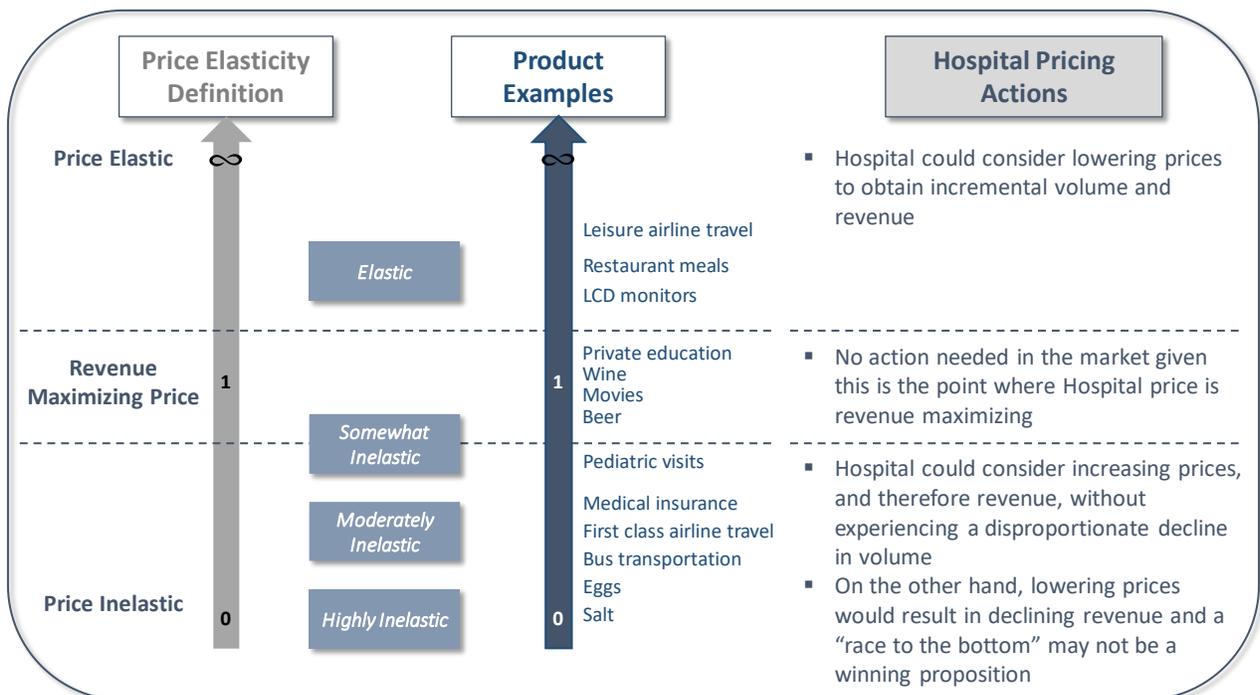


Market Innovations' Healthcare Provider Predictive Scorecard (HPPS) can inform your pricing strategy for specific care products in a manner that will enable you to truly compete on value. HPPS provides a measure of price sensitivity or "elasticity" for referring physicians and consumers' behavior with respect to demand of a specific care product (e.g., ACL repair, MRI of the brain, labor and delivery). In this example, HPPS is applied to measure the price sensitivity of a Client's ACL Repair, which then helped the Client protect market share and understand the premium that can be extracted for their pioneering ACL Repair technique.

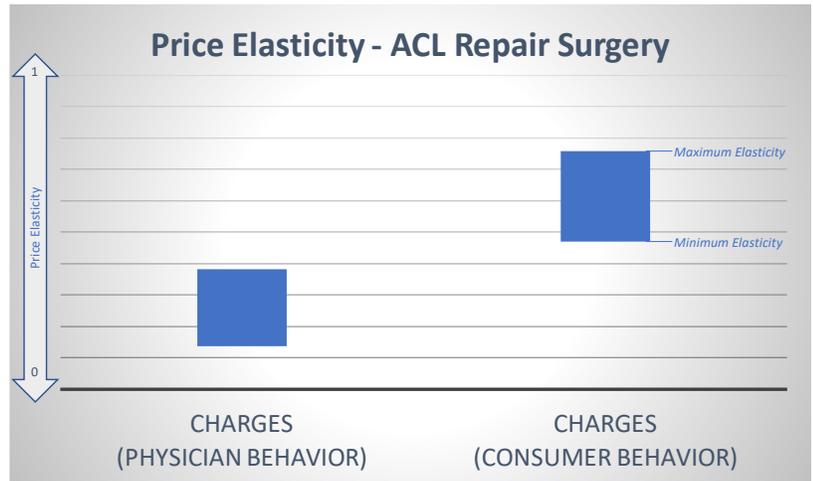
Price elasticity of demand is the percentage change in *quantity demanded* in relation to its *percentage change in price*. As price elasticity approaches zero, the market demand becomes highly inelastic, and as price elasticity reaches above one, the market demand becomes elastic, implying demand is relatively sensitive to pricing changes. If the provider finds itself with an elasticity greater than one, it may consider lowering prices to obtain incremental volume and revenue.



Price Elasticity of ACL Repair Surgery

MII found that within the range of elasticities along the referring physicians and consumers' price curves, charges are moderately inelastic (maximum calculated elasticity <0.7). Even more than charges, consumer behavior toward out-of-pocket expenses was highly inelastic.

This means that, for example, a 10 percent reduction in charges, will result in a 6-7 percent increase in volume. Because of the inelasticity, the provider must look at adjusting other factors to grow volume.



What Drives Changes in Price Elasticity?

Based on our body of pricing work in healthcare, MII has broad perspective on differences in price elasticity. We have discovered three primary drivers of change in price elasticity.

- 1) **Time** – people's opinions and priorities and therefore their decisions evolve over time. MII captures that through a Price Familiarity Index. We can adjust the model to measure the change in price elasticity as people become more familiar with pricing in a future world and estimate the resulting change in care product volume
- 2) **Geography** – people's sensitivity to price will also vary by where they live within a market – e.g., north, south, east, west – or – urban vs. rural
- 3) **Care products** – people are also more price sensitive to some care products (e.g., commodity-like low-complexity care) than they are to other care products

HPPS can be used to inform pricing decisions based on market elasticity and enable you to truly *compete on value* in your local market.
