Why clients don't like rounded prices, or do they? Behavioral economics of pricing

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Pricing. Is setting pricing or influencing behavior ethical? I would argue yes. If you believe in the good or service you are selling, all you are doing is convincing folks to purchase your services. In the case of veterinary medicine, this is best medicine and care of their pet. Humans are naturally skeptical of things they themselves may not deem important. It becomes are jobs to educate and influence them.

Pricing in veterinary medicine is complicated. It needs to be launched, tested, evaluated, re-evaluated and assessed on a regular basis. When was the last time you evaluated your pricing strategies?

Many customers understand prices in the context of reference prices. This could be another veterinary hospital, an ad, a recent trip to the dentist. If they understand that a reasonable cost for a dental is $1000, then a $1200 dental makes some sense. If their understanding is that a dental costs $250, then a $1000 dental seems outrageous. You have to understand this concept to understand where client pushback comes from.

Here are a variety of pricing concepts. They will be discussed in greater depth in the lecture.

Sizing: The brain thinks big fonts mean big prices. So make the font for prices smaller than descriptions of the item.

Positioning: Position prices in the upper left, where they are first encountered by the visual fulcrum and don't feel as heavy. Additionally, prices at the top of a screen or paper feel lighter.

Multiples: Same price pizzas but one has 6 toppings and one has unlimited. Some may pick 6 toppings, especially if the numbers are multiples of each other.

Alliteration: Alliteration works. Dental Discount Day.

Emotional purchases: Emphasize the feeling and the product value NOT the price

Anchoring effect: Put any number near your prices for the brain to anchor too. An invoice number could work.

Sale pricing strategies: Place sale price on the left to create a subtraction effect

Price options: List highest to lowest. Folks typically travel down a list and experience discomfort scanning down a list and end up choosing higher priced options.

Highest priced item: Highlight it with different font and color

Decoy effect: List one service as a decoy to influence choice

Daily equivalents: Include. These are powerful (Only $0.50 a day…)

Discount emotional products: Free Dessert with purchase of meal. Free Chew toy with purchase of case of food.

Itemize: Customers feel better when they think prices came from costs not from supply/demand. List the various costs that went into the price.

Charm prices work: $2.99 is different than $3.07. Reduce the left digit by one

Less is more-syllables: $27.82 (7) will sell less than $28.16 (5). Brain prefers price with 5 vs. 7.

Precise large numbers feel better: $1134 vs. $1000

Discount best practices:

- Make the sale price look physically different
- Make physical space between the original and sale price
- Place the discount price BELOW the sale price
- Reduce EVERY digit in the sale price ($465 is original, $350 is sale)
- Use the $100 rule: For anything less than $100 use the % off, for anything greater than $100 use the $. Example: $50 blender- 10% off is $5, but $5 seems like less than 10%).

Aside from how you present your prices, you should determine your pricing strategy. There are a variety to choose from. This includes markup/margin, good better best, loss leader, subscription, to name a few.

Good better best pricing focuses on letting the customer pick the best option for them when presented with a staggered tier of options. This is a great strategy because you do not need to do any market research, you simply allow the client to choose what works for them. The profit margins increase as you climb the ladder, so keep that in mind. Good Better Best pricing requires some thought before implementing such as what services you want to bucket into each tranche, deciding on what services you will offer this for, and a strategy to get customers to trade up, thereby increasing care and margins.

Subscription pricing involves charging a regular amount for a set of services that the client can access anytime during the subscription. Most commonly offered with wellness plans, subscription pricing can be applied to other recurring expenses at the hospital such as medications, diets, or grooming services. There are benefits to the customer and the practice such as convenience to the customer and recurring revenue to the client. Practices thinking about implementing subscription pricing should decide on the services and bundles that would be offered with the subscription, consider driving adoption through discounting sign up fees, offer discounts for longer terms, follow up with clients to ensure the subscription has value, utilize recurring payment systems to manage the recurring revenue and don't adopt a set it and forget it mentality.

Loss leader pricing involves unfavorable unit economics which hopefully lead to downstream revenue. This is most often found with the discounted or "free first exam" promotions. Loss leader strategies should be carefully evaluated in terms of profitability and goals for use as well as regularly re-evaluated to ensure viability. Loss leaders are typically lead-in products that are frequently purchased and offered in a limited amount comprised of a single service (not a bundle). Loss leaders are not always profit LOSERS but are typically less margin that one might expect. Limited time offerings control the margin loss. They should only be used in three scenarios: to attract new business, resurrect lapsed business, and encourage additional send from customers.

Margin/markup techniques involve cost analysis. If you understand the cost of a product, you can reverse engineer what profit margin (gross) you want to achieve as well as the markup to the product cost to get there. These have a predictable relationship, with a 50% gross margin equivalent to a 100% (or 2x) markup. The margin is calculated as the Sale Price – COGS / Sale Price (essentially profit margin less cogs). The markup (%) is calculated as Sale Price – Cost / Cost. This results in a % and many practice management systems ask for an "X" markup. A 50% markup means you take the cost, and multiply it by 150% (or 1.5x) as you are adding 50% of that cost to itself to determine sale price. This allows the practice to determine how much profit margin they want to receive from each sale.

Pricing is complicated and relies heavily on economics, both mathematical and behavioral as prices are emotional. No customers knows what a dental should cost, but they sure think they do. Understanding the basics of pricing strategy, techniques, and economics will ensure high compliance from customers and allow you to provide the highest care and generate the greatest profitability.