

# ENT Pricing Strategy

In response to increasing pressure to reduce medical costs, the hospital considered removing the barriers for physician referrals based on price. Market Innovations, Inc. (MII) was engaged to assess pricing on a select set of the highest volume (ENT) outpatient surgical procedures.

## Strategy Context

- Hospital is highly respected industry leader in advancing medical care and research for patients
- Payors are focused on reducing medical costs by implementing tiered co-pays, narrow networks and high deductible plans
- Payor benchmarking study revealed higher charges for hospital's common ENT surgical procedures when compared to local market competitors
- Hospital is considering a significant reduction in charges for select set of common ENT procedures
- Hospital is considering different charges (to reflect differences in cost) for ENT procedures performed at main campus versus satellite locations
- Minimal perceived quality differences for targeted ENT products across providers in local market

## Featured Client Case #85

### Project

1

- Develop a product-specific pricing strategy by deriving price elasticity for high volume outpatient ENT surgical procedures based on physician referral preferences

### Approach

2

- Conduct co-design to identify features and levels of ENT care product
- Execute adaptive choice web-based research with physician sample

### Analytic Results

3

- Estimate Hierarchical Bayesian models
- Derive ENT product price elasticity
- Simulate strategic pricing scenarios

### Recommendations & Implications

4

- Present actionable findings and insights of the local market study based on ENT product demand models

# Approach for Testing Proposed Pricing Tactics

MII applied their *strategic integrated market simulation (SIM<sup>2</sup>)* approach for deriving price elasticity from referring physician ENT product demand models. These models are based on the behavioral drivers (e.g.; brand, charges, access, convenience, technology, and medical team composition) of physician facility preference.

## ENT Product Attributes Tested

1. Breadth and depth of medical staff
2. Co-insurance amount paid by family
3. Cost of procedure
4. Elapsed time before patient can be seen in a routine/non-urgent situation
5. Facility name and location
6. Follow-up communications (from surgeon to referring physician)
7. Inbound communications (from referring physician to surgeon)
8. Physician's network

## Weighting Applied to Demand Model

- Geographic region where physician's practice located
- Physician's network affiliation
- Physician's degree of familiarity with ENT product prices

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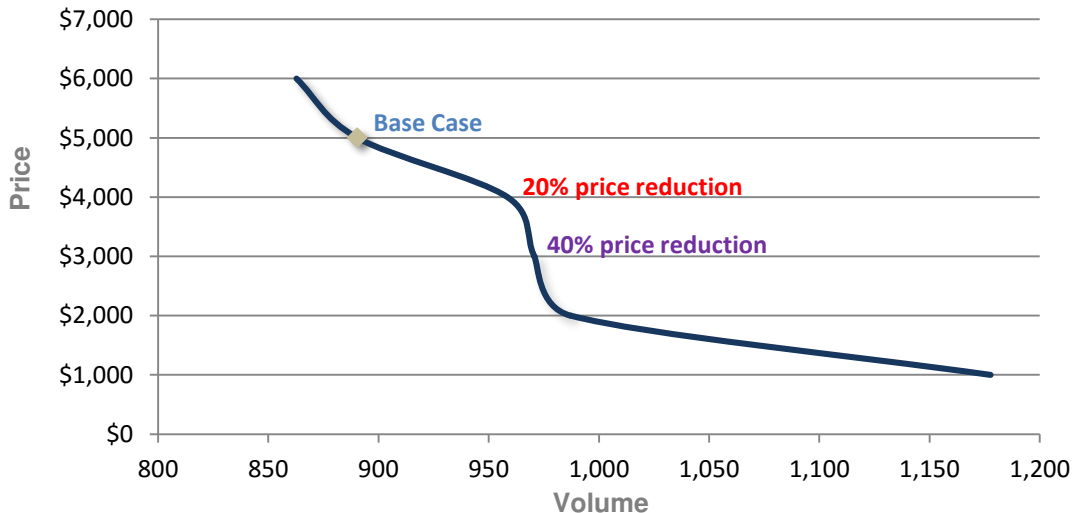
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# ENT Care Product Price Elasticity

Based on the derived price elasticity from the ENT care product demand models, MII determined that pricing is not a significant barrier for common ENT outpatient surgical referrals.

## ENT Product Demand Curve



## Key Price Sensitivity Findings

- Overall, pricing for the ENT product is moderately inelastic over the range tested
- A 20 percent reduction in charges would only yield about a 4-8 percent increase in volume and a decrease in revenue

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# ENT Pricing Strategy Recommendation & Implications

The hospital adopted our recommendation and did not implement a change to its ENT outpatient surgical pricing; thus, avoiding a loss of millions of dollars in declining net patient service revenue.

## IMPLICATIONS OF STRATEGIC SIMULATIONS

- No difference in physician's price sensitivity for main campus versus satellite locations
- Price reduction by key competitors will have minimal impact on hospital's ENT volume
- Improvement in physician price familiarity will have a significant negative impact on future ENT volume
- Presence of sub-specialist on medical team will have a significant positive impact on ENT volume

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