



NEWSLETTER

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Pricing Veterinary Services

Message from
Rob White



Did you know that prices are the only factor of business that can actually generate income in a veterinary practice? It is therefore important that pricing be done in a manner in which each veterinary practice takes time to consider all the variable factors involved in pricing of both products and services. The historical tools that many veterinarians use for pricing tend to be a combination of:

1. **Last years price plus a bit** – places no emphasis on changes in costs or the change of value delivered to a client.
2. **What we think our competitors are charging** – pricing in this situation tends to be ‘fear’ based resulting in over cautious fee charging.
3. **How much we can get away with** – a bold approach but is probably, for the most part, more reflective of the value on offer.
4. **What seems to be industry standard** – assumes the rest of the veterinary community knows better than you what level of service/pricing represents value to your clients.

The veterinary industry does not trade in a situation of ‘pure competition’ such as say the share market. Instead, we operate in what is termed a ‘monopolistic’ industry in which the market has many consumers (clients) and many service providers (veterinarians) which trade over a range of prices rather than a fixed market price. In a monopolistic industry, the consumer of a product or service will buy largely on what they ‘perceive’ as being ‘good value’. Each participant in a monopolistic industry must choose the level of services they will provide and what price level they will charge for those services. Consumers will not automatically choose the lowest priced service but, with the choices available, will choose what level of service they believe suits both themselves and their patient’s best interests

Psychological Factors to Consider when Pricing

1. **Reference Prices** - are the prices that a consumer carries in their mind that represent the prices they would *expect to pay* for a certain type of service. Reference prices are mostly a price range rather than a fixed figure. They are heavily influenced by factors such as - previous experience, friends, information generally available, perception of service levels and so forth. Veterinary practice managers have the ability to influence reference prices in their clients mind by controlling factors seen as being a part of ‘good veterinary service’. It is quite common for a consumer (client) to phone around for a number of prices just to determine a ‘reference range’. It does NOT mean that they will automatically choose the lowest priced option but will choose based on what they perceive as best value (often influenced by phone manner).

2. **Psychological pricing** – best explained using the example of perfumes where a \$100 perfume and a \$20 perfume conjure completely different perceptions in a consumers mind. Generally, a consumer will assume that the \$100 bottle has something special about it that the \$20 bottle does not. This applies in the veterinary industry where a client will often assume that a higher price represents *better value*. If a veterinary practice is catering to a variety of client needs they may need to offer

Welcome to the second newsletter from MPV Consulting that is dedicated to addressing factors in pricing of veterinary services. Unfortunately, we could not address all aspects of price in such a brief newsletter but the concepts that this introduces should assist veterinary practice managers when they are making a review of charges. The importance of prices is immense when one considers the impact that getting it wrong will have on your business! I would encourage all practices to participate in our Annual Fees Survey for a very modest cost of just \$77 (inc. gst) to find out where your practice stands compared to the rest of the veterinary community. For the cost of less than two consultation fees for most veterinary practices, you will receive a complete comparison between your practice and other practices with similar profiles. Use this as a tool to assess relative fee value in your practice!

Our next newsletter will be an E-Newsletter to be delivered only to those practices that have returned their e-mail addresses on our Expression of Interest Form. If you have lost this or need another, please request via email to mpvconsulting@toadhall.com.au
Regards

Rob White B.V.Sc CDE

Next Issue!

- Consumer Behaviour in Veterinary Practice

‘standard’, ‘premium’ and may be ‘competitive’ pricing options for some services. If promoted well the ‘premium’ option will represent much better value to the majority whereas the ‘standard’ option may suit the more cost conscious clients. The number and type of pricing options will depend largely on your type of practice, the level of marketing sophistication, the nature of your practice client base and the attitude of veterinary managers.

The Results of Pricing Errors

1. *Over priced services* - the clients will see the service as less than value for money and may potentially reduce veterinary care usage and/or move to another vet. It is possible for a veterinary surgery to initially achieve the perception of ‘higher priced high value’ service but with time pay less attention to service levels resulting in decline and becoming *relatively over priced*. For those that choose higher prices they must constantly evaluate the true level of service that they are delivering to ensure that clients continue to recognise the value offered.

2. *Under priced services* – reduced practice profit! For example - you have a practice that turns over \$400,000 p.a. Lets assume the practice has under priced their fees overall by just 1% e.g. instead of their consultation fee being \$45.00 it has been set at \$44.50 (an error of just .50 cents). The result is that they have reduced profit by \$4,000p.a. Note that I have said ‘profit’ because when under pricing services the ‘costs’ (ex. GST) remain the same and thus the income loss directly reduces profit. If the practice under priced by 2% the profit will be reduced by \$8,000 p.a., 3% by \$12,000 p.a. and so forth. Considering the potential impact of prices, it is important that you get it right!

There is a common misconception that veterinarians should over deliver on service for the prices they charge. In order to maximize profits each veterinary manager should strive to create equilibrium between the levels of service delivered and the prices charged. Having done this, systems must be in place to ensure that both the prices charged and the levels of service provided are consistent! Over delivering on service is often indicative that a manager is either unable to determine of the value they offer or are not confident that they and their staff can deliver consistent client service levels.

Common Pricing Problems

These may include:

1. Undue focus on what impact a price change might have on clients
2. Inability to match the ‘price’ of products and services so that they truly reflect the ‘value’ the client may place on the service
3. Failure to re-address the issue of pricing on a regular basis
4. Undue focus on competitor pricing
5. Unclear, random or illogical methodology for determining prices

Pricing Services - where to from here?

It is unfortunate that in a newsletter such as this that we are not able to fully cover all aspects of pricing. This should represent an introduction to further thinking about prices and an understanding that prices bear a very close relationship to perceived value from a client perspective. Some suggestions on actions are:

1. *Participate in the MPV Annual Fees Survey* – to determine how your fees compare to other veterinary practices with similar profiles.
2. *Institute the following:*
 - a. Determine generic categories for prices – these categories must reflect a specific pricing approach such as - retail, standard, premium and competitive fees
 - b. Regular pricing reviews – each fee category will need review at regular intervals for example: commit to price re-evaluation on a three monthly basis for premium & competitive fees and six monthly reviews for retail & standard prices. Annual reviews are not enough!
 - c. Spend time on pricing reviews – it requires at least some hours of analysis and thought at each review in determining the true value for each category
 - d. Perform ‘value mapping’ exercises - to determine if prices and value seem to correspond
 - e. Use pricing ‘tools’ to help set prices - objectively look at the tools being used, if any, to assist price determinations and consider if they are adequate
3. *Consider using MPV Consulting services* - for independent review and advice on pricing matters.

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