



## Evidence Based Pricing Strategy for Plastic Surgeons—Winning the Price Wars

By Karen Zupko

**O**ne area of practice administration where most plastic surgery practices make poor decisions is in how and when to discount their fees. Surgeons make responsible decisions caring for patients using evidence-based medicine—yet fail to apply evidence-based management principles when it comes pricing their services.

Why is it that some plastic surgery practices choose to compete solely on price? Offering “we’ll match that quote!” language when answering prospective patient email inquiries—from virtual strangers—makes them look less professional and more like car dealers. Racing for the bottom is a no-win situation.

But the reality is, competition can be fierce and intimidating. Pricing is a key element of every product and service on the market. So, what insights can we gain from marketing experts? Perhaps borrowing some smart pricing strategies can enhance both your brand and your bottom line. Read on.

### How Do You Know if Your Price is Right?

Harry Beckwith, author of *Selling the Invisible*, an excellent book on service marketing, is a noted ad man and consultant to Fortune 500 companies. He advises: “If no one complains about your price, it’s too low. If almost everyone complains it’s too high.” Well, then what level of price resistance is just right? Beckwith’s answer: “Fifteen to 20%.” He explains; “Close to 10% of people will complain about any price. Some of these want a ‘deal’. Others are mistrustful and assume every price is overstated. Still others want to get the price they had in mind when they approached you; because

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it is the price they hoped for and budgeted for.” The latter group of patients have what is known as an “anchor price” in mind based on their online data gathering, conversations with friends and their own budget. Moving someone off their anchor price requires a lot of work and patience. Time that is often best spent elsewhere.

If we assume 10% of your consult patients are congenital objectors, ask yourself how often the remaining 90% of potential patients are expressing price resistance. If it’s another 10%—according to Beckwith, that’s about right which leaves you with 80% of the target market. If price resistance grows and is expressed at or above the 25% mark—questions need to be asked about whether your marketing messages are attracting the wrong group of potential patients. Perhaps something else is to blame such as a “no consult fee” policy which by its very nature attracts crowds of deal seekers.

### How Premium Brands Behave

Premium brands target very different customers than their lower price driven brethren. And so should you. When practices rush to offer deals and compete on price they often tarnish their brand by looking desperate.

It can backfire and make it difficult to recoup your reputation. In fact, too good a deal can make some patients suspicious. Some prospects won’t choose you because they feel you must be cutting corners some place—you’re second rate and they want only the best.

Michael Silverstein and Neil Fiske, formerly of Boston Consulting Group, authored a book entitled *Trading UP: Why Consumers Want New Luxury Goods and How Companies Create Them*. Their research shows in dozens of categories, new luxury brands now sell at huge premiums over conventional goods. In other words, people are willing to pay a little more if they feel they are getting a unique value. A plastic surgery practice that understands the importance of creating an “aura of value” knows how to differentiate themselves from the pack. Since patients cannot “try on” your service, every touchpoint must be polished to convey a premium experience.

In our role as advisor, we counsel plastic surgeons and their managers who have set reasonable fee schedules, about staying steady the course when the Ob-Gyn group

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downstairs or the dentist across the hall starts marketing deeply discounted rates on injectables. When Tiffany's sees Kaye's jewelers offering diamond rings for \$489—do they rush to price match? No. When Chanel sees that Bloomingdale's is offering 25% off clothing on Labor Day do they offer a sale? When Dunkin' Donuts cuts the price of a cup of coffee, does Starbucks reduce the cost of a Grande? No. In fact, around 2011, Dunkin' cut and Starbucks responded by increasing the price of their coffee.

Premium brands know who they are, what their value proposition is and maintain their pricing structure. They fully realize that they are not everyone's jeweler, designer, or coffee purveyor. Many plastic surgeons need to adopt the philosophy that they are not "everyone's plastic surgeon." Every potential patient has someone—board certified, trained plastic surgeon (or not) that's right for them. As mothers have often advised dating daughters upon a rejection, "Remember, every kettle has its lid." Not every lid is intended to fit every kettle.

But, what if you aren't the premium brand practice in your area? What then? Understand the answer to this question goes well beyond price. Suffice to say, most business strategists will tell you that getting caught in the middle market is deadly. Best to be at the top, which means making an investment in your practice and offering superlative service. Or, be the most efficient lower cost, volume driven

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provider who is profitable. The fact is that pricing power comes with differentiation. You can market luxury, or you can market economy—it's hard to market 'just like everyone else.'

### Know your Audience

Dr. Paul Wang of Northwestern University's Kellogg School of Business is widely known for identification of different buyer types. Two of these classifications are particularly relevant to plastic surgeons.

**Transaction Buyers** are primarily motivated by price. They are willing to shop around for nearly every purchase. This is the prospective patient that comes into your office with three quotes in hand from other surgeons demanding that you match the lowest one. These patients are not loyal. Understand this truth: They came for the price, and they'll leave for the price. It's all about the getting "a deal." Hagglng is a sport to them. Pull up the transactions for your special promotions and you'll find their names. File them under the "Groupon crowd." A powerful response to these quote waving patients is, "I understand. And, if price is your primary criteria for choosing a surgeon, why haven't you scheduled with one of them?" The typical reply is usually "Well, I had to ask." Or "You're the best" or "I like Dr. Wonderful best."

Never price match their "best offer" from another office. Word of mouth and mouse will spread that you can be low balled.

