

Webinar · Thursday 2nd July · 7:00PM BST · 2:00PM EST



Veterinary Pricing: A Behavioral Psychology Approach

Speaker



Dr Maciej Kraus Ph.D

Guest Lecturer at Stanford Graduate School for Business
and London Business School

STANFORD
BUSINESS GRADUATE
SCHOOL OF

London
Business
School

Sign up

at petsapp.com/webinar

How to earn the money you deserve?

- Value Driven Pricing -

Maciej Kraus Ph.D.

MOVENS CAPITAL

- 1** Introduction
- 2** Why pricing?
- 3** Typical pricing challenges you might face
- 4** Practical pricing solutions you might apply
- 5** Price-volume trade-off
- 6** Summary

Let's begin

Let me introduce myself

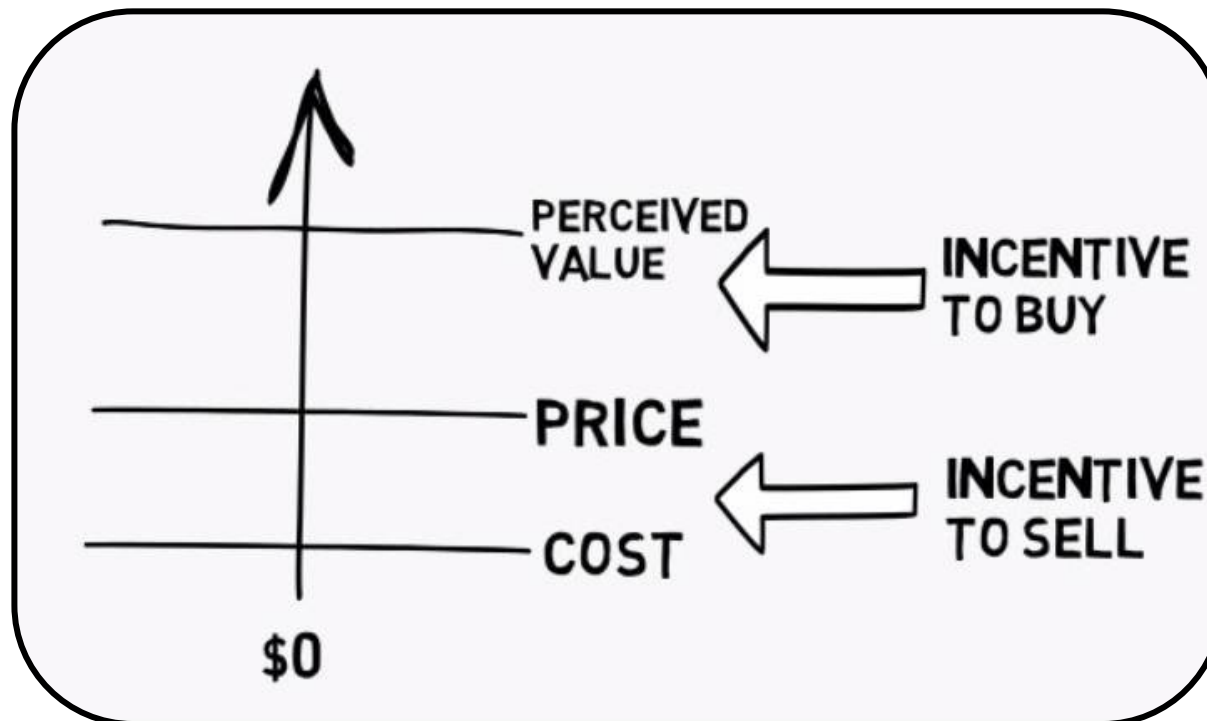
Ph.D. Maciej Kraus



- 15+ years of pricing experience
- Had his own growing company for 7 years and sold to PwC
- Projects for big multinationals and SMEs

Why pricing?

Sequoia Capital: pricing rule



Usually, companies fixate on the gap between how much their products cost to make and how much they charge for them. But you should also focus on the gap between your price and how much value customers think it delivers, a concept known as perceived value.

Warren Buffett about price management



„ Nowadays, the single most important decision in evaluating a business is pricing power.”



What is the importance of price?

If we could, right now, with the use of magic wand:



- | | |
|----------|------------------------------|
| 1 | Increase sales volume by 10% |
| 2 | Reduce variable costs by 10% |
| 3 | Reduce fixed costs by 10% |
| 4 | Increase prices by 10% |



Which one would You choose to increase profit?

If we could, right now, with the use of magic wand:



1	
2	
3	
4	



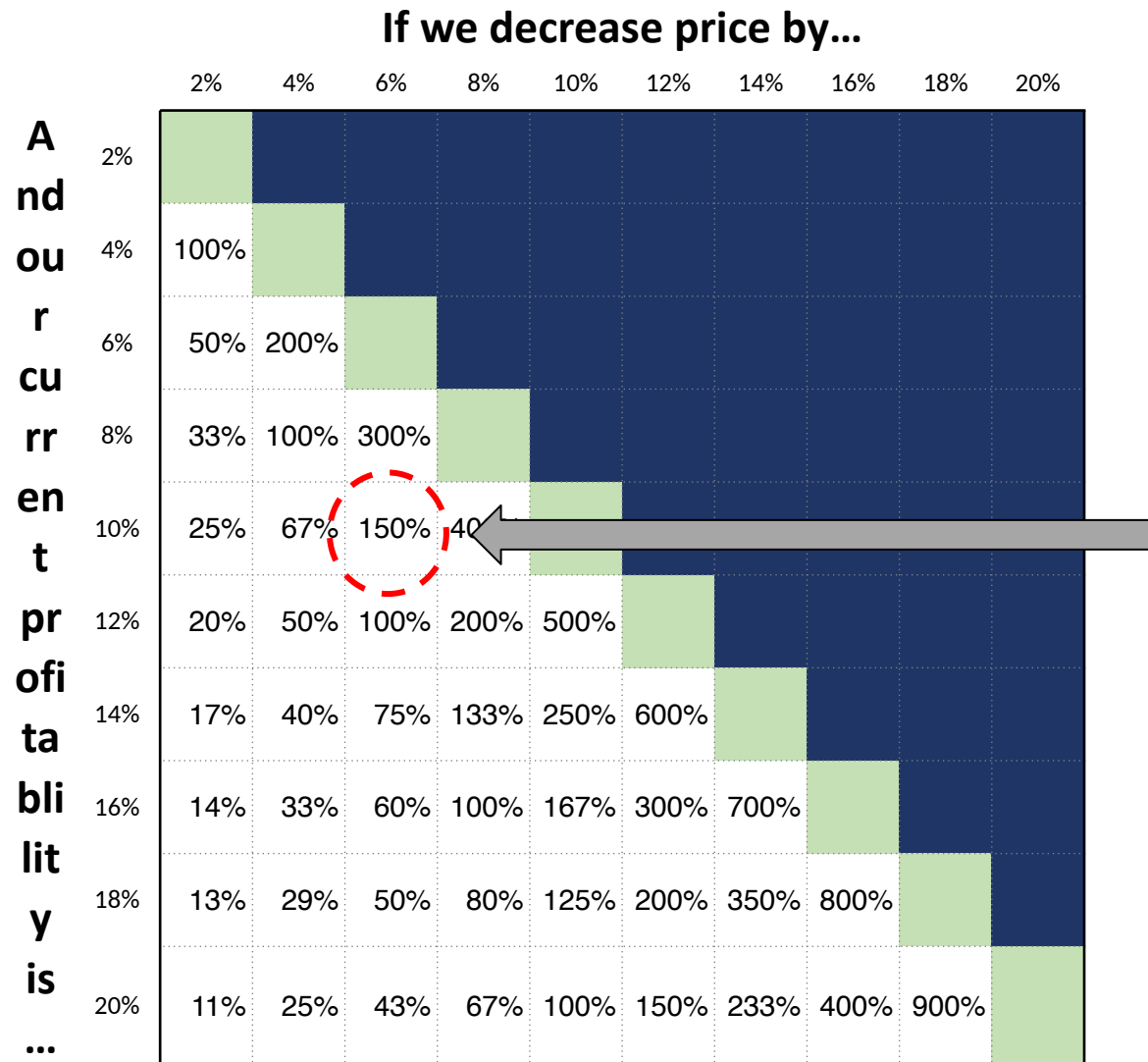
Which one would You choose to increase profit?

The importance of price

<i>10% Improvement</i>	Profit lever Value:		Profit Value:		<i>Profit impact</i>
	Old	New	Old	New	
Price:	100	110	10	20	 100%
Variable cost:	60	54	10	16	 60%
Volume:	1 mln	1.1 mln	10	14	 40%
Fixed cost:	30 mln	27 mln	10	13	 30%

**Price is
ALWAYS
the strongest
profit lever**

The magic of pricing formula



“... If our current profit margin is 10%, and we consider a 6% price decrease, we need to sell 150% more to keep our USD profit...”



