
UNIT 18 PRICING OF HEALTH SERVICES

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18.0 OBJECTIVES

After going through this unit, you should be able to:

- describe the concepts underlying price setting;
- explain the relationship between costs and prices;
- define the various objectives that may be sought while deciding the prices of the services.
- explain the various methods of pricing;
- select a price appropriate for your own health services; and
- apply the understanding of consumer perception of prices to your pricing decisions

18.1 INTRODUCTION

Pricing is one of the most important decisions that you as a provider of health services will have to take. The sheer variety of available price levels for similar services among different providers of medical and health services is indicative of the differential practices that are being used to arrive at the ultimate price for various services. In this unit you will learn about the conceptual basis of price setting, the different objectives that may be sought in price setting and the various bases that different establishments apply to arrive at the final price.

The unit also includes some of the operational issues that need to be considered in relation to administering the pricing policy. This unit presumes that you have already gone through and understood the breakeven analysis explaining costing of health services, as you will use the concept of costs in terms of their relationship to prices. This unit also briefly discusses why pricing for services like medical services is different from pricing of tangible products. One of the key determinants in any pricing decision is the consumer's perception of the value he gets as a result of availing a particular treatment. As consumers evaluate prices in a different way for services that they do for products, it creates both opportunities and problems for providers of health services. These issues are discussed at length in this unit.

18.2 PRICING - THE BASIC FOUNDATIONS

All medical service establishments, except the public ones, are dependent on revenues from patients as a significant and sometimes the only source of their incomes. These incomes are a function of the prices they charge for their services and the number of customers who avail these services. Interestingly however, for routine and standardized medical services like a health checkup or vaccination or a tooth extraction, the price charges would often determine how many customers would avail the service in a given establishment. In order to understand price determination fully, you must be aware of the basic fundamentals of price setting, specially in the context of hospitals as providers of medical services.

The pricing strategy for any given service, including medical services depends on three basic fundamentals. These are costs, value and competition. The

Marketing and Health Economics costs represent the monetary value of everything that the organisation has to utilize in order to create and offer the service for the patients. In the short run or the long run, all costs must be recovered if the organisation is to earn profits. Costs thus represent the lowest limit below which in the long run, prices cannot be set. On the other hand, you cannot set the price, beyond the value that your customers assign to the service, simply because at that price level, exchanges (or purchase of service) will not take place. Consumer's perception of value of a given service would thus set the upper limit beyond which prices cannot be set. Between these two limits service organisations may have the freedom to charge whatever prices they determine, but for the presence of a third variable, the competition.

You are not the only provider of health services in the market. There may be several other providers with similar or better services. The prices that your competitors charge for a similar service will limit your freedom of setting prices between the two limits provided by the costs and the consumer's concepts of value. The prices being charged by the competition would thus determine the actual level at which prices for a given treatment or service may finally be set in between these two limits. To recapitulate the three basic variables that are fundamental to any pricing decision are:

- How does my consumer define value for a given service?
- What are my costs in providing that service?
- How does my competitor price the same service?

Subsequently, we will try to understand why the pricing of health services has to be dealt differently as compared to pricing of products.

18.3 WHY IS PRICING FOR MEDICAL/HOSPITAL SERVICES DIFFERENT FROM PRICING FROM GOODS

In order to realistically set your prices, you should be able to have an appreciation of what role does price play in the customers' decisions to avail a given medical service or health plan. Health providers must, therefore, have a clear idea about how their prospective client population perceive prices and price changes of various medical services offered by them. The three basic ways, in which pricing for hospital/clinical/medical services differ from pricing for goods are the issue of customer's knowledge of prices, the role of prices in indicating quality of services and the issue of non-monetary costs.

18.3.1 Prices of Hospital Services and Customer Knowledge

How important is price to the customer when he/she tries to select a particular hospital/ practitioner for a particular treatment? Do customers have any idea at all about the costs associated with such services? Do customers really have clear awareness about the exact prices they would be required to pay for a given treatment before they decide to avail of a given treatment? Let us briefly look at these issues and their implication for pricing of health services. To take a simple exercise, ask adult people around you a few questions about health services and their prices. For example, what is the

price for a medical checkups in your city? What is the price for a service like a root canal operation, or a simple tooth extraction? What is the price one is likely to pay for a bone setting process after a fracture and so on? You will find that few people will be able to answer accurately on the basis of their memory alone, because clear ideas about such prices are not available. The price point in our memory for a product or service is called the 'reference price' for that product or service. Very few prospective patients have a clear reference price for the range of health services provided by hospitals and clinics. Let us examine some of the reasons for this phenomenon.

