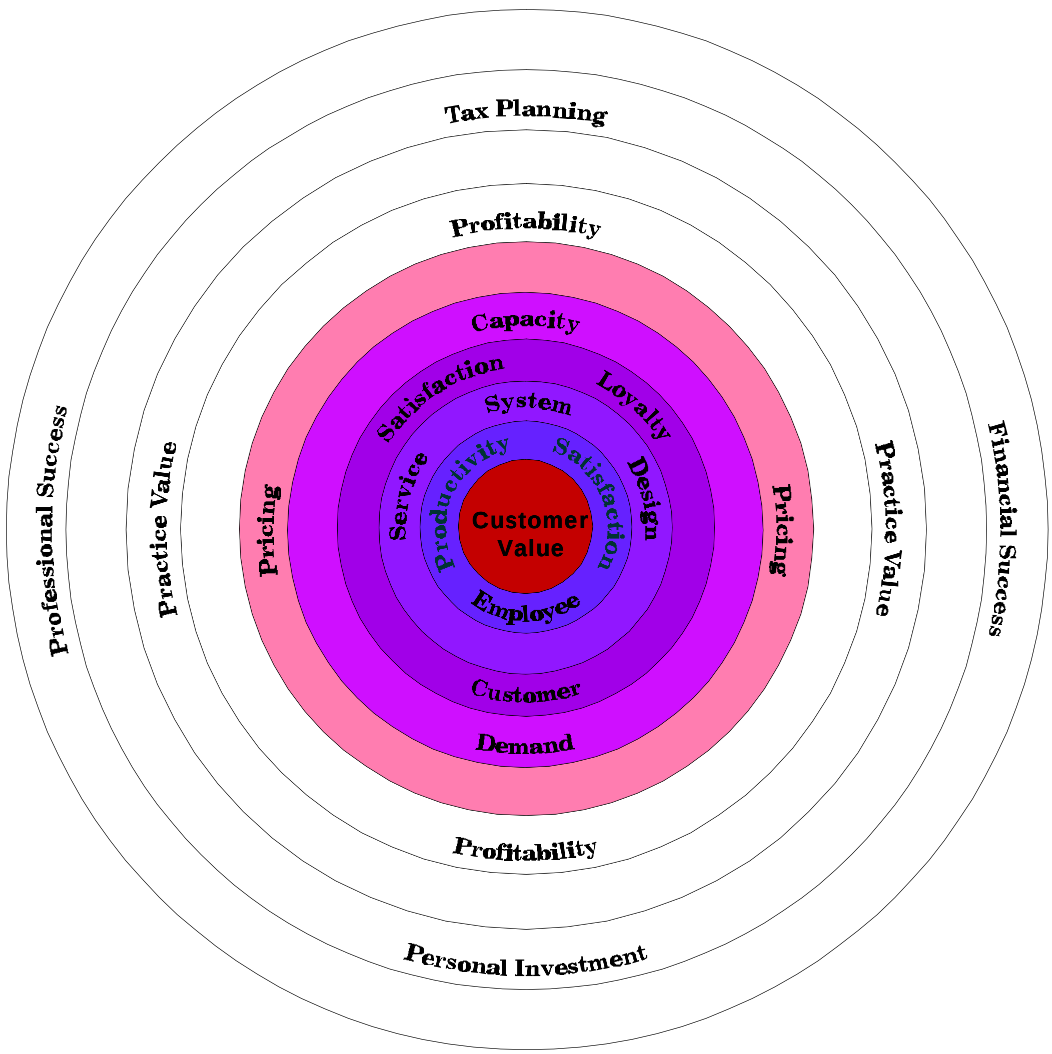
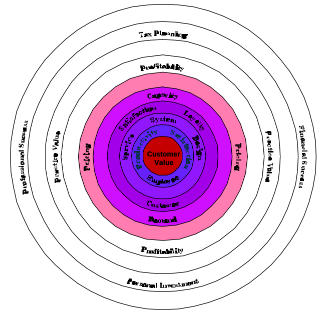
Pricing Veterinary Services





