

**BUS 478**

**CASE SYNOPSIS:**

**CLEARLY CONTACTS**



**Prepared by**

**Group C (D300):**

**Charlie Wang**

**Jesse Robson**

**Richard Garda**

**Lindsay Lin**

**Christine Liew**

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**Prepared for**

**Jerry Sheppard**

## INTRODUCTION

### **Brief History**

Based out of Vancouver, B.C., Coastal Contacts Inc. is an online retailer of contact lenses, eyeglasses, sunglasses and accessories. The company has operations in North America, Europe, Australia, New Zealand, Japan and Brazil, under a number of different websites such as the Clearly Contacts brand in Canada (Coastal Contacts, 2012).

Founded by Roger Hardy out of a basement office in October 2000, the company grew to \$1 Million in revenue by March 2001 by changing the way consumers were able to buy contact lenses (Coastal Contacts, 2012). Hardy started Coastal after working for a company that manufactured contact lenses and sold them to retail stores, seeing the large markup for such a small package, he decided it would be an ideal candidate for online retailing.

While originally selling only contact lenses, Coastal moved into the sale of eyewear in 2008. It recognized that the purchase of glasses was quite different than contacts and far more personalized. Since online shopping doesn't naturally cater to this type of sale, the company looked for other ways to encourage customers to buy from them such as their innovative 'virtual mirror'. It also hired on Aaron Magness, former director of brand marketing at the successful online shoe store, Zappos.com. Magness brought with him his experience of successful brand building through the constant attention to exceptional customer service, finding that 50% of their customers came from referrals from a friend or family member (Canadian Business, 2012).

### **Legal Battles**

Coastal was initially hampered by legal challenges from the BC College of Opticians for the practice of selling contact lenses without a prescription, which was against regulations surrounding the sale of medical devices. This regulation was eventually changed in 2010 after extensive lobbying, which now allows companies based in BC to sell directly to customers across Canada without the required prescription. The change allowed Coastal to expand to become one of the largest online retail companies in the country (Coastal Contacts, 2012).

## **The Company Today**

Today, Coastal Contacts has grown to become Coastal Contacts Inc. is the world's largest online optical retailer (Coastal Contacts, 2012). Known for their heavy investments into advertising, it has become a household brand within the Canadian market and beyond, through various subsidiaries. Coastal is also set to open their first North American brick-and-mortar store on Robson Street in Vancouver, B.C. under the Clearly Contacts brand. While the company currently operates a number of kiosk locations under their Swedish subsidiary LensWay, this store will give them further access to consumers in the home market of Canada.

## **Financial Performance**

For the fiscal year ended October 31, 2012, Coastal grossed \$196 Million in revenues, but posted a net loss of \$4.8 Million for the year (Coastal Contacts, 2013). This loss is largely due to their recent heavy investments in marketing toward improving market shares in North American markets, with \$47.9 Million spent on marketing and sales in 2012.

## **EXTERNAL ENVIRONMENT**

There are numerous factors in the general environment that have bearing on the decisions and ultimate success of Clearly Contacts. Considering the infancy of the online eyewear retail industry, greater emphasis must be placed on analyzing the environment in which the company aims to operate.

## **Global Segment**

On a global scale, it would seem to make sense to take advantage of the cost savings associated with outsourced manufacturing. Despite this, Clearly Contacts chooses to keep this process at home. However, distribution has been supplemented by acquisition of local companies in newly targeted markets (Canadian Business, 2012). The efficiencies of foreign markets to serve domestically must be kept in consideration, as it can be a major source of competition.

### **Demographic Segment**

The trend of increasing population age lends itself to the growth of the corrective eyewear industry. Additionally, medical coverage plans offer provisions for purchasing such eyewear. This kind of benefit creates a fortuitous situation, where a market has been developed with previously allocated funds for a specific product. Income disparity is also a major consideration for a company with global shipment of goods, but low cost for consumers will reduce this concern.

### **Political Segment**

After litigation from the College of Opticians of British Columbia, Clearly Contacts cemented its ability to manufacture and distribute glasses and contacts without need for prescription or direct medical representative interaction. Legislation may exist in alternate markets that may prevent this operation however. Additional legal action has been brought upon the organization in protest of its use of social media as a tool for marketing, citing claims of misleading advertising to garner attention (Robinson & Cole, 2011).

### **Economic Segment**

With regards to the economic segment, eyewear has earned reputation as a fairly expensive purchase. Clearly Contacts has sought to alleviate this financial burden by offering their online distribution as a means of eliminating intermediary costs. As such, these products become realistic for consumers that may not be of the most fortunate economic conditions. This fact creates the potential for the company to operate in and receive business from a greater amount of markets than their physical retailer competitors.