Health services are intangible, and can be offered in a variety of configurations with variation in accompanying services. Hospitals, therefore, are able to create a number of permutations and combination of a given treatment package, resulting in complex pricing structures. If a prospective customer wanted to have comparative assessments of prices for a Ceaserian section, she/he would find that the type of package varies (length of stay, associated services provided), patient particulars may vary and necessitate price variation (complexities, age, medical condition), the level of services may vary (single vs. double room, patient to nurse ratio etc.) Few hospitals would offer exactly the same features or package of services. Prices are, therefore, not strictly comparable.

The problem becomes compounded on account of the fact that in quite a few cases medical providers may be unable to give an accurate price figure in advance as they may not, at the very outset know what a given treatment would ultimately involve. In case of health services, customer's individuals needs also result in different prices being charged. Previous history, general medical condition, age, related health complications etc. may often determine the course of action that would need to be taken for a given patient, final prices, therefore, may also be a function of individual needs of different patients.

It is also comparatively difficult to gather accurate pricing information of all comparable hospitals, because unlike retail outlets displaying prices on their merchandise, prices of health services are not really displayed except for routine services and consultation charges.

It must now be clear to you that prospective customers often possess inaccurate information about prices of health services. The implication of the fact for your pricing by finding some ways of communicating prices at least for all routine services; creating of price visibility is an issue that many hospitals consider seriously.

The second implication is that while the customer may not 'know' the final price until after he has been in the service transaction for some time for his initial treatment, prices become an important criterion for repurchase of the service as the customers' knowledge of the service costs has now become more accurate.

18.3.2 Prices and Quality of Health Services

One of the interesting things about service prices is that because other cues to quality of service are seldom available, customers tend to use prices as indicators of service quality. In case of goods, the tangible nature

of the product and the possibility of physical examination by touching smelling feeling enables a customer to have an assessment of the quality of the product before he buys it. In case of services which are intangible, such pre-purchase assessment is difficult. Research shows that in case of most services, because other tangible indications to assess quality are not available consumers use physical evidence and price as surrogate indicators of service quality. Wherever pre-purchase assessment of quality is not easily assessable high prices in the consumer mind get associated with high perceived quality.

Medical services are among the services which are high on credence qualities, where evaluation of service quality even after experiencing a given service (for example a by-pass surgery) is difficult to make. In such situation's consumers depend on prices as a cue to quality. Prices for medical services, therefore, must be determined keeping in mind the fact that price and quality for such services are positively associated. In addition to cost coverage and/or meeting the competition, prices must be set to convey an appropriate and desired quality image.

18.3.3 Costs other than the Monetary Cost

There is an increasing realisation on part of service providers that apart from the monetary cost, customers have to bear several non monetary costs also while availing a given service. Sometimes these costs affect consumer valuation and affect his choice of alternative service offers. These costs include time costs, search costs and psychic costs.

Health services require direct participation of the patient and thus require him to spend both waiting time and interaction time with the hospital subsystems registration, specific tests and of course the doctors. For any given appointment his time spent may comprise both waiting time and time with the doctor. Time spent in availing a given service represents a specific cost to the customer. Some health services, specially the costlier ones like a bypass surgery require the customers to go through a lot of information search to identify the best possible alternative offers are comparable, one variable may include apart from the prices, the expertise of the doctors, facilities offered, location etc., such costs are sometimes considerable and also have to be borne by the customer. Sensory costs are the other class of costs that may make a difference. Unpleasant sounds, noise, crowds are some of the sensations that most people are uncomfortable with. In hospitals that are located in crowded or squalid neighbourhoods, or are overcrowded customers may have to bear these costs: If there are alternatives which are available, customer may like to avoid the sensory costs, even if they have to pay a little higher.

For health services, one of the most potent costs are the psychic costs — not understanding the service feat of uncertainty, feat of undesirable consequences like pain, disability or loss of control are very important in the customer's decision to avail or postpone a given medical transition. Providers of health services, therefore, must be aware of not only the monetary costs like cost of time, cost of search, sensory and psyche costs because these costs offset consumer valuation significantly and should this be an input in pricing consideration.

18.4 ROLE OF PRICES AND CONSUMER VALUE

Exchanges of goods and services take place when the buyer of a given service feels that the goods or services being bought by him are at least as valuable to him as the money he is spending in buying those goods and services. The case of health and medical services is however slightly different. As there are many instances under which the customer's need for a given treatment or check up is a non-postponable or emergency purchase and often a necessity, the exchange will take place even if prices are not suitable to the customer. He will however, if competitive offers are available, try to find the best possible return for his money. The return again is dependent upon how a given customer defines value that he gets in a given transaction.