What would you chose?

- **10% volume decrease**
(keep price unchanged)?

- **10% price decrease**
(keep volume unchanged)?

So, how can we set the price?

There are three approaches to pricing strategy




What do the particular elements mean?





Popularity

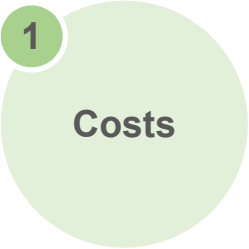
So, how can we set the price?

There are three approaches to pricing strategy



 What do the particular elements mean?

 Popularity



- Making sure that **all cost elements** are properly included in the price



So, how can we set the price?

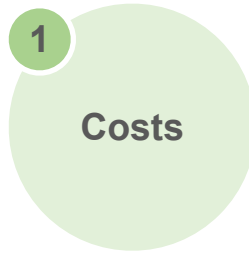
There are three approaches to pricing strategy



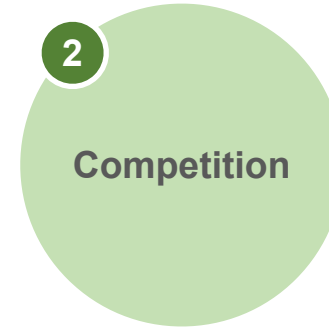
What do the particular elements mean?



Popularity



- Making sure that **all cost elements** are properly included in the price



- **Understanding differences** in price compared to **competitors' price**
- Setting the **targeted difference (e.g. index)** between our and **competitors' price**
- Ensuring the **implementation of prices** is in line with the **assumptions**



So, how can we set the price?

There are three approaches to pricing strategy



What do the particular elements mean?



Popularity



- Making sure that **all cost elements** are properly included in the price



- **Understanding differences** in price compared to **competitors' price**
- Setting the **targeted difference (e.g. index)** between our and **competitors' price**
- Ensuring the **implementation of prices** is in line with the **assumptions**

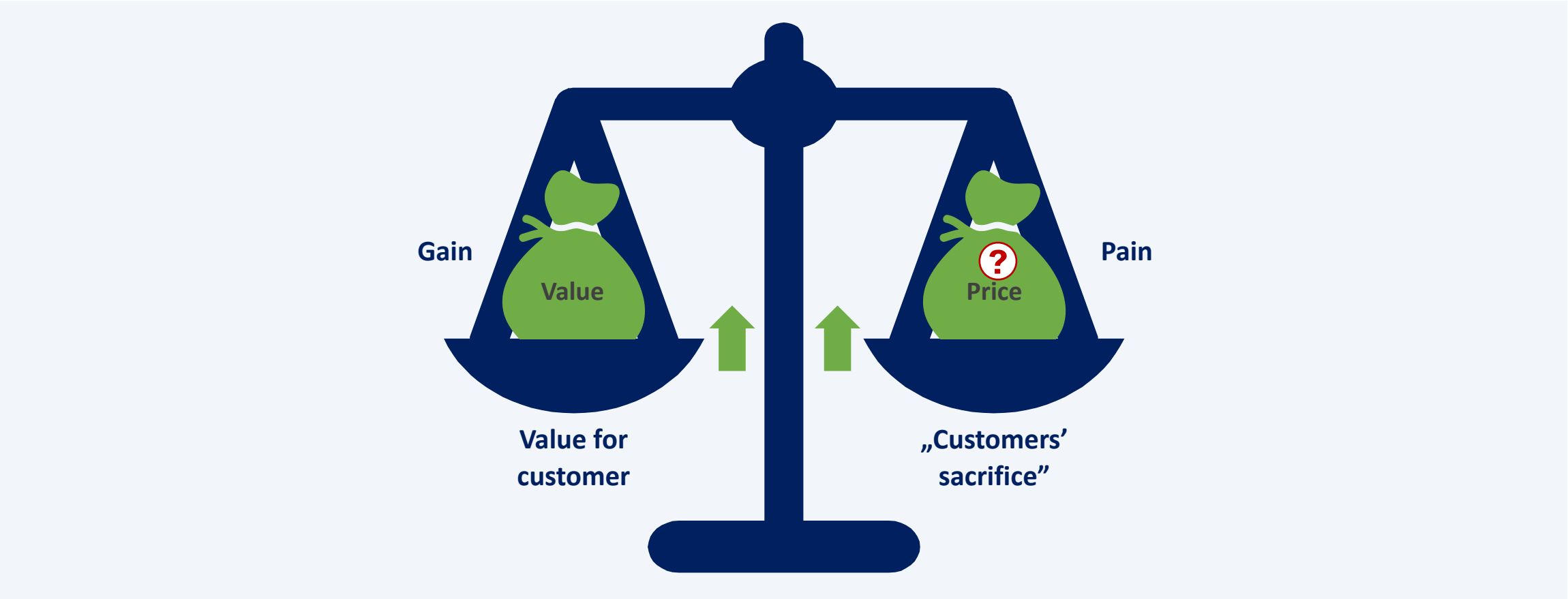


- Understanding the customers' **Willingness to Pay (WTP)** for particular elements of the offer
- Proper pricing of the **value delivered to the client**



The value corresponds to the price the customer is Willing to pay

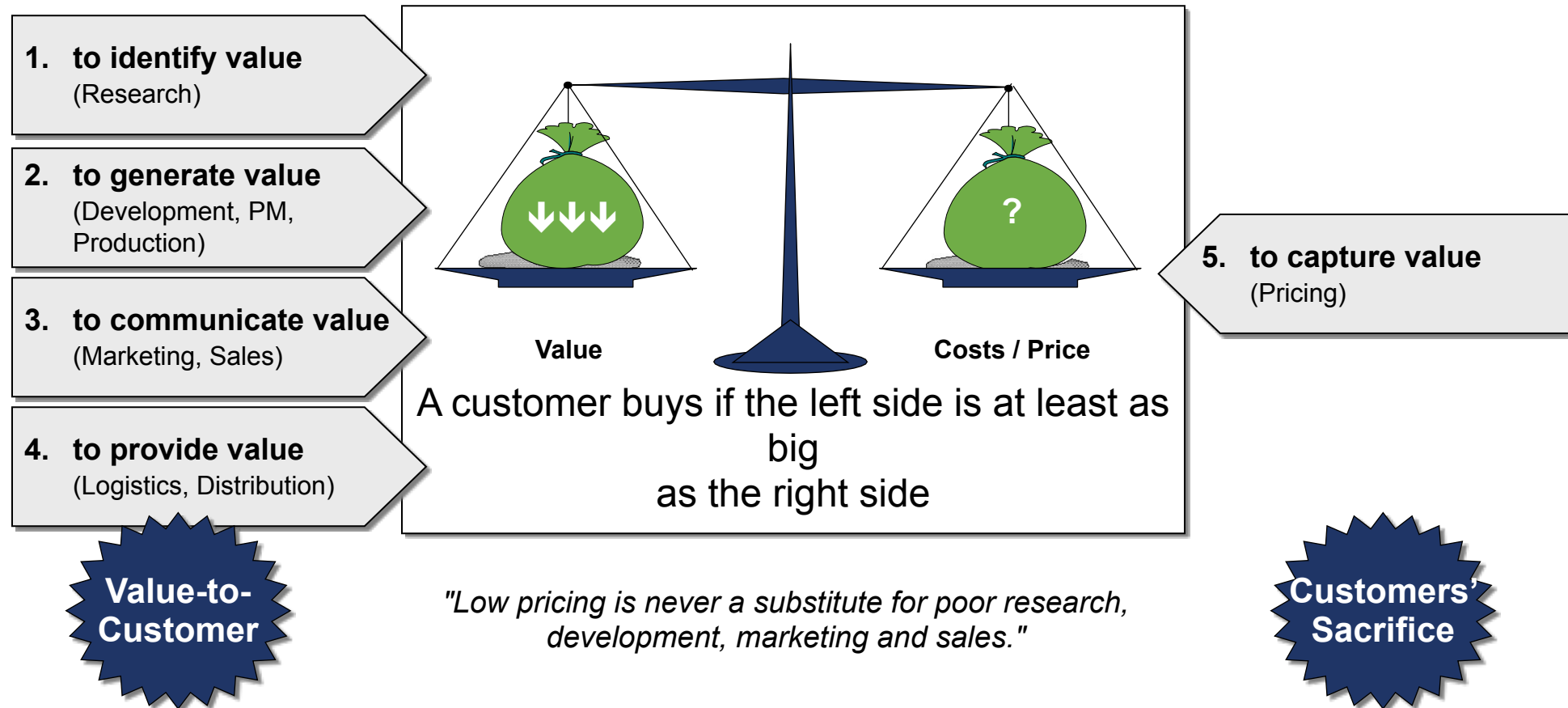
Value – price relation



The higher the delivered value is, the higher the price could be!

