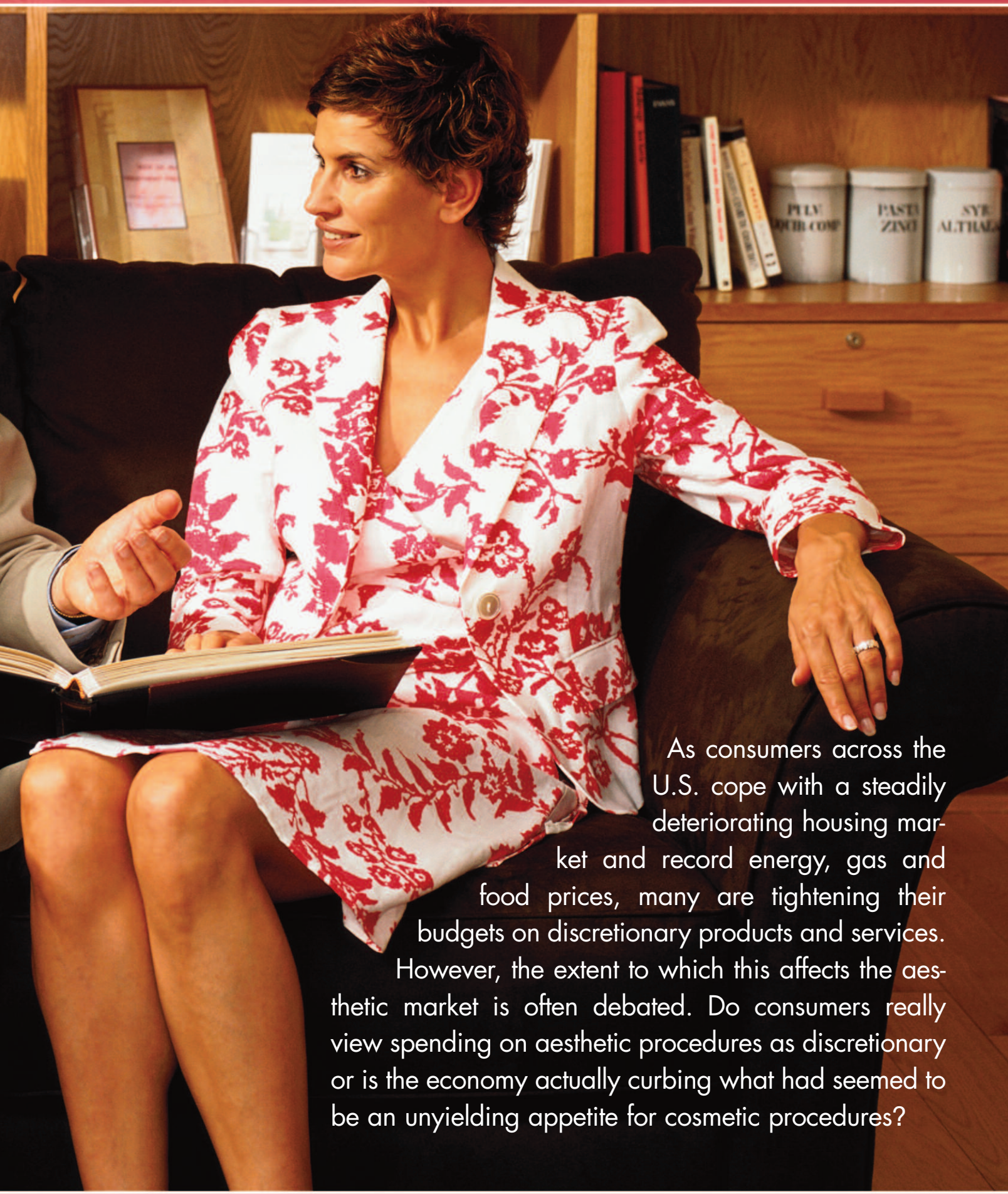
Minimally Invasive Procedures Sustain Growth in Declining Economy

by Shannon Fox, Contributing Editor



As consumers across the U.S. cope with a steadily deteriorating housing market and record energy, gas and food prices, many are tightening their budgets on discretionary products and services. However, the extent to which this affects the aesthetic market is often debated. Do consumers really view spending on aesthetic procedures as discretionary or is the economy actually curbing what had seemed to be an unyielding appetite for cosmetic procedures?