Different consumers may perceive value differently. To some value may mean low price, others may perceive value in terms of associated service, comfort, speedy disposal, and privacy.

The implication of the concept of net value for pricing decisions is that, while evaluating whether a given price is right for a given medical service, the customer may look at all the perceived benefits that he would receive as a result of the service transaction. He would also analyse the costs that he has to bear in order to avail the service. The higher the difference between the sum total of perceived costs and the sum total of perceived benefits greater will be the net value of the service in the eyes of the customer. You can imagine a balancing act being carried out in the customer's mind, while he tries to offset the perceived benefits of the service against the perceived total cost. If the perceived costs are found to be higher than the total perceived benefits, the transaction will be looked upon as having net negative value and, therefore, not desirable at that particular price. Of interest to marketers is the fact that the evaluation of net value can be changed either by increasing the perceived benefits to the consumer or minimising perceived costs or managing both.

The net benefit apart from the core benefit of health added could include value to the health service in terms of personalised care, individual attention, higher quality of medical personnel, high success rates, ensured privacy, exclusivity of service, corporate health plans enabling speedier medical reimbursement, instalment payment plans, accepting payment through credit cards or cheques etc. Perception of net value can be increased by giving some of these additional benefits. Reducing the costs side may not necessarily mean cutting only the monetary costs. Perceived costs of availing the service by the customer could also be reduced by:

- Reducing waiting time, reducing the time taken in giving test reports, ensuring all appointments are meticulously managed and kept.
- Reducing the information search costs by providing required information readily and easily.
- Facilitating access to services like facilities, accounts and amenities.
- Reducing unnecessary physical effort that customers may be required to make to avail the facilities and services
- Reducing levels of stress associated with a given treatment through information sharing, consultation and counselling.

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- Minimising sensory cost like noise, unwelcome sights and smells, offensive behaviour of support staff and so on through creation of attractive, pleasant visual atmosphere, noise reduction and training of personnel.

Reduction in these costs, will enable the customer to perceive higher 'net value' in the service. It can also enable the provider to enhance the monetary price charged or have greater pricing freedom because he is now able to manage a higher net perceived value in the consumer's mind.

Perception of value are important in marketing of health services because buying decisions do not get made on reality but on perception of reality. The fact that prices are perceived to be high or reasonable by the customers is thus dependent upon whether they perceive the price as being commensurate with the value that they receive.

The providers of services in health care must also be sensitive to the fact that customer's evaluation of 'net value' may vary sharply pre and post utilisation of the service. As health care is a service where repeat use by the same customer or members of his family is a frequent possibility, post purchase evaluation may have important implications for repurchase of services when customers find that costs of a given stay in the hospital in terms of monetary or some of the costs described above, were higher than what they anticipated at the time of making the buying decision or that the anticipated benefits were not received fully, their evaluation of net value, may go down sharply and may result in absence of repurchase as well as loud word of mouth publicity for the hospital. Prices, therefore, have to be reflective on the perceived net value in terms of giving the consumer a positive figure on the balance of net perceived benefits and net perceived costs.

Check your progress-1

- i. List the basic variables for decision making.
- ii. Enlist strategies to minimize the various types of cost.

18.5 PRICE SETTING IN PRACTICE AND PRICING OBJECTIVES

Under this section let us look at the various pricing objectives that health service establishments may seek when they determined their prices and then identify the various bases that are applied by them to arrive at a final price.

18.5.1 Pricing Objectives

Fundamental to any decision on pricing is your understanding of your pricing objectives or simply put answering the questions "what do I want my prices to do for me/my organisation". Is the basic objective maximising your profit, or maximizing patronage or sheer survival at a given point of time? Understanding pricing objectives will help you appreciate the outcomes that you want your prices to achieve and this would direct your price setting efforts. Pricing objectives may be revenue oriented, operations oriented and patronage oriented. The approaches that can be used to arrive at the final price are costs based pricing, competition based pricing and demand based pricing. Let us discuss these in the following subsection.

18.5.2 Revenue Oriented Pricing Objectives

Revenues represent the surplus of income over your costs. Health establishment in the private domain, if they are established as profit seeking organisation, will seek to keep their prices at levels that will enable them to earn the greatest possible surplus on their costs. Even in the public domain, health establishment cannot afford to overlook the revenues or at least consider carefully that prices are set at levels that enable the revenues to at least cover the costs if not generate profits. The various revenue-oriented objectives that may be sought by health services provider may include:

- Maximising the surplus or revenues.
- Achieving a certain target rate of return on your investments.
- Cover cost of providing one particular service.
- Cover incremental costs of offering a given service.

