



The Future for Hair Transplantation

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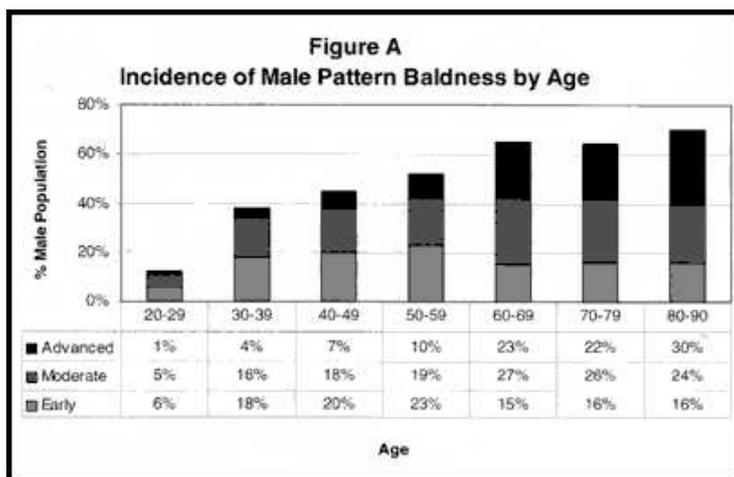
William R. Rassman, MD
Los Angeles, California

What does the future of hair transplantation hold for consumers and providers? The answer is that quality will continue to rise and prices will fall. The answer is that quality will become more uniform from doctor to doctor. The answer is that the industry will expand faster than it has already grown, because the rise in quality and the fall in prices will bring more consumers and providers into the market. The answer is that enabling technologies will become the means by which these changes will accelerate.

We have already seen such trends develop over the past decade with the movement to increasingly larger sessions of progressively smaller grafts. Such surgery has allowed consumers to reach their goals with less surgical procedures and for less money. The fall in prices reflects not only a drop in the cost per graft, but a service that competes with men's "hair systems" offered by a host of wig companies. The future may bring commoditization to the hair transplant business in the way that skin peels and Lasik have changed dermatology and vision correction. For the practitioner, the question will be: How and when will the market change?

Our history has taken us away from hair transplant mills to an era where educated buyers reign supreme. The changes we have observed over the past decade will continue. Larger sessions of smaller grafts are here to stay and the candidates for hair transplants today have come to demand respect, both with regard to results and the impact on their pocketbooks. Today's buyers are clearly more sophisticated than the candidates of the past for two principle reasons: First, the word is starting to get around that the "freaky" look is not what today's hair transplants are about. Second, the Internet has reached an entirely new audience of more sophisticated buyers who can use this modality to research doctors and patient experiences. What was a heavily salesman dependent process dominated by hair transplant mills or "wannabe" mills with questionable ethics, is today a business based more on the traditional doctor/patient relationship.

Although some hair transplant mills still exist today, they are losing the battle for market share, as competent practitioners gain a stronger foothold on the market. What is particularly satisfying is that there is now the "follicular unit transplant," a surgical standard by which everyone can be measured. Not only do the doctors understand the new technology, but patients know what a follicular unit is as well. Accountability comes over the spider-like "Web" in ways we never dreamed of.



Market Size vs Market Potential

It has been interesting to look at the statistics in the hair transplant field with regard to the actual number of new candidates coming forward as compared to the procedures being performed each year. Figure A depicts the incidence of balding. To understand the realities of the penetration into this candidate market, one would simply calculate the potential market against the new candidates entering the field. Under any calculation, market penetration appears to fall significantly under 1%.

The American Academy of Cosmetic Surgery (AACS) has kept records estimating the number of hair transplants that were performed each year. Many sources quantified the size of the hair transplant industry in dollars and there is a

reasonable consistency in the projected size of today's surgical market. When the AACS numbers are compared year to year, there are some important revelations that are implied, despite different sourcing. Some of my estimates below result from liberties I have taken in balancing the various statistical sources.

Between 1990 and 1994, the AACS showed a growth rate for hair transplantation of 38% (57,000 surgeries in 1990 and 210,000 surgeries in 1994). If that growth rate was carried out to the year 2000, 1,500,000 hair transplants procedures with a market value in the billions of dollars would have resulted. This never happened, so one should ask "why?"

The industry was relatively stable with regard to the type of surgical procedures that were offered in the early 1990s. The movement toward megasections started to emerge in the mid-1990s. If each patient averaged eight surgical procedures over the course of their multi-year treatment course for hair restoration in the early part of the decade (1990-1994), then one new patient would increase the number of surgeries by eight. Using this logic, one could estimate that as few as 27,000 new patients came to surgery in 1992. By contrast, in the year 2000, the AACS estimated that there were 177,000 hair transplant procedures (clearly less than the 1994 number of 210,000 surgeries), which probably reflected the shift away from recycling the same patients through the old large grafts process over and over again to the tune of eight surgeries per patient.