Pricing Veterinary Services

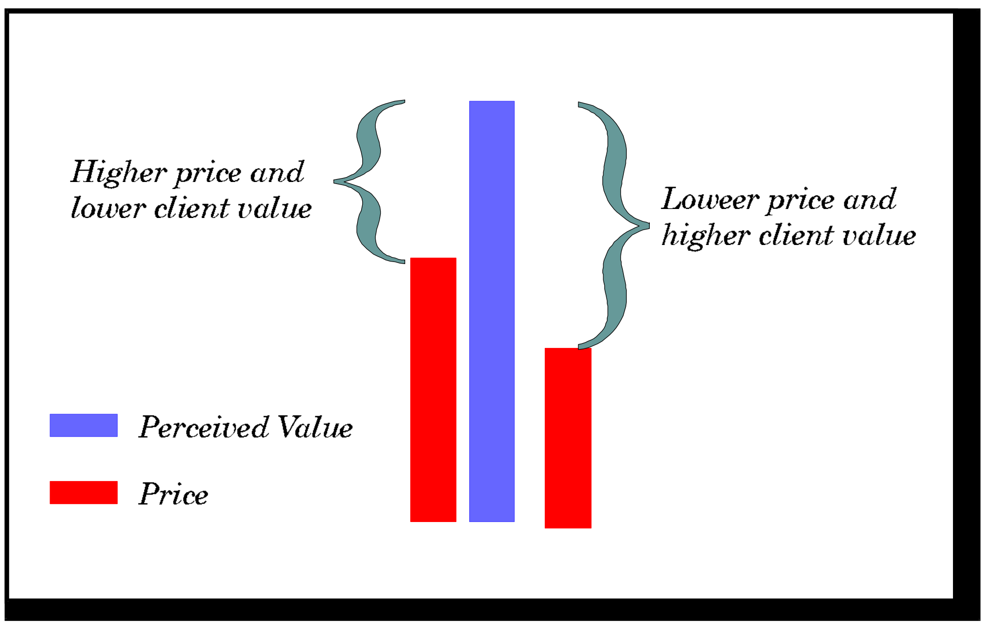
Pricing strategies for veterinary services must be based on the clients' willingness to pay. The willingness to pay is determined by the clients' perceived value of the related service.

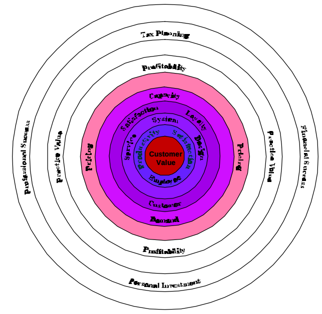
It is the responsibility of the veterinary practitioner to devise a method of providing sufficient value, at a price that will create appropriate demand (market share), while keeping costs at a level that will permit desired levels of profitability.

Purchase Motivation

Are clients looking for the lowest price? Everybody knows that the lowest price is not always the best deal. The lowest price is often associated with inferior value. Veterinary clients understand this price/value relationship, and they seek value, not price, as do consumers of any other product or service.

In contemplating a purchase, a veterinary client determines the inherent value of the good or service. A client who perceives value equal to, or greater than the price, will be motivated to purchase. As the perceived value exceeds the monetary price by greater amounts, the motivation to purchase increases. It is value, and not price, that drives purchase motivation and generates demand for services.





Price

As discussed at length in the article on value, there is a direct relationship between value and price[1].

$$\text{Value} = \frac{\text{Service Quality}}{\text{Financial Cost} + \text{Non Financial Costs}}$$

Basic math illustrates that increasing service quality and decreasing non-financial costs will allow clients to receive the value that they desire at a higher price. By understanding client expectations and concentrating resources to meet and exceed these expectations, it is possible for veterinary practices to enhance value at minimal or no incremental cost. The concepts of service quality and client expectations are discussed in the material pertaining to “value”.

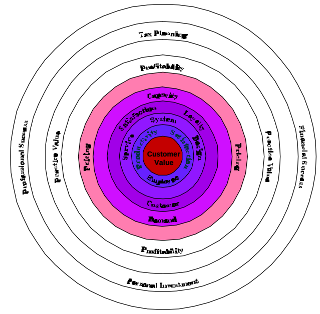
Once service quality and non-financial costs are established, the price (Financial Cost) is the “plug-in” to the value equation. Lower prices pass on greater value to the customer. Higher prices provide lower customer value; the value is retained by the practice and creates higher profit margins.