Apart from these revenue-oriented objectives you may sometimes come across two other classes of objectives which are usually applied in cases of new or innovative services. These objectives are: Market Skimming Objectives, Market Penetration Objectives, Operations Oriented Pricing Objectives and Patronage Oriented Pricing Objectives .

18.5.3 Market Skimming Objectives

When a new or innovative health service is introduced in the market, for example, a new diagnostic test (ultrasound test, MRI Scans, are good example of this technique of pricing) the providers on account of the fact that there are only few providers who can offer the services try to charge an initial high price so that the initial return can be very high. This enables them to encash their near monopoly position at the initial stages of the service being introduced in the market. Market skimming as an objective is generally followed when the expectation is that competition for this new service will soon emerge in the form of other providers. Starting to offer the same service-when competition starts emerging prices are brought down to a more reasonable level, allowing the organisation to still earn profits but not at the introductory levels.

18.5.4 Market Penetration Objectives

Alternatively when an innovative service with a high market potential is introduced in the market, but customers resistance to the service on account of its novelty is also high, a low initial price is sought to be charged, to enable the potential customers to try the services and be convinced of its value. This is called the market penetration objectives as it enables the organisation to gain entry in a market and then develop its market overtime. As larger number of customers, realising the value of the service start demanding the service, the prices are gradually raised to enable the earning of a targeted rate of return.

18.5.5 Operations Oriented Pricing Objectives

This objective is usually applied in case of service organisation where there are large differences in volume of demand at different times, so that the situation of under utilisation of capacity and overfull demand may alternatively be confronted by the organisation depending upon the

seasonality of demand. The prices, therefore, are sought to be set in a way that allows price variation over time so that demand matches available supply at any given point of time. Special weekend packages in developed countries pricing, are an example where low prices on weekends are used to offset the low hospital bed occupancy weekend. Hospitals in our country on the other hand are severely supply constrained organisations where demand for hospital services far outstrips the available supply. Operations oriented Objectives are thus rarely applied except in cases where specific full equipment utilisation is sought to be achieved through such practices.

18.5.6 Patronage Oriented Pricing Objectives

Hospitals like all customer-based organisations are dependent for their growth on the number of customers who choose to patronise them. Health providers may, therefore, sometimes, deliberately seek to set prices at levels which are directed at enhancing patronage rather than being based purely on costs or revenues. These objectives may be:

- Subject to a certain level of revenue, try to maximise patronage if capacity is not a barrier.
- Identify that different segments in your market have different paying capacities and create pricing structures that will enable patronage from different segments.
- Identify that alternative strategies like paying through credit cards or organisational billing may actually enhance customers willingness to patronise your establishment

This description of the various pricing objectives that may be sought by hospital health service providers is not exhaustive. Other objectives that may be sought to be achieved through pricing can include survival market development, maximisation of current revenue, maximisation of market skimming overcoming customer resistance to trial of a given service achieving a quality leadership etc. The organisation should however have a clear focus on what objectives are sought to be pursued through the pricing decision to enable a clear definition of what bases would be used to arrive at a pricing figure.

18.6 BASES USED IN PRICING

18.6.1 Cost based pricing

You shall now know the pricing methods using the various bases i.e. cost, competition and demand. Generally used as a pricing basis for revenue oriented pricing objectives cost based pricing methods are among the most prevalent methods of pricing in a large number of organisation. The reasons are simple. You often feel that there is less uncertainty about costs than about factors like demand or consumer evaluation of value, costs are internal data and may be more controllable. In the cost based pricing approach, hospitals will be required to determine expenses accruing on account of raw material, labour, human resources and machinery; add amounts or percentage for overheads and then add the margin for profit thereby arriving at the price. Price would thus be a sum of direct costs plus overhead costs plus the profit margin desired to be earned on investment. This however looks much easier

than it is. Let us look at the various costs that you would need to estimate before you arrive at the inputs for this pricing equation. (You have already learnt the basic costs concepts in previous units).

Fixed costs are those that do not vary with the volume of operation, and continue to be incurred if the health services are not being offered. These include costs like rent of the building, insurance, taxes, depreciation, administrative salaries, salaries of the full time medical and nursing staff, utilities like water and electricity, security, cost of capital invested, maintenance costs etc.