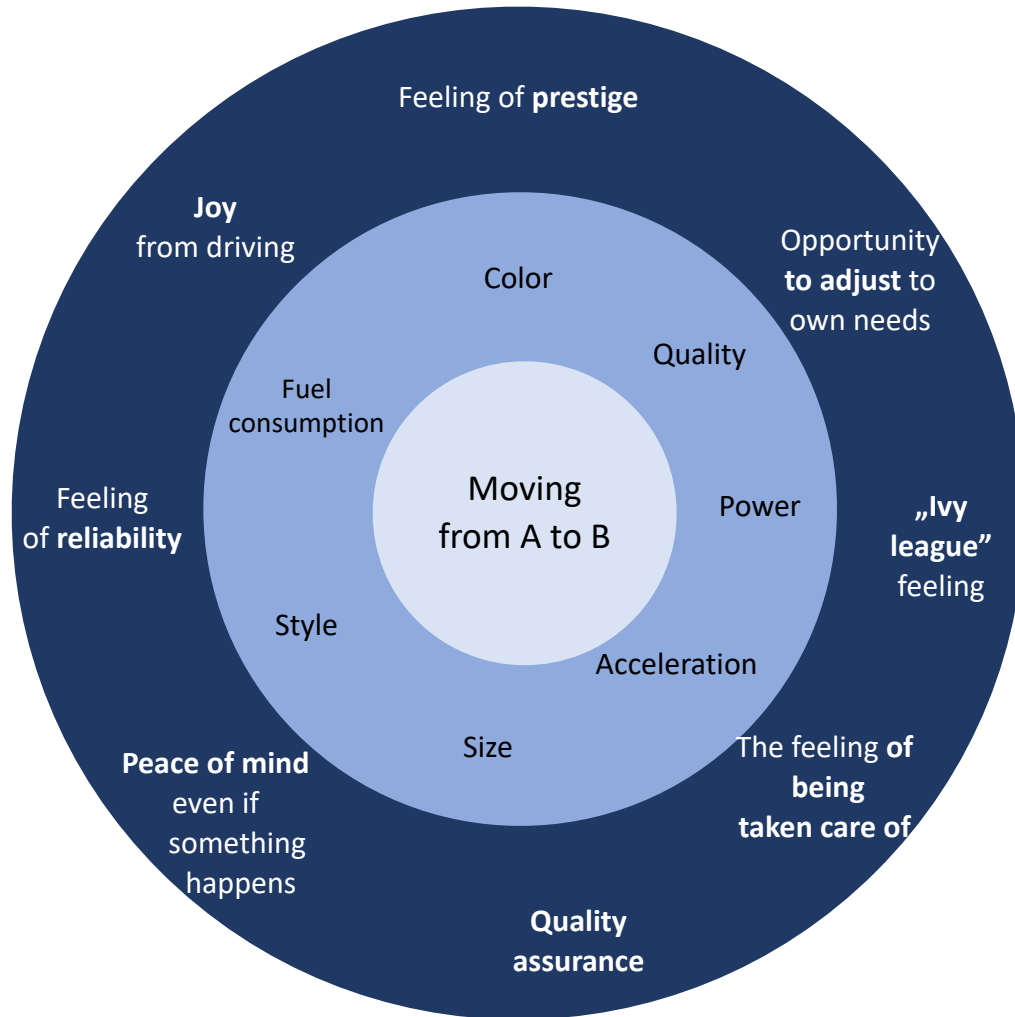
The concept of value-based pricing

Willingness to pay is a reflection of value delivered by a product/service.



Profit maximization is the precise extraction of value delivered through optimal and competitive prices

There are three product levels - car example



Pricing challenges you currently face



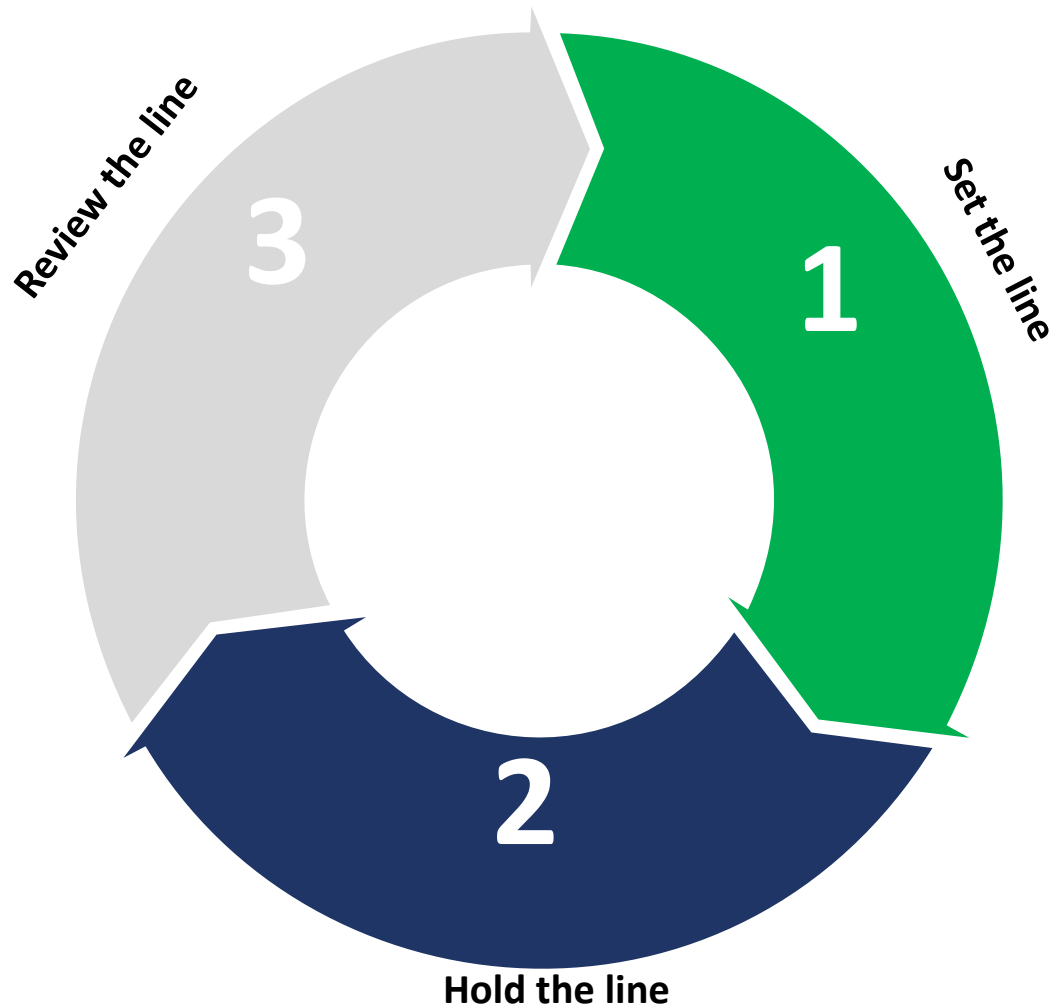
1. Lack of structure and/or consistency in pricing
2. Haphazard knowledge on where to look for price increase/decrease
3. Focus on volume & revenue more/rather than on profit
4. Limited understanding of willingness to pay at end customer level...
5. ...Leading at times to finance driven arbitrary price setting
6. A lot of pricing exceptions and discretionary discounts or rebates
7. Scattered and not actionable price analytics
8. Weak pricing governance

All in all leading to profit leakages & “money left/lost on the table”

Practical pricing solutions you might apply

Our approach to solve profit leakage / not enough profit issue

Comprehensive or laser focused solution for the “pricing wheel”



Those questions should give an idea about the pricing maturity level in the company (how structured & consistent it is)

1

how do we
define pricing strategy?

2

how do we
deliver pricing strategy?