I would guess that the trend to fewer surgeries per patient started to have a statistical impact just after the 1994 statistics were recorded. One can extrapolate that if each new patient received only three surgical procedures, then the number of new patients seeking hair transplant surgery might approach 80,000 new patients per year in the 2000 calendar year. By varying each surgery from \$2,500-5,000 and assuming that the \$1 billion for the number of surgeries in the United States is the correct number, then the number of new patients can be estimated (see Figure B).

<i>Cost</i>	<i># of Surgeries</i>	<i># of New Patients (*)</i>
<i>\$2,500</i>	400,000	133,333
<i>\$3,000</i>	333,333	111,111
<i>\$3,500</i>	285,714	95,238
<i>\$4,000</i>	250,000	83,333
<i>\$4,500</i>	222,222	74,074
<i>\$5,000</i>	200,000	66,667

(*) Based upon 3 surgeries per patient over time.

With half of adult males over 40 having some significant balding and a significant number of young men in the balding process, a hair transplant market penetration of less than 1 clearly shows that the opportunities in this field are enormous. Hair transplantation is the number one cosmetic surgical procedure today in men. After reviewing the various sources for statistics in this industry, it becomes clear that there is great confusion in estimating the overall size of the hair transplant business. Statistics made available through the AACS differ from statistics compiled through the American Academy of Plastic Surgery (AAPS), which show a drop in hair transplant surgeries. To make matters worse, the AACS disavowed their published numbers from the early 1990s. News releases in Men's Journal and the Washington Post indicate that the market exceeds \$1 billion, so that number can be extrapolated backwards.

Using the \$1 billion figure and the average number of surgeries performed on each patient as three, the number of hair transplant procedures performed in the United States is charted in Figure B, based upon the price of the procedure. I will leave it up to the reader to decide what the correct figure is. Our practice shows that the average patient spends \$5,000 and usually has two procedures performed to complete their results.

Changes in Patient Expectations

I believe the hallmark for hair transplantation in the 21st Century is that patients are better aligned with the reality of the process offered by the medical establishment. Informed patients know what to expect, and today's patients are clearly better informed and know that the possibility of an undetectable hair transplant is finally a reality. Patients have come to expect that their results will be natural (not just promises of normalcy) and many expect that these results will be achieved in just a few surgical sessions. Many doctors are now offering techniques that obtain good results in a single surgical session with more densely packed grafts. When I had researched the hair transplant process in the 1989-1991 timeframe, I rarely met a patient who could honestly say that he was satisfied with the final result of a hair transplant process. The final hoped-for result was illusive, and the touch-ups required by the surgeons never seemed to end. Compared to the traditional 4-step surgery for the basic work recommended in the text books, there were an additional 2-6 surgeries "electively" suggested for touch-ups (standard in the 1980s and early 1990s). Today's one- or two-session transplant process is a sharp contrast to the standards of a decade ago. The concept of touch-ups seems to have ceased, reducing the annuity for hair transplant surgeons. In our practice, we have found that for those patients who have more than two

procedures, the principle reason is one of "raising the bar," realizing that more may be better. This is all good news for the modern patient and for those practitioners who can produce good results. As more patients show great results and reach those results in less time, those doctors will prosper, but others will be left behind.

Costs

We have already seen the unit cost per graft fall significantly over the past decade. That drop has been very significant in Southern California, where the future has already arrived. The cost of the total process for the patient has become quantifiable for work from start to finish. As the costs fall, the market will clearly open. Per graft costs in the early 1990s ran, on the average, between \$10-28/graft. Balance that cost with uncertain results and one would wonder why anyone would have signed up for the process at all. Today the unit cost per graft runs between \$3-10/graft (Southern California numbers) and the total cost for a hair restoration process for a man with moderate balding can be held to under \$10,000. With wig costs averaging above \$12,000 for a five-year period, hair transplantation is clearly a less expensive and more acceptable alternative to the infamous hair piece. But the problem with such comparisons lies in the overall ignorance of both the doctor and consumer in transmitting or receiving the message. Neither the total cost of a hair restoration nor the real cost of wigs are understood by today's buyer, and the confusion is compounded by the promotion in both sectors. Just look at ads in newspapers or phone directories. As an educated marketer, I often find it difficult to tell just what the ads are selling.

The absolute surgical costs for larger transplant sessions are clearly higher than the limited procedures offered in the "old days." This figure is important because the threshold by which prospective patients seem to be willing to enter the surgical arena lies in the \$3,000 range. In the days of the old transplant mills, the sales thrust was "keep the cost to under \$3,000" as most young men could find \$3,000 somewhere. They would simply delay their car purchase for a year, or put off a vacation. Those that came for hair transplants rarely had a family to support. Immoral sales practices in 1990 drove prospective buyers to believe that "\$3,000 was a start for restoring your hair," but the secret never told to these poor people was that once started, the process never ended. It was not the beginning of their solution, but a deadend road to humiliation and injustice in the transplant mills that promoted this illusion.