Variable costs are those that vary with the level of output (or operation in this case) and are thus dependent upon the number of patients served by the hospital. This would include costs involved in calling in consultants for a specific patient, costs of test conducts, wages and salaries incurred in paying overtime for additional manpower required costs of medical supplies etc. Conceptually, the organisation must be able to calculate its total cost per service transaction by adding up the variable costs component per service and the proportion of unit fixed costs allocated to those services and add to this total unit cost, the margin that is desired to be earned to arrive at the price figure for that service. In the long run every organization must operate at a price level which allowed it to earn a certain margin after covering both fixed and variable costs.

You have already learnt in the unit on break even analysis and how break-even point can enable identification of both the level of operation and the safety level at which the, organisation should operate. The difference between the final price and the variable costs, called the contribution margin is indicative of the amount that is available with the organisation to cover its fixed costs and if possible to earn a margin of profit. Since information about costs is the basic input in arriving at a pricing decision, this approach is referred to as cost based pricing.

There are however several problems associated with purely cost based pricing approaches, specially in case of hospitals where multiple services are being provided. The main difficulty arises in allocation of costs. It is for example very difficult to decide what proportion of costs of land and building should be allocated to outpatient services or the surgical services? What should be the basis of allocation — should it be the proportion of space occupied or should the cost be equally allocated to all services. How should the salary of administrative staff be charged to per unit service transaction? These are difficult issues and required either a simple overall overhead calculation which is their equally allocated to all services (which would be arbitrary) or detailed costing exercises which may prove to be extremely time consuming. The second major problem is that a large proportion of cost is composed of cost of people (both doctors and administrative personnel) which is, very difficult to allocate on a per unit basis. There are also interesting variations in the type of work that gets created in a hospital which has implication for costing and pricing.

While an X-ray charge may be based on fixed and variable costs related to the X-ray machine and the machine operator, how does one really costs the time or the expertise of the professionals who has to interpret the film and

prepare a diagnosis? How does the costing really get done if the diagnosis is a team effort or consultative process? These issues sometimes render cost based pricing a non realistic exercise and estimation instead of actual figures start getting applied. Yet on the basis of historical data and analysis of costs incurred in the past period, health providers use cost based pricing extensively. Two variations of the cost based pricing technique are generally used. The first is based on deciding about a mark-up on costs of offering the service and then charging a final price based on total cost + mark-ups. Hospitals also tend to vary mark-ups within the same establishment. Mark-ups may vary inversely with the volume of services sold, the higher volume the service the lower the mark-up, for example paediatric vaccination. The lower the frequency of service the higher may be the mark-up. Others may vary the mark up on the basis of industry practice; still others may follow a practice' of fixed mark-up like-20-30 % across the services.

The second cost based pricing technique is based on earning a targeted rate of return on investments wherein the organisation bases its pricing decision on identifying a certain percentage rate of return that is desired to be earned on the total investment made. The total revenue that must be earned on the investment is thus calculated and the proportionate allocation is then done across services to enable the actual total revenues as per the desired rate of return.

18.6.2 Competition Based Pricing

The approach here is to base the pricing decision on the prices charged by other comparable providers. As noted earlier, service providers in the health sector may not be strictly comparable. Yet for routinely bought services like periodic health check, dental cleaning, tooth extraction, X-rays, diagnostic tests etc. consumer knowledge of competitive prices is higher and the possibility of varying prices very much from the going rate is not very high. The higher the degree of standardisation in certain medical/ health services (i.e. blood test) the higher is the tendency for prices to cluster around the going rate prices. There are however location variations in the level of the prevalent prices with the going rate higher in large town or metros. This does make economic sense also as cost of offering medical services in metropolitan towns versus a small town may be much higher.

18.6.3 Demand Based Pricing

The third approach to pricing, demand based pricing is based on the consumer ability to pay or willingness to buy at a given price. Provider of health services typically base their, pricing decision on consumers' perception of value of the service offered. Consumers' perception of value in case of health services, which are highly intangible in character and whose quality is extremely difficult to judge prior to the purchase of the service are dependent upon a number of variable. Among them are service cures like exclusivity of the service, the brand name, the perceived non-monetary costs (discussed earlier) and other assessments like physical infrastructure and word of mouth publicity from friends, relatives and other users. Central to the concept of demand based pricing is the understanding that different segments of consumers will have different perception of the value they perceive in differently priced services, that different segments

will have different capacities to pay and also that apart from the core benefit of freedom from disease or discomfort, some segments may look for other augmented benefits in the service package and may be willing to pay for them. Let us look at how different pricing strategies, under demand based pricing may be followed when consumer's definition of perceived value differs.