3

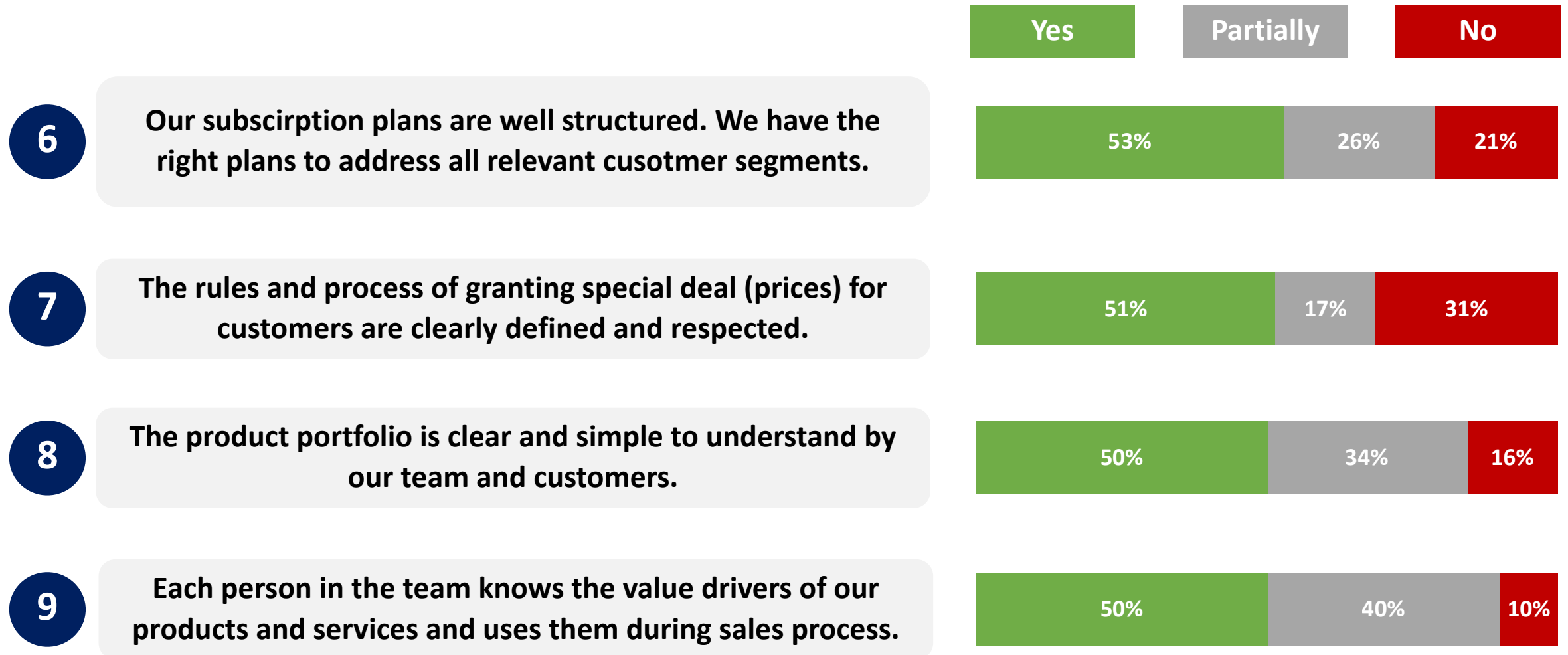
how do we
analyze results and redefine
actions?

Results of pricing self assessment: „Set the line”



N = 70

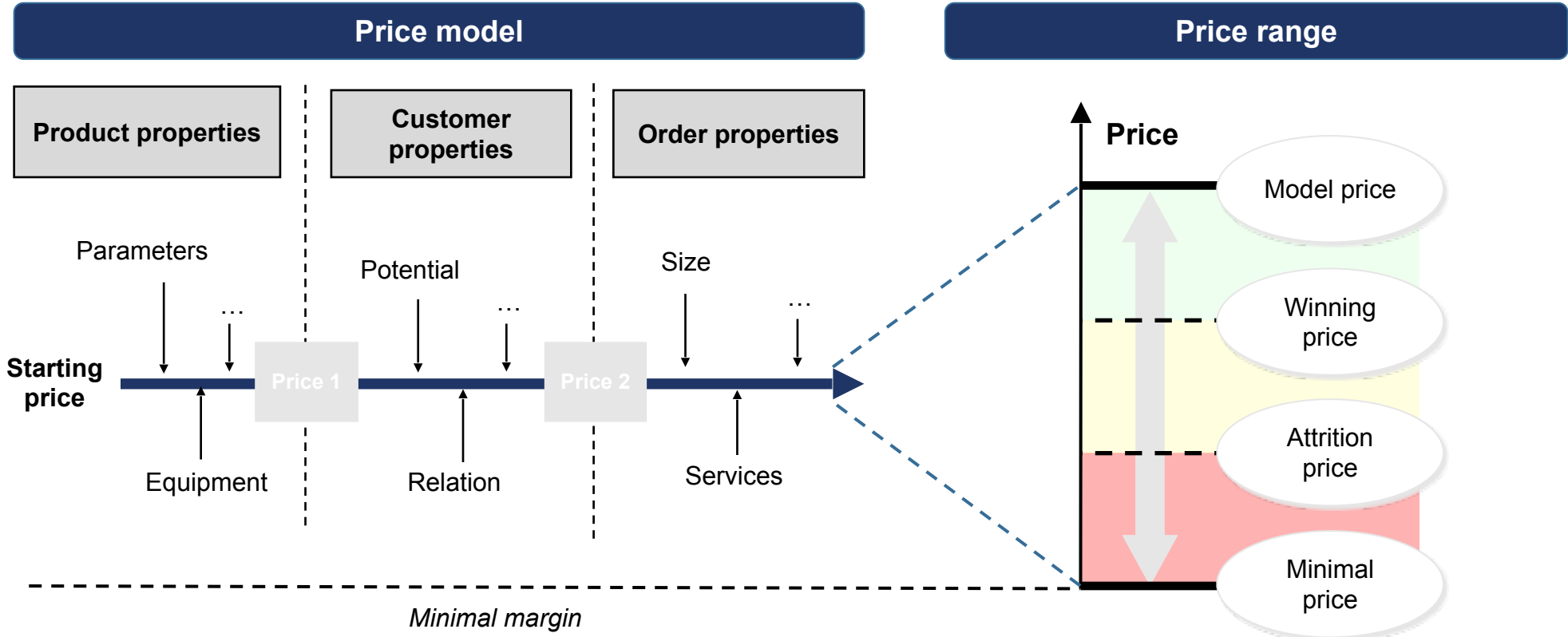
Results of pricing self assessment: „Hold the line”



N = 70

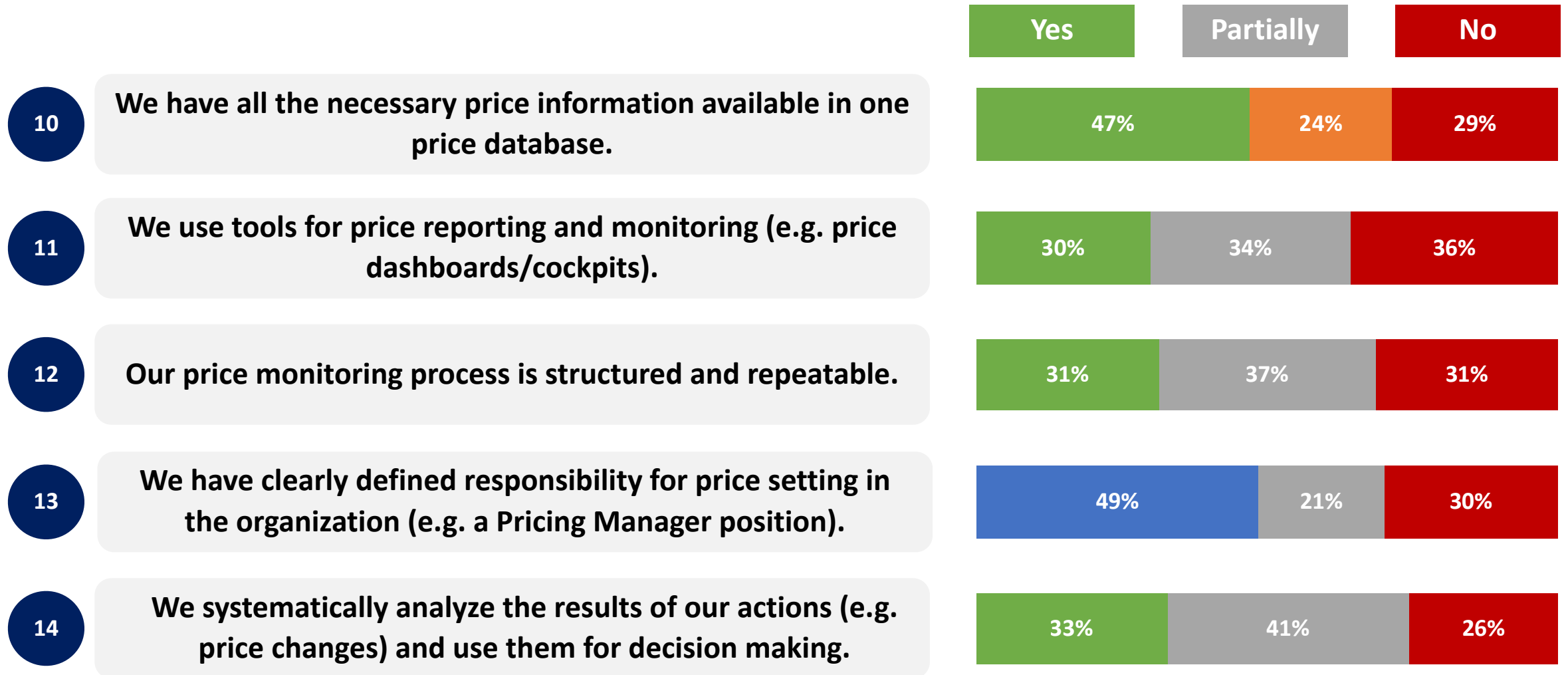
Is our price differentiation logic complete?