Aesthetic Market Recession

A collective review of the most recent quarterly earning reports from publicly traded manufacturers would indicate that demand has, in fact, declined somewhat. However, some cosmetic practices and manufacturers continue to report record growth. What is their secret? According to successful practices, emphasizing value, rewarding your established client base and consistently utilizing proven marketing efforts are just some of the strategies that keep their practices thriving in a more challenging macro-economic climate.

According to Robert Grant, president of Allergan Medical (Irvine, Calif.), "When it comes to the medical aesthetic business, we saw solid growth in the first quarter in the U.S. However, the growth trajectory has moderated somewhat compared with other economies outside the U.S. such as Europe, Canada and Australia."

Robert Grant
President
Allergan Medical
Irvine, CA

Physicians, manufacturers and analysts agree that the high ticket, surgical procedures are most at risk in an economic downturn. According to Mr. Grant, "In a contractionary economy, we believe that higher priced surgical procedures will likely feel a greater impact than injectable procedures." In fact, the most recent data from Medical Insight, Inc. (Aliso Viejo, Calif.) suggests that worldwide breast implant revenues will increase only 6% per year over the next five years, according to president, Michael Moretti. "There is some excitement around the return of silicone gel to the U.S. market, but implant sales were still down in the first quarter of 2008," he reported.

Michael Moretti
President
Medical Insight, Inc.
Aliso Viejo, CA

Gregory A. Buford, M.D., a board certified plastic surgeon in private practice in Englewood, Colo., started to notice the impact to his practice in January or February. "We've seen about a 15% drop in overall demand for all procedures, but the biggest decrease has been in combination tummy tuck/breast enhancement procedures which are very high dollar procedures."

Yet, surprisingly, Dr. Buford has noticed a recent surge in demand for breast augmentation. Part of this may be attributed to seasonality, but he also attributes increased availability of financing as a driver. According to Dr. Buford, "Financing has been a huge plus for the plastic surgeon practice. Before, patients had to seek out their own financing through their bank, credit cards or cash. In times like this, that is harder to do. Now companies are allowing for a wider socio-economic range to receive financing which has served as a net for patients wanting these procedures." In fact, Allergan recently announced a partnership with CareCredit (Costa Mesa, Calif.), a unit of GE Capital, to offer financing for their elective surgical procedures at preferential financing rates.

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In most cases, practices located in more affluent markets have been better positioned to weather the economic pressures. Jason Diamond, M.D., F.A.C.S., a facial plastic and reconstructive surgeon in Beverly Hills, Calif., hasn't seen an impact to his practice but recognizes that his experience likely is not representative of the overall market. "This market (Beverly Hills) isn't as affected, but I hear my colleagues talking about it. In general, people are afraid to spend money and plastic surgery is the same deal. People want to have something done and are looking into it, but may be holding off until things improve," he said.

Jason Diamond, M.D., F.A.C.S.
Facial Plastic and Reconstructive Surgeon
Beverly Hills, CA

As big ticket surgical items become financially out of reach for more consumers, several physicians and analysts pointed to a "trading down" phenomenon whereby consumers are foregoing expensive surgical procedures for lower cost, often more minimally invasive alternatives. "A lot of my patients that thought they were going to do a surgical procedure have opted not to do so, partially for

financial reasons, but also because of improvements in technology for minimally invasive options. However, the financial part [in that decision making] is more upfront than it used to be," noted Tina Alster, M.D., director of the Washington Institute of Dermatologic Laser Surgery in Washington, D.C.

Tina Alster, M.D.
Director
Washington Institute of Dermatologic Laser Surgery
Washington, D.C.

According to a recent survey by the *American Society for Dermatologic Surgery* (ASDS), dermal fillers, injectable toxins and laser related procedures are continuing to rise, despite economic concerns. In their survey of 562 ASDS members, just over one-half said that consumers were becoming more cost conscious. However, 63% said they were maintaining a consistent volume of bookings for existing patients, compared to six months ago. In addition, 31% of dermatologic surgeons indicated an increase in their percentage of new patients.

