

PRICING STRATEGIES IN YOUR PRACTICE

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Setting prices for products and services your hospital provides is a crucial, yet difficult task. What factors should you consider as you develop a pricing strategy in your practice?

In general, there are two different strategies that businesses can take when it comes to pricing: a low-price strategy or a differentiation (value) strategy. Either can be successful, though the incomplete application of either approach can result in poor financial returns.

Low-Price Strategy

Many businesses position themselves to be the low-price provider in their area. This strategy can be successful, but only if there is some mechanism by which the business can enjoy a *low-cost* advantage over their competitors. A veterinary hospital which has normal operational costs but chooses to compete based on low prices will end up with little to no profit.

Practices can be profitable with a low-price position, but they must find a way to lower their costs. The largest expense in a veterinary hospital is compensation and benefits, so hospitals with smaller, highly efficient staff members can often reduce the percentage of revenue spent on compensation.

The most common way to reduce overhead in a veterinary practice is to limit the services provided by the business. In this manner, fewer employees and less equipment/inventory are needed for day-to-day operations. Examples could include a spay-neuter clinic, a wellness clinic, a mobile euthanasia service, etc. These types of veterinary practices do not need large facilities or extensive staff, so they are able to keep costs down. This allows them to compete based on low price, without sacrificing the financial success of the business.

Differentiation Strategy

Since most veterinary hospitals do not enjoy a competitive advantage when it comes to costs; the more common approach to pricing is to attempt to differentiate services, thereby creating value for their clients. This value leads to an increased acceptance of higher prices, which can improve profitability. Be careful, though – if a practice raises prices beyond those of their competitors, without simultaneously enhancing the value of those services, then it is likely some clients will switch to lower-price competitors.

Veterinary hospitals must avoid the “commodity trap.” When a client perceives a service or a product to be a commodity, they will only perceive value when the price is low. Consider a basic office supply such as a paper clip. If you go to the store to purchase a box of paper clips, you will generally choose the lowest priced box. The only reason you would be willing to pay more for the paper clips is if they are somehow differentiated to create value. For instance, the clips might be color-coded or made of a different material or might be designed in a more pleasing shape. If any of these differentiated paper clips were more appealing, then you would be willing to pay a higher price.

So, what veterinary services and products are like paper clips? Certainly, most of the drugs that are prescribed are perceived as commodities by the client. They don’t know the difference between a brand name and a generic, though they might be more interested in a chewable or a liquid compared to a pill or a capsule. The bottom line is that clients typically want to get the medication wherever it is cheapest because there is no additional value (other than the convenience) to purchasing at the veterinary hospital.

No strategic plan for improving revenue and profitability should be focused on product pricing. We recommend pricing your products at levels that allow you to continue to sell as much as possible from your pharmacy. Pay close attention to which products are being purchased outside the hospital and adjust prices as needed, based on what the market will bear and will keep clients purchasing from you. In some cases, a retailer’s ability to reduce prices (they do have low-cost advantages) will exceed your ability to reduce prices. In these cases, it is prudent to consider giving up the sale of these products and prescribe them elsewhere. If you reduce prices too far, it will simply increase your overall cost of goods and will reduce your profitability.

An additional consideration is the psychology of product pricing. Since products are easily price-shopped (clients can, and do, shop online from within the exam rooms during the veterinary visit), clients can be very price sensitive. If they know they can get a six-pack of a flea-tick product online for just under \$94, how will they feel when you are charging over \$130 for the same product? If they feel you are overpriced for the products they can easily price-shop, then they may very well believe you are overpriced on the services that are much harder to comparison shop. This places even more pressure on the business to create value for those services, so clients will be willing to pay higher prices and not consider them “overpriced.”

Let’s move on to services – the root of what being a veterinary hospital is all about. Services cannot easily be replaced by online retailers. Is there some way to create value for a service or a product that will differentiate it from your competitors, or will clients focus only on price?

The manner in which services are provided can significantly influence the clients' perception of value. If services are presented correctly, they can provide significant value to your clients. For example, are you a Fear Free practice? Are you Cat Friendly? These types of practices will create value for their clients, as they will typically deliver a better client/patient experience, which creates additional value. Do you provide detailed exam reports to clients that outline your findings and recommendations? Do you discuss the exam as you are performing it, so the client better understands what is being done? These relatively simple steps can make a profound difference in how your client perceives the exam. If they are aware of the work you are doing and understand the expertise you provide, they will be more likely to have a strong value perception. On the other hand, if you rush through the exam and do not provide verbal/written examination findings, then the client may not see the value in this service.

There are many resources available to help you evaluate and set prices in your hospital. These can be based on comparison to national averages, or can be derived from the associated costs related to each service/product. Regardless of what method you choose to set prices, your clients must perceive value. If your prices exceed the value perception of the client, you are likely to lose clients and revenue, as they will choose a less-expensive option. For practices that focus on creating value for their clients, the sky is the limit!