### **Sociocultural Segment**

Glasses are in some cases viewed as a luxury item, bestowing status by way of brand recognition. Offering such an item at a reduced price can call into question both the

manufactured quality and the legitimacy of the brand name. Additionally, it can cheapen the perceived exclusivity of owning such a product.

### **Technological Segment**

Online distribution of contact lenses and glasses is a relatively recent and untapped market. Multiple retailers have failed to capitalize in a successful manner. Transitioning to a virtual interface when a product is a worn accessory is a difficult shift. As such, swaying the mentality of the public requires appropriate incentive – which in this case includes a guarantee of satisfaction and ability to make returns.

## **INDUSTRY ENVIRONMENT**

### **Bargaining Power of Suppliers: Moderate**

Since Clearly Contacts is currently one of the largest contact lenses and glasses retailers, it has a greater bargaining power over the suppliers and is able to make larger quantities of orders and pressure suppliers to offer the products at a lower cost. In addition, Clearly Contacts manufactures their own brands of glasses; thereby lessen its dependency on the suppliers for glasses frames. On the other hand, frames are dependent on the reputation of the brand. It would be in the interest of Clearly Contacts to offer products by well-known designers. The more reputable the brand is, that particular supplier is able to charge a premium on the frames and thereby having a higher bargaining power.

### **Bargaining Power of Buyers: High**

Customers of Clearly Contacts have high bargaining power for various reasons. Products offered at Clearly Contacts are undifferentiated compared to physical retailers - its biggest competitors. Both Clearly Contacts and physical retailers offer prescription glasses and contact lenses to their customers, and generally under the same brands. In addition, customers are price sensitive and will be inclined to purchase these products through whichever avenues are able to

provide a better deal. This shows that customers face very few switching cost when they switch from purchasing online to in-store. Lastly, purchase of glasses and contact lenses by customers' accounts for a significant fraction of Clearly Contacts' sales. This way, customers are able to pressure Clearly Contacts to lower their prices and/or provide greater customer service.

### **Threats of New Entrants: Low**

Clearly Contacts is currently the world's largest online retailer of glasses and contact lenses. It dominates the market in North America, Northern Europe, and the Australasia. It has a strong and efficient manufacturing and distribution systems in many parts of the world that will be challenging for new entrants to access and replicate. Clearly Contacts also spent millions on machines that help the company scale up its production of customer glasses (Canadian Business, 2012). For new entrants to compete with Clearly Contacts and gain a competitive advantage over the company, a large capital investment is required.

### **Threat of Substitutes of Services and Products: Moderate**

Vision is an essential part of everyday life. For those who have poor vision, corrective lenses such as glasses and contact lenses are necessities and will be in demand by those who need them. However, over the recent years, laser eye surgery, an alternative to corrective lenses, is becoming increasingly popular. Despite the high initial cost to this procedure, consumers are learning about the increased safety, improved technology, and the long-term benefits of this investment. In the future, if laser eye surgery becomes a norm as a solution to poor vision, glasses and contact lenses may become obsolete.

### **Intensity of Competitive Rivalry: High**

The intensity of competitive rivalry is high because Clearly Contacts have many competitors in the market. Although Clearly Contacts dominates the online market, there are many conventional physical retailers striving to compete for the overall corrective lenses market share. Ever since the regulations have changed to allow contact lenses and prescription glasses to

be sold online, competition became especially fierce. Likewise, the combination of undifferentiated products, low consumer switching cost, and slow industry growth, contributes to the high intensity of rivalry.

## INTERNAL ENVIRONMENT

### **Strength**

One of biggest strengths Clearly Contacts has is their strong market presence. An average of 6000-7000 pairs of vision care products are shipped each day. One in every five pairs of contact lenses in Canada is from Clearly Contacts. It also has 10% of the domestic eyeglasses market with a steady growth rate of 3% for the past 5 years (Bitti, 2012). Clearly Contacts also has a high reorder rate from its customers. 513,603 orders were shipped during the first quarter of 2011 and 33% of the orders are from returning customers (Global NewsWire, 2011). Lastly, Clearly Contacts has built itself a positive brand image by regularly donating and partnering up with local charities. Recently it also recruited Vancouver Canucks player, Trevor Linden as its spokesperson.