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However, injectable treatments are still not immune from the economic pullback. Larry Biegelsen, a senior analyst at Wachovia Securities (Charlotte, N.C.) believes that BOTOX® from Allergan and dermal fillers will be more resilient to a market recession, but noted a slowdown in BOTOX growth in the first quarter. With recent safety concerns presenting a possible overhang, "It's hard to weed out what is driving the slowdown. Allergan attributes it to the economy because they are still seeing growth in international markets where safety concerns also have been publicized," said Mr. Biegelsen.

One way that consumers are trying to stretch their dollars is by extending the intervals between treatments. According to the survey of ASDS members, 44% of respondents indicated that existing patients are allowing for more time in between visits. Dr. Alster said her business continues to grow but notes that patients are no longer booking as far in advance. "More patients are waiting to schedule their next appointment when they see the effects of their last treatment start to wear off." This trend has enabled her to accept new patients for the first time in over four years.

Gregory Buford, M.D.
Board Certified Plastic Surgeon
Englewood, CO

Dr. Buford also has seen patients stretching out the time between treatments and has seen a decrease in combination treatments using BOTOX and fillers. "More patients seem to be saying, 'I can only spend money on one injectable' and when faced with that choice, most are opting for BOTOX in lieu of dermal fillers."

In the dermal filler category, Medical Insight forecasts worldwide growth of 20% per year over the next five years. "For dermal fillers, there is still a lot of untapped demand in the U.S. and there are a lot of new products coming on board which will drive growth," explained Mr. Moretti. For neuromodulators, including BOTOX, Mr. Moretti anticipates growth of 16% per year over the next five years. "The U.S. market is pretty mature, but international markets are still growing."

Another reason that BOTOX and fillers may be less impacted by an economic downturn is the low entry barrier for physicians wanting to offer these procedures. "For a physician that wants to begin offering cosmetic procedures, injectables are a great entry point," said Mr. Moretti. "They are only responsible for material costs, no lease payments or other capital equipment investments."

Physicians and analysts also expect some disruption to the flow of new patients into cosmetic practices in the U.S. John Buckingham, president and founder of Solana MedSpas, Inc. (Irvine, Calif.) said that the 55 retail medical spas under the Solana umbrella are reporting no slowdown in growth for aesthetic procedures, yet he does acknowledge that the market as a whole is probably seeing a lapse in new customers. "More individuals, mostly women, are considering having these procedures done and are trying to decide

whether to go to a plastic surgeon, dermatologist, OB/GYN or medical spa and making this decision has given them some pause," he said.

Mr. Biegelsen also believes that fewer prospects have entered the market. "This is partially due to economic issues and also potentially related to safety concerns. I do worry about how the media covers safety issues and how that affects the business over the long-term."

Demand for laser and light-based procedures seem to fall somewhere in the middle of the spectrum in terms of economic risk according to physicians and industry observers. Dr. Alster notes that demand is still strong, but says she has seen a slight increase in opting to pay for one treatment at a time as opposed to buying a package. Mr. Buckingham believes consumer demand is strong but device sales overall have been weak as a result of over supply in the distribution channel.

"The economy cuts both ways. It makes it more difficult for patients to afford the high ticket items, but it creates more economic incentive for other physician specialties to offer these procedures."

According to Medical Insight, worldwide growth in body shaping and skin tightening device sales will continue to be robust, with a forecasted growth over the next five years of 29% and 27%, respectively. "Other energy based devices are more established and will experience a lower growth rate of 14% per year over the next five years," predicted Mr. Moretti.

Overall, the group of laser and light-based manufacturers have seen a rough start to 2008 with Cynosure, Inc. (Westford, Mass.) being the exception, reporting 41% year-to-year revenue growth during the first three months of 2008. Michael Davin, president and chief executive officer, attributes the Company's success to its diversified distribution, diversified product offerings and ability to provide cosmetic practices with a turnkey approach to marketing, among other things. "We do channel checks with our distribution team managers, our 'feet on the street' with our end user, the physician. They are not seeing reduced demand. With gas prices where they are and where they are going, we are hypersensitive to monitoring the dynamics of the economy, but we haven't seen a pullback yet," noted Mr. Davin.