While setting prices, do we take into account all of the important factors and model the prices with regard to them?



A well-built price differentiation logic permits to draw maximum advantage from individual customers' willingness to pay

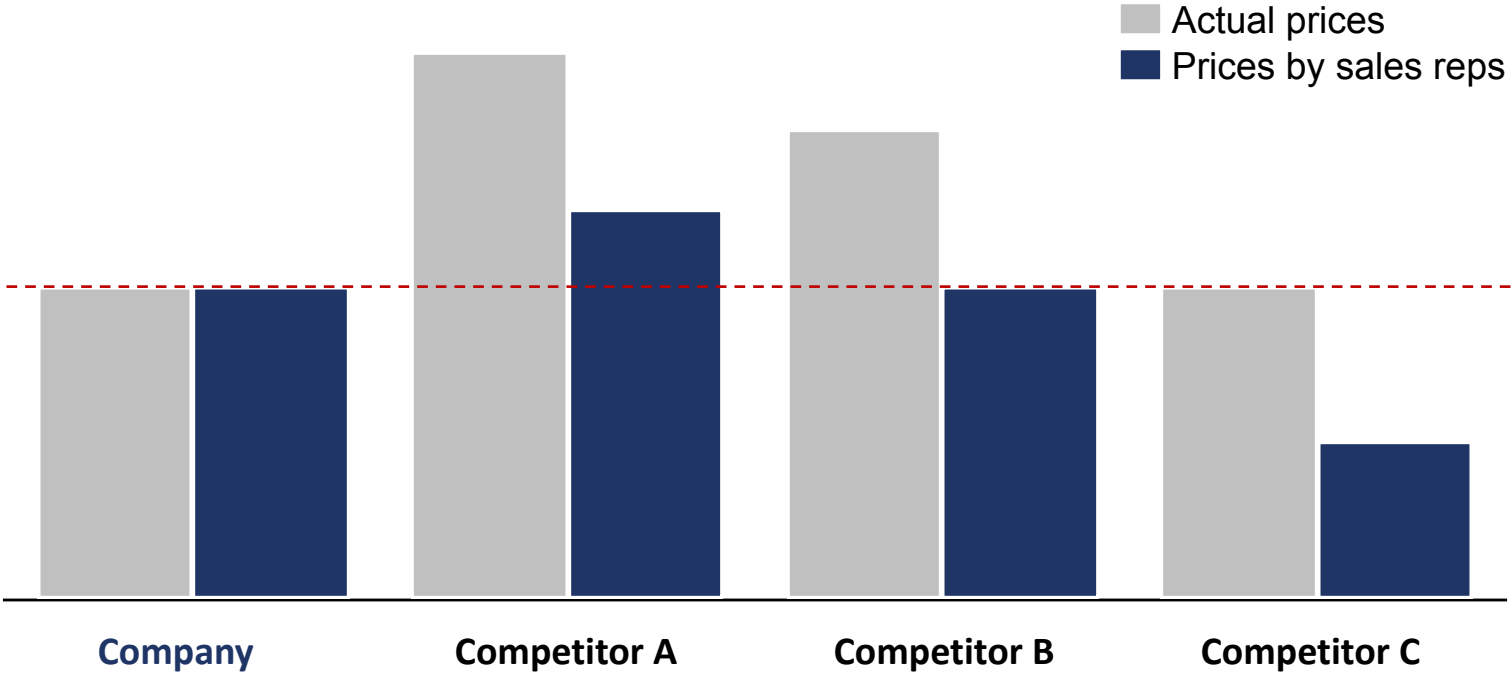
Results of pricing self assessment: „Review the line”



N = 70

In addition, competition sales price levels are underestimated

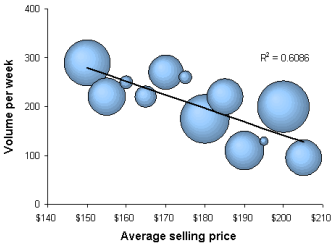



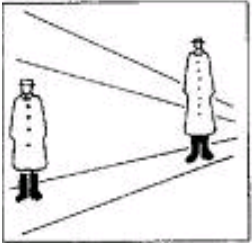


Misconception about competition prices



Information about the prices of competitors usually flow from sales reps, who do not know the true level of prices in the industry and overestimate the importance of the price

Price-volume trade-off

But where to get data from? 5 approaches

 <p>Internal analyses</p>	 <p>Consumer research</p>	 <p>Live market tests</p>	 <p>Expert judgment</p>	 <p>Benchmarks & analogs</p>
 <p>Depict past buying behavior accurately</p>	<p>Allow complex modeling based on consumers reaction to scenarios</p>	<p>Actual market data & consumer responses</p>	<p>Estimations based on best assumptions and risk assessment</p>	<p>Can build confidence that others were successful with same idea</p>
 <p>Past behavior may not always predict current or future outcomes</p>	<p>Depends heavily on the study's design, which could create biases</p>	<p>Misleading if not designed properly</p>	<p>Relies heavily on managers' intuition and experience</p>	<p>Misleading if example does not fit perfectly; risking wrong conclusions</p>

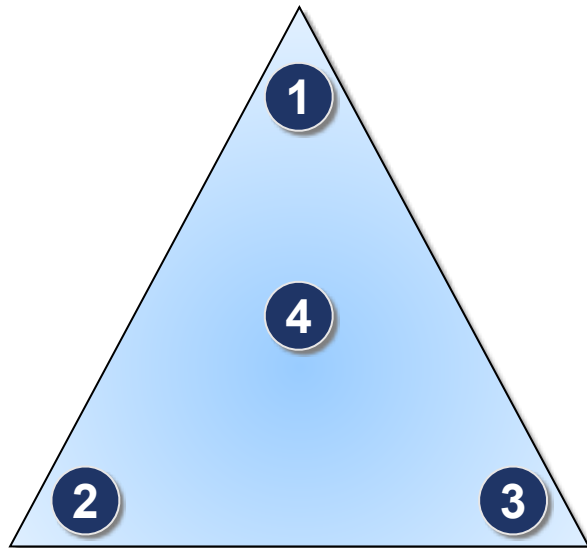


Don't forget: No single approach is perfect!
Use multiple methods to cross check the results.

Goal conflict: What do you value most?

Conflicting goals

Volume / Share ↑



Revenue ↑

Profit ↑

It is (almost) impossible to aim at all three goals at once

Pricing

- 1 Volume focused:** Often involves aggressively low prices; revenue may increase via added volume, but could result in lower profits, competitive reaction, and price contamination.
- 2 Revenue focused:** May entail lower prices to achieve revenue optimum.
- 3 Profit focused:** Less aggressive pricing at profit-optimum; expect and accept potential share decreases.
- 4 Balanced approach:** Smart pricing to increase revenue and profit without endangering share.

So ...

IF you **don't have** this **clarity of mapping**
product to segment & prices to performance

and

IF you **can't say what volume impact** price
changes do have

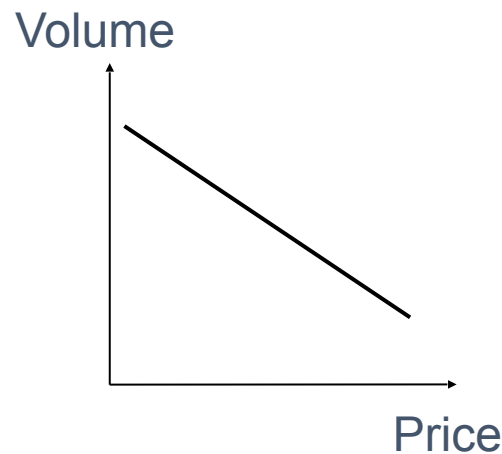


HOW do you make prices?