**Relationship Buyers**, as defined by Wang are clients, customer and patients who genuinely like you and your services. They feel comfortably 'at home in your office.' Your staff not only knows their names when they call or come into the office—they know about their vacation plans, their recent promotion and upcoming social occasions. These patients think of your practice first as their reliable source for aesthetic information, care and services. They value helpfulness and good service. A relationship buyer feels shopping around is a waste of time. A patient in this category, having been educated by your staff, will not be swayed by bargains. You'd be smart to know who your "marketing mavens" are. They are likely long-time patients, who

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have invested in and entrusted you to keep them looking terrific and they'll recommend you to friends. There are no sweeter words than someone referring to you as "my plastic surgeon."

**Tip:** There tend to be more early adopters among Relationship buyers according to Wang. Remember this when launching a new service, such as vaginal rejuvenation. His research shows the number of early adopters among the Transaction buyers is very low. Don't waste time or money inviting them. Invest in the type of patient who values that new loyalty program you're preparing to launch.

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### *The Language of Discounting*

Yes, you can—under certain circumstances offer reduced fees. But first, replace the word “discount.” Upscale your language use “special pricing” or “value pricing.”

Second, stop with the percentage off deals. *The Psychology Of Discounting. Something Doesn't Add Up* in the June 30th, 2012 issue of *The Economist* elaborates on research from the University of Minnesota's Carlson School of Business. It discusses consumer innumeracy—a fancy way of saying that most people are lousy at fractions. So, deals like ‘13% or 17% off confuse most patients. When you offer ‘13% off a syringe of Restylane’ all you've done is hyper-perplex them. Why? Because most people don't have an “anchor” price for a syringe of any injectable in mind—and if they did, calculating 13% in their head is darn near impossible. Confusing people will not put them in the mood to buy.

Take a page from smart cosmetic companies who have demonstrated for decades their competency at marketing to women. Instead of percentages off a tube of their magic potion, they say something like, “Buy \$75 of product and you'll receive a complimentary bag of these goodies worth \$50.” According to the *Economist*, “*Research proves that consumers much prefer getting something extra for free, to getting something cheaper.*” The “Buy One, Get One Free” offer capitalizes on this preference.

Bundled pricing is another effective way to subtly discount. The travel industry often uses bundled pricing. A 7-day trip marketed on an airline vacation site includes business airfare, hotel, car rental, and spa gift certificate for one fee including taxes and fees. The same philosophy is echoed by all-inclusive resorts, which are widely popular. It's easy to budget for and make a decision. No additional charges or surprises are lurking behind the price tag. The beauty of this approach is the consumer cannot see which business partner or partners lowered their usual fee—nothing is itemized—so all discounting is opaque. Bravo.

Anthony Tjan, Entrepreneur in Residence at the Harvard Business School, elaborated on the benefits of bundled pricing in a 2010 HBR article. “*When a seller unbundles options, it opens*

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*up the transaction negotiation to line by line scrutiny.*” He points out that looking at one number simplifies decision-making and that the psychological cost of purchasing all the items is lowered. “*Buyers feel like they are getting a deal.*”

Does this type of bundled pricing work for plastic surgeons? Yes. Most notably for breast augmentation which is typically bought by a price sensitive younger patient demographic. Instead of listing the surgeon's fee, the operating room time, the anesthesia, implants, special bras, and whatever else—you propose a fee of \$6500 (as an example) as all-inclusive except for pain medications which vary due to patient safety and preference.

### *Smart Strategies for Special Pricing*

Under certain circumstances special pricing can increase the profitability of your practice and amplify your brand. Here are a few important notes and creative ideas:

**Get in the Driver's Seat.** You create ‘special pricing’ offers—not the patients.

**Offer special pricing at times that are advantageous to you.** Every practice, in every geography has a ‘doldrums season.’ For many it is from around August 1st through the end of September. When patients this spring ask for a “discount” or express their wish to pay less, offer them a “fee reduction” if they schedule by a certain date for surgery during a specific time period—say August 15th to September 15th. “*When Dr. Wonderful's otherwise busy schedule has more openings.*”

**Evaluate which procedures offer a high margin.** As an example, an upper lid bleph done in the special procedure room, paired with the right aesthetician services for a

bundled fee may be very profitable. It's an easy “age reducing treatment” with a short recovery time.

**Consider multiple procedure discounts for surgery in the same field.** This makes sense if the patient schedules an abdominoplasty and two or three areas of lipo. This is a price reduction you can prospectively offer. It makes sense because you collect on an additional hour or two of surgical fees, with only slight more time pre and post operatively. We commonly see practices offer anywhere between 5% and 25% off the second and third procedure with 10% being the median. Never reduce the price on the primary or most expensive procedure.

**Consider occupational discounts.** Teachers have seasonal breaks so you eliminate the issue of recovery time. Flight attendants can travel easily to areas of the country where talented surgeons produce beautiful results for lower cost than their home base. In Atlanta, Dallas and Chicago it's easy to see why a surgeon would offer “special pricing” for Delta, American and United flight attendants respectively. And, it makes them feel special. High end real estate agents tend to be of certain age, have the financial means to afford surgery and place a high value on their appearance. Added bonus—the field is largely female, and they talk. Focus your “special offers.” Use a rifle, not a shotgun. You'll capture more of the audience you want.

Do you still feel compelled to join in your competitor's race to lower margins? Is that really a race you want to win? Don't let a discounted fee schedule do all the talking. It's worth stopping to think about your marketing messages, who they attract, and your pricing strategy—if you have one. Consider how a tactical switch, based on reliable experts in the field can impact your profitability while creating an aura of value for your practice.

*Karen Zupko educates plastic surgery effectively Patient Care Coordinators on how to handle pricing objections in regional workshops and at the annual meeting. See [www.karenzupko.com](http://www.karenzupko.com).*