Michael Davin
CEO
Cynosure, Inc.
Westford, MA

A counter argument to market recession fears is that the weak economy could actually spur growth for the aesthetic market. According to Mr. Biegelsen, "The economy cuts both ways. It makes it more difficult for patients to afford the high ticket items, but it creates more economic incentive for other physician specialties to offer these procedures. They want to increase their patient volume and income," he said. He cites the declining volume of LASIK procedures among ophthalmologists and declining Medicare reimbursements affecting multiple specialties, as drivers for market expansion.

Jody Comstock, M.D., a cosmetic dermatologist in private practice in Tucson, Ariz., believes the weak economy may actually be helping her practice. "Appearance can correlate with employment. What we clearly see is that the psychological benefit of looking your best is huge. I would call it inelastic; things like food, clothing and a new car are more elastic. People make a conscientious choice to invest in themselves. When they look their best, it keeps them marketable," she explained.

Jody Comstock, M.D.
Cosmetic Dermatologist
Tucson, AZ

Dr. Comstock reports no signs of a slowdown and she attributes that to consistently following the guiding principles of her cosmetic practice. "Our motto is to always be state-of-the-art with safe FDA approved products and service oriented," she stated. She added that an established and loyal client base has also shielded her from potential economic pressures. "When there are tough economic times,

people want to go where they trust the value. In our practice, we have board certified dermatologists doing procedures and they not only achieve great cosmetic results, but they also offer the added value of picking up skin cancer, pre-skin cancer or early shingles; that happens every day in our practice."

According to Dr. Alster, "Closing the deal" is the most important element to remember in a market recession. "It really is an opportunity to spend more time with patients and make sure they understand the full scope of procedures that we perform. It keeps people engaged and generates new income from individuals that are already in your practice."

While some practices may be tempted to cut their marketing expense when demand softens, Mr. Buckingham advised that is the opposite of what you should do in an economic downturn. "You should be marketing harder, or at the very least, spending what you have always been spending," he says. At Solana MedSpas, Mr. Buckingham says that 60% of leads and conversion are driven by the staff's sales efforts. "We have a highly trained salesperson that sets up relationships and strategic alliances with complementary, same demographic businesses in the local area to arrange weekly women's health events in the store. These really work. Internet marketing contributes the next highest percentage of leads," Mr. Buckingham said.

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Dr. Buford agreed that many physicians will "shift into panic mode" when their schedule starts to lighten. "People do one of two things, they throw money everywhere, or pull back on their spending altogether. You have to remember that things come and go in cycles. At his practice, Internet and word-of-mouth have been the best tools to stimulate growth. "We really try to reward and communicate with our patients, which helps a lot with referrals. For example, when a patient refers a friend to our practice we immediately send them a bouquet of flowers. You'd be amazed at the reaction that gets," he said.

So just how long will the economic slowdown be a factor for the aesthetic market? No one seems to know for certain, but most expect that as the economy recovers, aesthetic procedures will regain their robust growth. "Most believe this is a temporary blip and anticipate a rebound in six to nine months," Mr. Moretti concluded. Mr. Biegelsen added, "I am not an economist and predicting an economic recovery is difficult. However, the one thing I am certain of is that this category will bounce back." ■

ASDS Members Weigh In on Recession Debate

During March 2008, the *American Society for Dermatologic Surgery* (ASDS) polled their members to evaluate how the economy may be impacting their practices. Their results indicate that cosmetic procedures are continuing to increase despite mounting economic pressures. According to Darrell Rigel, M.D., president of ASDS, "These findings indicate that investing in the health and beauty of one's skin is still a priority during unsteady economic times."

The survey was distributed via email to nearly 3,000 ASDS dermasurgeons and board certified physicians, resulting in 562 responses. Below are some of the key highlights from the survey:

- Nearly one-half of respondents reported no change in demand for injectable toxin procedures compared to six months ago; while 40% indicated that volumes had continued to increase.
- Just over one-half indicated that the current number of laser related procedures in their practices had not changed compared to six months ago; while nearly 27% indicated that it had increased 10% to 20%.
- For dermal fillers, nearly one-half said that their current use remained steady and roughly the same percentage expect consistent demand over the next six months; 28% indicated that dermal filler use had increased as much as 30%.
- About one-half said that patients were more cost sensitive than they were six months ago; however, only one-third indicated that more patients were attempting to negotiate fees.
- Over 85% said that recent press reports suggesting adverse effects of certain cosmetic-related procedures had not impacted their practices.