18.6.4 Pricing When Value to the Customer is Low Price

There are segments of the market where actual price to be paid may be the most important criterion of choice to the consumer. To go further, sometimes a reluctance to avail a given medical service may actually be sought to be offset by keeping the price very low. The technique that are followed in such conditions where the customer is acutely price conscious or defines value as being 'low prices' include the following.

18.6.5 Price Discounting

Hospitals may carry discounted prices for vaccination for certain fixed periods, when such services are targeted to low income segments of the society, to overcome the apathy or enable purchase by large sections of consumers. Discounts usually are offered on basic routine services. It must however be borne in mind that no amount of discounts would promote purchase unless the consumer has a felt need for the service. Health checks like regular mammography; pap smear tests etc. have a less than actual demand because a large section of population is not alive to the need for such tests or postpone them for psychological reasons.

18.6.6 Odd Pricing

This is the pricing technique used to create a lower perception of the price and entails in pricing the service just below the rounded rupee figure so that consumer feels he is paying a lower price. Off pricing is an example of psychological pricing and works very well in competitive markets specially for basic or routine services, where specialised skills may not be called for, but where the perceived lower figure becomes a determinant of repeat purchases.

18.6.7 Place Differentiates

Locations partly because they define market segments indirectly also sometimes determine the prices that will get charged. When doctors operate more than one clinic they may charge different prices in different locations depending upon the clientele's differential ability to pay.

18.6.8 Quality Differentiates

Bulk discounts such as corporate and organisations purchases are increasingly becoming common in health services as on the one hand organisations are making attractive medical reimbursements an integral part of their HR policies while on the other hand hospitals are becoming conscious to the necessity of having an assured and steady customer bases, the demand of which does not fluctuate widely.

18.6.9 Penetration Pricing

Discussed earlier under the market penetration objectives in pricing thus pricing strategy is followed to introduce new services at low prices so that

Marketing and Health Economics trial may be encouraged. The strategy is specially useful where the threat of potential competition is very high. Care must however be taken that the initial prices should not be kept so low that they result in customer resistance when regular pricing is done, once the service becomes competitive.

18.6.10 Pricing Strategies when Consumers Value Perception includes Augmented Services and Prestige.

Under such conditions when customers are willing to pay higher to get the desired package of additional conveniences or exclusively or personalised attention, monetary prices do not remain the main consideration in selection of a given service provider as high prices may actually be seen as being indicative of high quality or esteem attached with the provider and, therefore, the purchase high prices may actually be preferred prices. The strategies that may be followed are price skimming and prestige pricing. Price skimming is confined to introducing new services at price premium, accompanied by high promotional expenditure (discussed earlier under market skimming objective). Prestige pricing on the other hand is a demand based pricing where markets, looking at the kind of demand or clientele they have, offer high quality service at very high prices. Examples could be exclusive plastic surgeons, physiotherapists, psychiatrists who have a limited but high margin clientele and part of the status is generated by the exclusivity of the service. Services are consciously priced very high in keeping with the high level of service quality that embodied the service. Value additions may also take the form of privacy, comfort, personalised care, high doctors to patient ratio etc.

18.6.11 Pricing Strategies when Consumers' Perception of Value is Value for Money

When customers insist upon getting due value for money prices, service providers resort to value for money price, the two strategies that are generally followed here are:

18.6.12 Value Pricing

This strategy, based on the understanding of evaluation that the consumer will make on getting his money's worth, this pricing technique frequently used in the hospitality sector, entails in 'giving more for less'. It generally involves building together some related services that are, needed by a large number of people and pricing the package lower than the services would have cost individually. Examples in the health sector can be found where camps for specific medical package like an eye camp, or vaccination camp are organised with two or three organisations coining forward to provide various services. The bundle has a large user base, and the price of the complete package, registration, medical transaction, brief stay and post transaction care is lower than the services would have cost individually. This is possible because of collaboration service assembly by two or three organisations.

18.6.13 Complementary Pricing

Sometimes called loss leader pricing — this pricing technique identifies complementarily between some of its services. While the basic service is priced low, the peripheral services can be priced to absorb some of the cost of the basic services and priced high. Examples could be a doctor charging

low initial consultation but the prices for various treatments could be priced to take care of margins for both services. A dental clinic may have low consultation or registration charges but may price the follow up services like a root canal operation or a ceramic bridge assembly at a higher price. Hospitals may use low registration and room charges, but the consultant doctor's fees or the treatment like the charges for the operation can be kept high. The low prices of some services are thus allowed to complement the higher prices of the other services in the total package.