But, as the total costs of a procedure have risen, the barrier to entry seems to have also been raised. With more complicated staff training and start-up costs for each procedure, it is difficult to meet the threshold for a procedure costing less than \$3,000, unless false expectations are combined with heavy sales pressures. Doctors are heavily investing time and money to train or acquire reliable surgical staffs, but this process is slow and tedious, keeping surgical costs still beyond the pocketbook of many would-be buyers. The overall trend to lower costs continues, but today's small-graft, large-session surgeries do have their limit with regard to costs/graft. Labor costs remain very high and the training cycles are quite long for each staff member.

We are overdue for a shift in the field of automation, and I predict that it will be upon us sooner than we think. I am in the final stages of developing an instrument that can place grafts faster and more efficiently than the most efficient staff, and, best of all, the technique can be taught in a matter of days to a novice entering the field. With such an advance, the ability to produce lower-cost grafts should bring the market to the masses with more affordable quality transplants.

Drugs

The emergence of effective new medications for hair loss has already propelled the market, as men can now stabilize or reverse their hair loss. In conjunction with the advances in drug development, the pharmaceutical industry is spending huge amounts of money to brand the idea that balding can be avoided. The surgeons reap the benefits of these promotions and all types of patient education. Sooner or later, promotional money will drive more and more balding men to the hair transplant surgeon. When drug benefits are limited, hair transplants will remain the only viable option for many. Even the scamming products that permeate the mass media spread the idea that balding is a sub-standard variant of human health. Such brain washing becomes ingrained in the thinking of the balding young men who are easily influenced by such campaigns.

The reality is that between drugs (Propecia®) and surgery, most men can get their hair back. The emergence of new medications over the next few years can only enhance the overall market for hair restoration, and that emergence is a foregone conclusion. Each new advance and each new drug will bring significant dollars into the market to promote the battle against hair loss. The physicians who have built quality reputations in offering the appropriate, competitive services will be the beneficiaries of the branding dollars being plowed into the market by the pharmaceutical companies.

Competition

A growing and profitable industry, such as hair restoration, invariably invites competition. The statistics, as shown in the previous section, clearly demonstrate the problem that the industry is experiencing today, as the provider base increases almost daily. With few patients entering into the pool of potential candidates, each provider takes a relatively smaller market share than what was seen a decade ago when few doctors were offering such services to a wider audience of prospective candidates. We can divide the service providers into two categories: (1) the large clinics with huge marketing budgets (this will include the "wannabe" docs with similar aspirations) and (2) the solo practitioners who tend to use limited advertising through yellow pages and newspapers for promotion. The larger groups will not have an easy time in the new market, as their heavy marketing budgets will make their cost of doing business too high and will force them to

demand higher prices as competition from the "Ma and Pa" sectors offers more value to potential customers. These larger groups will also have difficulty producing a consistent quality product, as keeping up with changes in technology and in training and retaining staff will plague them. Many of their trained staff will "abandon ship" for opportunities with private practitioners who can offer competitive wages and more personalized nurturing.

Many doctors who start working for these larger groups will spin off on their own, taking trained staff with them. The larger groups will have the problem of maintaining "spirit-de-corps," for they will lack the nurturing capability for employees that the individual "Ma and Pa" practitioner can exploit. That "spirit-de-corps" is the foundation for staff retention, and it produces a far more effective "sales" process at the grass root level where the potential candidates interact.

The Future Standard of Care

Much of the focus on the newly emerging follicular unit extraction (FUE) procedure has been misdirected and has only served to confuse the market and cloud the issues on the follicular unit standard, which I believe will still remain the gold standard for many years to come. In either case, follicular units are the harvested target transplant graft, so the argument for or against FUE or strip harvesting does not really matter. Furthermore, the FUE technique has limitations that have not been realized by those embarking on such a course of action. Most doctors have wisely stayed away from FUE, as yields in many hands will be disappointing. Considering that our article has been out for less than a year (at the time of this writing), it is surprising how many "experts" have bet their future on this technique.

Conclusion

Hair transplant surgeries are increasing over a wider base of physician providers. As the number of new patients entering the field rises, I believe that the number of providers will increase disproportionately, reducing even further the market share for each of those presently in the business. Standards are rising and quality is becoming more predictable as prices fall. One would expect this in a commodity type of service business. With the advent of enabling technologies shortly to appear, the hair transplant business will go the way of vision correction as the practitioners who offered Lasik became more and more competitive. For those few who build and maintain a good personal physician/patient relationship, the future will always be bright-because patient loyalty is the only security left before us.

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