Low and high-priced practices can offer both high or low value. It is the price relative to the non-price components of the value equation that will determine the value offering and the willingness of the clients to pay.

Demand

Greater value offerings create greater demand for services by stimulating a greater willingness to pay. All else being equal, the manipulation of prices will alter value and thus alter the demand for services.

1 Heskett, James L., Sasser W. Earl Jr., Christopher W. L. Hart, “Service Breakthroughs” The Free Press, 1990.



A previous article identified that client loyalty is an important factor in profitability. Service marketing research has identified that customers who are attracted by low prices have significantly less tendency to develop loyalties. Practices that use low prices to attract clients may develop a large market share, but a market share of poorer quality that will be notably less profitable.

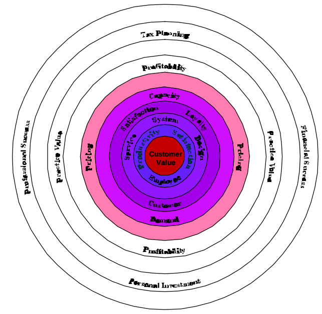
Practices offering greater value experience a greater demand for their services and acquire a larger portion of the market share. High-priced practices can create demand by offering higher value derived through service quality and lower non-financial costs.[2] Increasing prices in a practice offering high service quality will reduce demand. However, those clients who are less price sensitive have been shown to have greater tendencies to develop loyalties. The effect of increasing prices generates incremental profits through higher margins and the benefits derived from loyal clients in a higher quality client base.

Profitability

The profit that is derived from a service procedure is determined by the price of the service less the cost of providing the service. It is obvious that maximizing price will maximize profits for a given service procedure. It is less obvious that the overall profitability of a small animal practice will be significantly influenced by matching capacity to demand.

It has already been illustrated that demand can be influenced by altering the price. Price manipulation to attract an optimal, and not necessarily a maximum, number of clients within a given cost structure can maximize profits (see material on matching capacity to demand).

2 Holden, Reed K., and Thomas T Nagle, "Kamikaze Pricing," Marketing Management, Summer 1998.



Costs

In the past, prices have often been calculated by using a **cost + profit = price** formula.[3] However, the actual cost of a given service is difficult to determine. Veterinary services typically have minimal variable costs associated with each service but high fixed costs spread across all services. In order to determine the cost of a particular service, fixed costs must be allocated. This allocation process can be arbitrary, as can the resulting cost per service.

Cost-plus methods do not relate to a client's wish to purchase. As discussed above, purchase decisions are made on the basis of perceived value. Value to a customer does not necessarily parallel the cost to supply a service.[4] Cost-plus formulas may derive prices that exceed the value of the good or service and thus may create low demand. Conversely, cost-plus pricing may derive a price much lower than the value, creating high demand but considerably less profit for the supplier than would be realized at a higher price.[2]

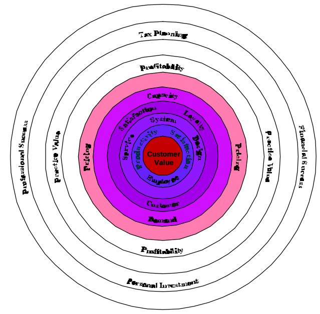
Discounting Prices

It is common for veterinary practices to discount fees to attract clients or to assist clients in unusual circumstances. Many practices offer multiple-pet households and senior pet owners a 10% discount. Owners of guide dogs receive much greater discounts.

When income statements of most veterinary practices are normalized (owner compensation for both professional and management activity is included), many practices experience a 10% profit. Discounting a fee by 10% eliminates all profit. Discounts greater than 10% force the practice owner to donate his/her professional time that is already determined to be worth approximately $35 per hour, which is less than that of an automobile mechanic.

3 Tung, Wei, Louis M. Capella and Peter K. Tat, "Service Pricing: A Muliti-step Synthetic Approach," The Journal of Services Marketing, Vol. 11 No.1 1997.

4 Docters, Robert G., "Price Strategy: Time to Choose Your Weapons," *Journal of Business Strategy*, September/October 1997.



Discounts often attract low or no-profit business. Discounting is very undesirable for practices that must hire associates or for busy practices turning away other full-paying clients. Discounts for guide dogs are most often a true form of charity and should be explained as such to the owners of the dogs.