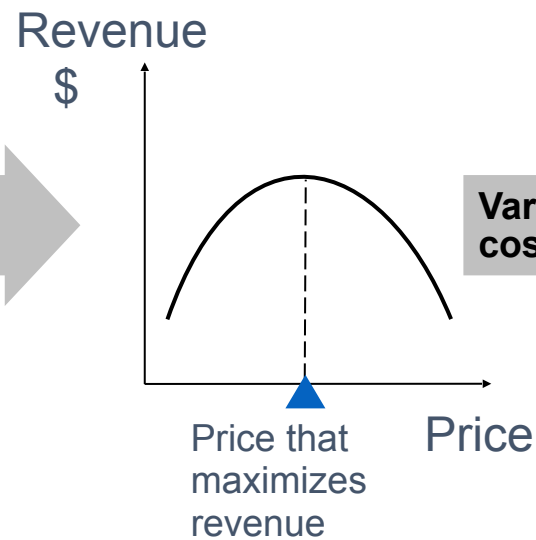
HOW are you sure, that your prices serve your goals?

Revenue & profit optimization

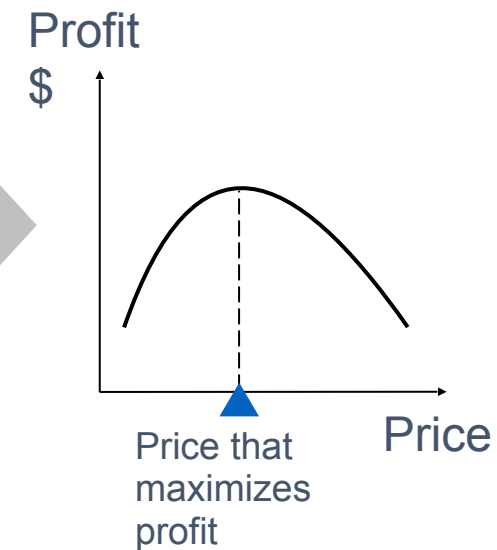
Price response curve



Revenue curve



Profit curve



Use your price response curve to derive your revenue and profit-optimal price points.



Let's now take a look at the results of your homework exercise!

Segmenting on Descriptive Attributes?

Segmentation based on assets or demographics *alone* does not generate satisfactory results: it does not account for customer needs.

Descriptive attributes

- age: 60
- raised in UK
- married
- 2 children
- lives in a castle
- wealthy and famous

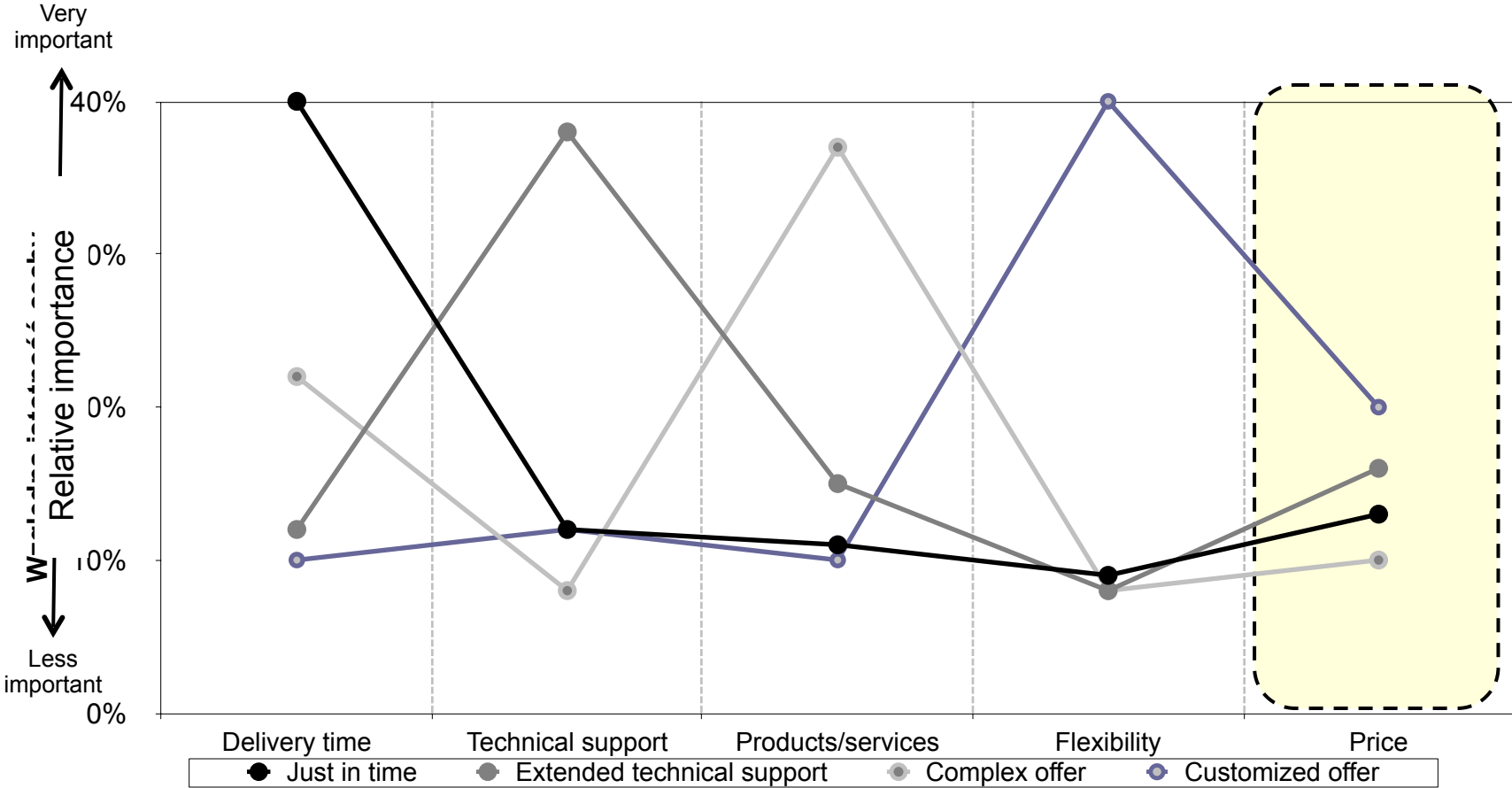


A descriptive segmentation will not reveal real preferences

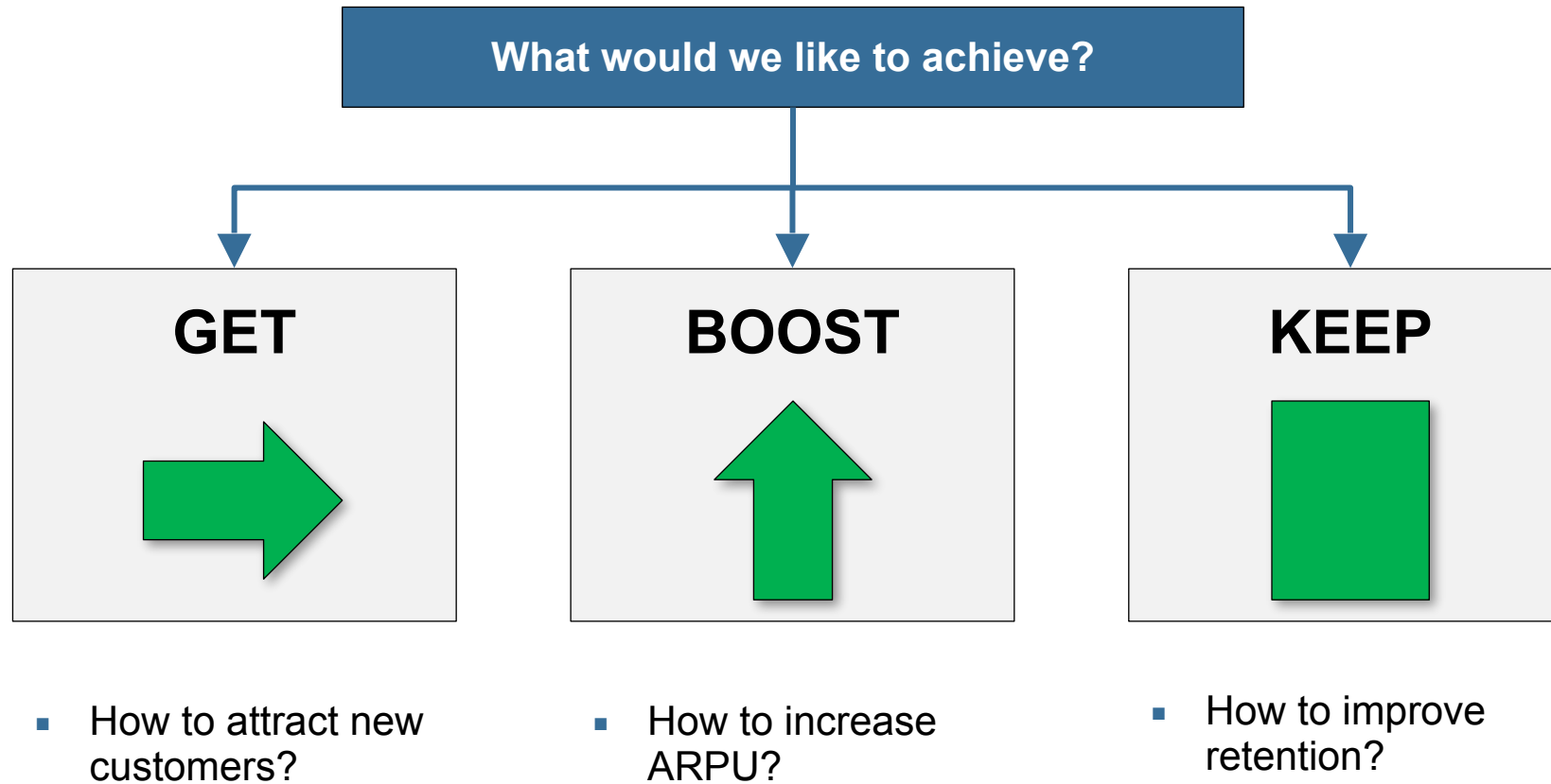
Do we understand how expectations differ in each segment?