18.6.14 Price Bundling

A careful look at services provided by hospitals would show that patients utilize multiple services which go on to form a package. Not all patients would want to or need to utilize all associated services within a given package. Price bundling is a strategy which enables a hospital to identify differential packages of associated services and price the 'bundles' of services differentially, on the basis of how many associated services form a given bundle. A given patient having had an operation, may want to have round the clock nursing support and follow up nursing support at home when discharged, frequent checkups and weekly visits to one of the consulting doctors. Another patient having had a similar operation may be willing to use family support for his post-operative general care, and may like to use the nursing help only for administering medication and needed paramedical support. It should be possible for the hospital to identify that these two cases actually make up two different service packages and thus price them differentially.

Price bundling is based on the understanding that it is possible to look at the service provided by the hospital as consisting to certain core services surrounded by levels of augmenting services. There may be patients wanting to avail all the facilities offered by the hospital and willing to pay for them. Others may want just the bare bone core service and not the associated augmented services or may want to pay for only a lower level of augmentation. Recognising this differential ability to pay, the hospital could look at different 'bundles' packages that can be created for different segments of consumers and offer multiple packages at different price levels.

18.6.15 Market Segmentation Pricing

While health care and medical attentions, freedom from disease and pain are basic human needs, the market for health services is not a homogenous market, in that different customers have different abilities or willingness to pay, they differ in the levels of "quality" or comfort or associated value addition they may want, they differ in their sensitivity to prices and so on. Recognising this, health service providers segment their markets and charge different price to different group of customers. Public hospitals for examples have different price structures for non income tax payers, and sometimes for senior citizens above a certain age. A large number of private hospitals have a certain proportion of beds which are categorized as 'free' beds where the patient may have to pay only minimum charges for same services.

Another form that market segmentation takes place is where the hospitals have different categories of rooms like a general ward, single, double, deluxe or super deluxe categories and price them differentially. Here the

Marketing and Health Economics prices are supposed to be rationalised on what is perceived to be different quality level of associated services, even though the costs of providing these services at the different levels may not be translated proportionately in the price differentials. A doctor giving post operative examination to a patient in the general ward and to another patient in deluxe room may spend the same time, let us say 15 minutes each in both situations, yet the overall price charged in the two categories will be different for instead of cost based pricing, demand based pricing has been applied to ensure demand from all segments and Maximise total returns.

18.7 IMPLEMENTING THE PRICING POLICY: STRATEGIC CONSIDERATION

You must now be clear about the various bases that can be utilised to arrive at your pricing decision. In addition to variables like costs, demand and competition and the considerations of your own objectives in arriving at a pricing figure, there are certain issues which demand decision before you can implement and administer a pricing strategy. Lovelock has clearly focused on these issues in terms of key questions that must be addressed while determining the pricing strategies.

How Much to Charge

As noted earlier in the beginning of this unit, the issue of costs is important for the pricing decision. The health service provider, however, would need to decide upon the relevant costs that must be considered while arriving at the pricing decision. Is the hospital trying to cover only the variable, costs or all the costs, whether it has decided to allocate a share of the fixed costs across all priced services and is seeking to get them also covered? Is there a way in which costs of fixed goods such as land and building can be spread over all services or over period of few years? Should the hospital have a basic package of core services priced at a certain level and then keep on adding to the price depending upon the scheduled in advance of the actual treatment. In addition, very often in the beginning of the treatment, the service provider is rarely ever completely sure as to what costs the treatment will actually entail, the complication that may arise, the additional services that may need to be provided. It is, therefore, prudent to ask for an initial deposit and then identify the billing inputs as they accrue.

How Should Prices be communicated?

Once the decision on how much a charge and how the payments are taken, the hospital must at a policy level decides how the prices are to be communicated to the customers. Since prices constitute an important input in the purchase of at least some of the medical services, creating information access to prices can enable customer to minimise some of the uncertainty in decision making. Not only do customers need to have some information on prices in advance, they also need to have information on how and when would they be required to pay. It is, therefore, advisable to institutionally decide, how much information on prices is to be communicated and how? Should rate lists for various services be on display or the rate cards be given to customers once they seek that information. Decision on how public should know pricing information needs to be institutionally taken and then clear unambiguous communication of prices needs to be managed.

To define the term in the most comprehensive way we can say value to the customer in the sum total of all perceived benefits minus the sum of all the perceived costs. Looking at this concept of value, it must be clear to you that the larger the gap between perceived total benefits and perceived total costs, the greater is the value that the customer would perceive in a given service. To enhance this perception of value in a given price category, therefore, as a provider of health services you may follow two alternative strategies or follow a combination of both. Value can be enhanced by increasing the benefits that you give to your customers or by rendering costs. On the side of costs, apart from the monetary costs, in services like health, other costs like cost of time (waiting in the reception, waiting for an appointment), cost of effort (in terms of access to location), cost on account of stress and sensory costs like fear are very relevant.