### **Weaknesses**

Clearly Contacts carries products directly from manufacturers such as Johnson and Johnson, Bausch and Lomb and Ciba Vision as their CEO Roger Hardy believes getting orders from India and China maybe low in cost but “the quality is just not there” (Evans, 2011). It is also dependent on the use of Internet for ordering. Clearly Contacts has not yet had a physical store as of the end of 2012 and their entire sales are done through their website or third party websites. This limiting sales outlet could be restricting to the company from reaching to certain groups of customers such as customers who do not use online shopping or customers who are not able to purchase products online (The Globe and Mail, 2011).

## **Opportunities**

Rogers Hardy started Clearly Contacts when he saw an opportunity for margin between the cost of contact lenses and the retail price. Ever since the 1990's, there is a growing trend of contact lenses business and Internet prevalence. In turn, it has prompted an increasing demand for vision care products, as customers are more comfortable with the idea of contact lenses and online shopping. Clearly Contacts also recently expanded their product lines to include designer eyeglasses and sunglasses from over 100 brands since 2010 and over one million pairs of designer eyeglasses have already been sold in the year of 2012. Lastly, Clearly Contacts is also seeking international opportunities in countries such as the US, the UK and China to compete with local competitors.

## **Threats**

Since the inception of Clearly Contacts, the company has been surrounded by numerous legal allegations on its distribution of contact lenses. Several associations such as the College of Opticians of B.C. have raised legislations against Clearly Contacts, alleging that it failed to demand prescriptions and lack vision care professional in the distribution process (Vancouver Sun, 2007). The other threat for Clearly Contacts is the presence of other physical optical stores. Clearly Contacts may have had a success in gaining a market share in the online vision care industry but the broader market still lies within the consumers' comfort zone – a physical optical store where they can have help from professional and interactive customer services.

## **MAIN STRATEGY CHALLENGES**

1) Clearly Contacts has been an instrumental drive for online purchasing of optical goods but has also identified that many of their consumer habits remains still within the mall (Canadian Business, 2012). According to market research by University of Evansworth and the University of North Texas, consumers regard touching and feeling a products as a vital factor in their purchase. In the optical industry, the size and fit of the frame to a person's face is very important in how fashionable glasses are. Many consumers have a hard time imagining how certain glasses



will look at its measurements. This can create a large strategic challenge for Clearly Contacts who are trying to capture a very traditional niche of consumers who hold their optical technician or optometrist in high esteem. The company has since begun to open a physical store but many consumers who are not within the geographic area will be hard to persuade. On the other hand, consumers will now be willing to convert the hindrances of online fitting and transfer their measurements and experience from the physical stores to further online purchases. This can in turn create a large influx of consumer perception change which may spread by word of mouth. With the large marketing campaigns employed by Clearly Contacts, this physical store can only help the company continue its dominance of the optical market.

2) Clearly Contacts has taken many of its roots from Zappos and even their VP of marketing Aaron Magness. Aaron has stated that there is a problem with being able to interact with consumers directly and find out what makes them tick. He relates that you can only do so much with surveys and focus groups and that it is not possible to understand your market segments (Canadian Business, 2013). Clearly Contact's lack of direct contact can cause many consumers to deter due to their inability to voice their concerns. With such a large international presence it is hard at times to take into consideration of feedback by consumers from various online channels. This can create problems for product differentiation or catering to the needs of purchasers. It can also be attributed to inefficiencies within business processes if consumers do not require certain product features or services.

3) Clearly Contacts operates under an international banner so the rules and regulations it must adhere to will vary from country to country. This can create problems having a centralized standard company wide. It must also compromise in many geographic areas due to their laws on distribution such as the restriction on sales of contacts not manufactured within the country for Australia (Mvision, 2011). This can also create limitations when an international company is trying to benefit from economies of scale while leveraging its large network effects and distribution channels.

4) A study done on Clearly Contacts done by Wider Funnel Marketing Optimization found that the conversion rate from visitor to sale is low even though the company focuses a very large

amount of financial resources on marketing (Wider Funnel, 2013). This can cause market adoption barriers if consumers are unwilling to purchase products even though they have been driven to the website. In order to increase the conversion rate along with the return on investment for marketing, Clearly Contacts must focus on the needs the consumers and understand what it is that is making them purchase from the website. Without this information, it can be difficult for the company to take over additional market share and plateauing early.

5) Clearly Contacts is constantly under pressure from optical organizations and colleges because of the fact that many people are beginning to purchase online and avoiding optical stores or other distributors (Ontario Opticians Association, 2013). This can alleviate many of the costs associated with additional markups. This also creates a large target on their back for people lobbying against the practices and standards of the company. A potential competitive strategy could be that when these organizations are pushed to the brink of disruptive technology, such as online shopping, they may pass on perfect information onto consumers who can then leverage this information for lower margins or premiums.

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