Customers from different segments have different expectations as well as different willingness to pay for the same product. Are we able to exploit this fact?

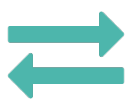
Example of criteria importance from customer's perspective




Fundamental question: What do we want to achieve?





Summary


1  **Revenue is money for value** or value extraction for value created


2  **Prices can & should differ** per segment, channel, time, etc. but fencing is key

3  **Revenue optimization happens in a market context** and needs to reflect it


4  **Price perception is crucial** so do good and talk about it


5  **Revenue optimization follows strategy** and needs to support the commercial goals/priorities

6  **Competition happens on net price level**, so know all your price/margin drivers

7  **Discount with caution** and think of maintaining absolute margin performance

8  **Don't trigger price wars** as it will lower your own and the market's profit pool

9  **Coordinate revenue optimization together** to leverage insights and align/ drive execution faster

10  **Measure & monitor**, otherwise you can't manage it

So what we've learned today...

Price and its impact on profitability



Pricing is not a one-off



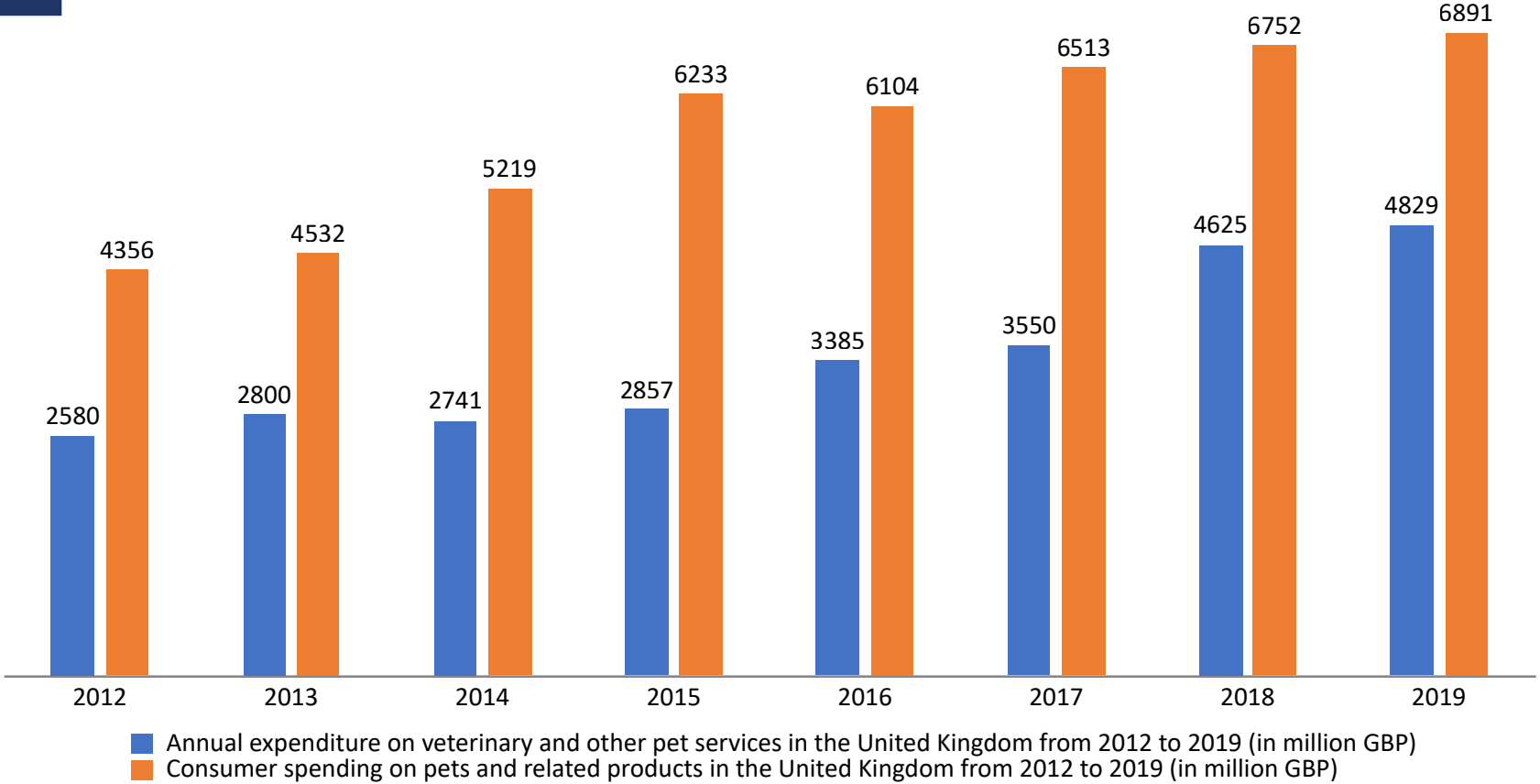
There is always a trade-off price vs. volume



Pricing is complex – you can do it yourself, but...?



Characteristics of the veterinary market in the UK



*Source: Statista database

Basic descriptive statistics for 2019

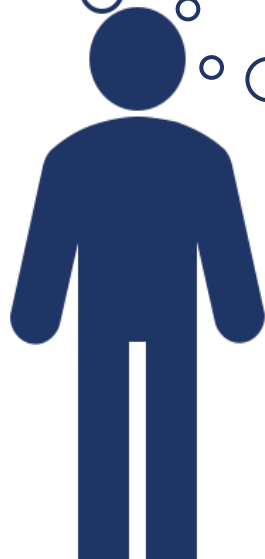
Market Size	£4bn
Number of Businesses	7,063
Industry Employment	70,394
Number of working veterinarians	25,000
Share of households with a pet	40%

Year on year the share of veterinary services in animal expenditure in the UK is increasing
 The increase in spending on veterinary services, indicates the emergence of new poorer and richer groups of customers. This allows clinics to pursue an effective service segmentation strategy.

Approach to pricing solutions



For years, prices have been cost-based, so why have I been making losses recently?