If the provider can manage to reduce some of these costs, he can alter the customers perception of value of his own service. What you must appreciate is that while comparing alternative providers of health services, customers use this perception of 'net' value i.e. the difference between perceived benefits and perceived costs, rather-than just the figure of monetary prices. You must, therefore, consider carefully the perceived benefits that are associated with your hospital services and the perceived costs that the customer has to bear, before arriving at a monetary price figure for your services.

Check your progress-2

- i. List the pricing objectives.
- ii. List the approaches that can be used to arrive at the final price.
- iii. What are pricing strategies when value to the customer is low price?
- iv. What are pricing strategies when consumers value perception includes augmented services and prestige?

18.8 LET US SUM UP

Pricing of health services poses several issues for decision makers in view of the sheer diversity of both the type of provider and the vast variety of consumer. In this unit you have learnt the role prices play in consumer valuation of health services, the kind of pricing objectives of the organisation. Organisations may seek to achieve while deciding upon their pricing policy and the various factors that are utilised to arrive at the pricing decisions, Issues requiring decisions while implementing the pricing policy have also been identified. The unit has covered the inputs that go into the pricing equation as well as the consumer use of price in his buying decision for the health services.

18.9 ANSWERS TO CHECK YOUR PROGRESS

Check your progress-1

- i. List the basic variables for decision making.

The three basic variables that are fundamental to any pricing decision are:

- How does my consumer define value for a given service?
 - What are my costs in providing that service?
 - How does my competitor price the same service?
- ii. Enlist strategies to minimize the various types of cost.
- Perceived costs of availing the service by the customer could also be reduced by:
- Reducing waiting time, reducing the time taken in giving test reports, ensuring all appointments are meticulously managed and kept.
 - Reducing the information search costs by providing required information readily and easily.
 - Facilitating access to services like facilities, accounts and amenities.
 - Reducing unnecessary physical effort that customers may be required to make to avail the facilities and services
 - Reducing levels of stress associated with a given treatment through information sharing, consultation and counselling.
 - Minimising sensory cost like noise, unwelcome sights and smells, offensive behaviour of support staff and so on through creation of attractive, pleasant visual atmosphere, noise reduction and training of personnel.

Check your progress-2

- i. List the pricing objectives.
Pricing objectives may be:
- Revenue oriented
 - Operations oriented and
 - Patronage oriented.
- ii. List the approaches that can be used to arrive at the final price.
The approaches that can be used to arrive at the final price are:
- Costs based pricing
 - Competition based pricing
 - Demand based pricing.
- iii. What are pricing strategies when value to the customer is low price?
The technique that are followed in such conditions where the customer is acutely price conscious or defines value as being 'low prices' include the following.
- *Price Discounting*-Hospitals may carry discounted prices for vaccination for certain fixed periods, when such services are targeted to low income segments of the society, to overcome the apathy or enable purchase by large sections of consumers.
 - *Odd Pricing*-This is the pricing technique used to create a lower perception of the price and entails in pricing the service just

below the rounded rupee figure so that consumer feels he is paying a lower price.

- *Place Differentiates*-Locations partly because they define market segments indirectly also sometimes determine the prices that will get charged.
- *Quality Differentiates*-Bulk discounts such as corporate and organisations purchases are increasingly becoming common in health services as on the one hand organisations are making attractive medical reimbursements an integral part of their HR policies while on the other hand hospitals are becoming conscious to the necessity of having an assured and steady customer bases, the demand of which does not fluctuate widely.
- *Penetration Pricing*-Discussed earlier under the market penetration objectives in pricing thus pricing strategy is followed to introduce new services at low prices so that trial may be encouraged. The strategy is specially useful where the threat of potential competition is very high.

iv. What are pricing strategies when consumers value perception includes augmented services and prestige?

- *Value Pricing*-This strategy, based on the understanding of evaluation that the consumer will make on getting his money's worth, this pricing technique frequently used in the hospitality sector, entails in 'giving more for less'.
- *Complementary Pricing*-Sometimes called loss leader pricing — this pricing technique identifies complementarily between some of its services. While the basic service is priced low, the peripheral services can be priced to absorb some of the cost of the basic services and priced high.
- *Price Bundling*-A careful look at services provided by hospitals would show that patients utilize multiple services which go on to form a package. Not all patients would want to or need to utilize all associated services within a given package.