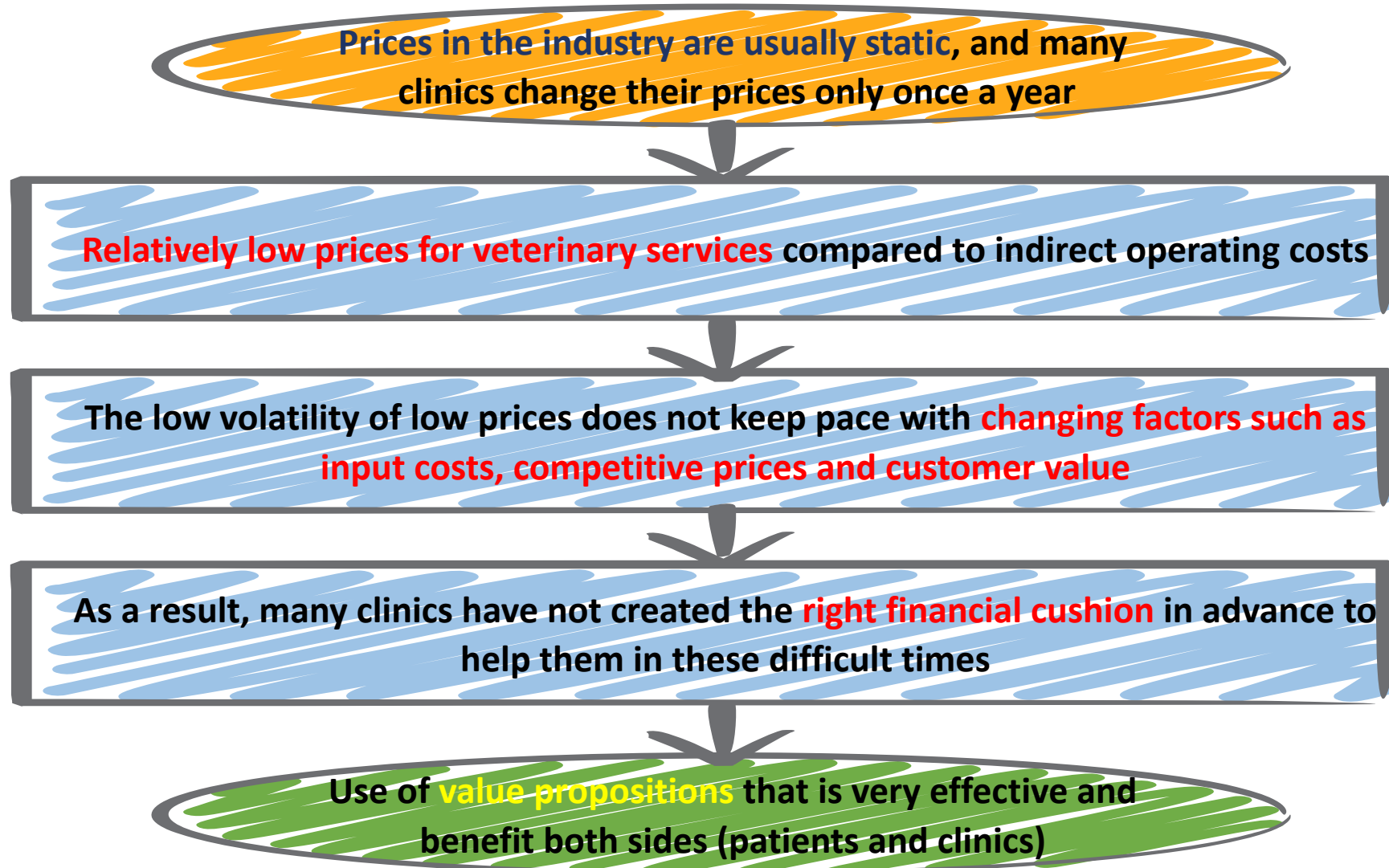


I don't know how to set a price strategy. It is mainly based on prices set by distributors or competitors.

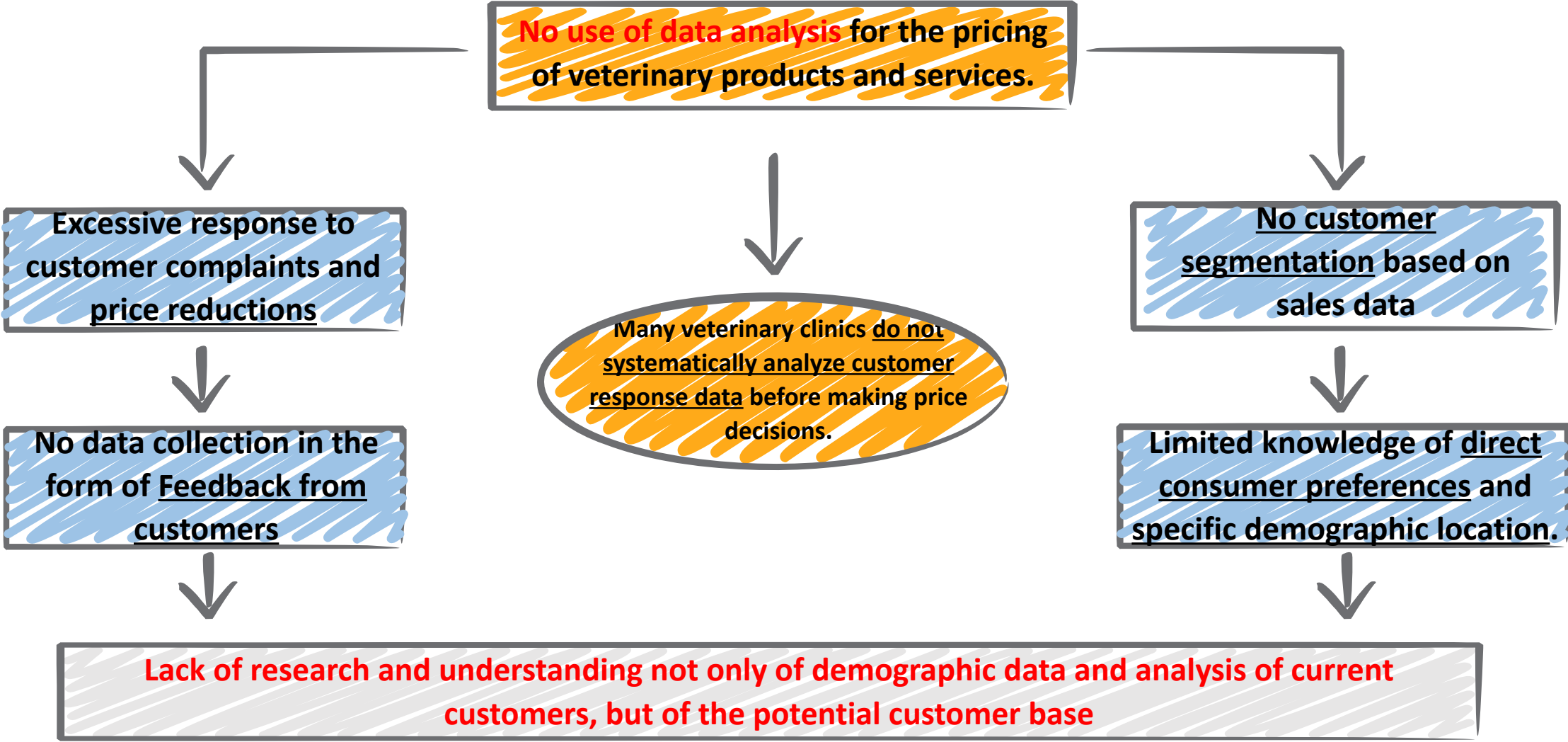


- 1) All costs associated with the provision of services must be fully understood. Otherwise it leads to wrong pricing decisions.
- 2) You must make pricing decisions knowing your business strategy or business plan, which often lack strategic focus on your goals.
- 3) Use of **modern pricing methods** such as frequent price changes, price structures, customer segmentation based on value differences and price sensitivity, product and service bundles, systematic sale of supplements and complementary services, etc.

The approach to pricing solutions and their disadvantages

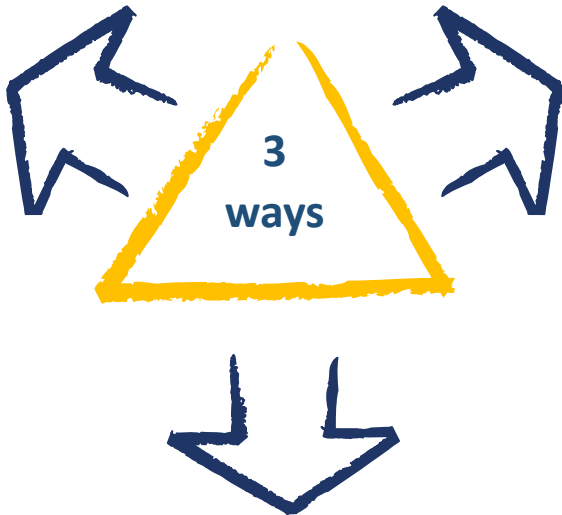


The approach to pricing solutions and their disadvantages



Determining pricing strategy using the subscription model

Services	Adult Pet Essential Plan \$43.99/month	Adult Pet Premier Plan \$55.99 per month
Free Examinations		
All core vaccines	✓	✓
Parasite cleaning	✓	✓
One dental cleaning procedure	✓	✓
One full-mouth dental X-Ray	✓	✓
One Basic Lab Test		✓
One Advanced Lab Test		✓
One Blood Pressure Screening		✓



Level 1 Dental Care Package Price = \$299

Complete dental exam, pre-anesthesia bloodwork (includes CBC, 10 Chemistry Profile), intravenous catheter, supportive fluids, Sevo flurance gas anesthesia, scaling and polishing, day of hospitalization care, dental kit, plus post-treatment consultation.

Level 2 Dental Care Package Price = \$449

All services included in Level 1 plus extended anesthesia time, oral surgery (covering up to three teeth extractions), injectable pain medication plus medications to take home after surgery.

Level 3 Dental Care Package Price = \$849

All services included in Levels 1 and 2, plus additional oral surgery covering up to eight procedures.

Programme with full and limited possibilities

Monthly payments via Direct Debit

Small Dogs (up to 10kg)	Medium Dogs (10.1 - 25kg)	Large Dogs (25.1 - 40kg)	Giant (40.1kg & over)	Cats
£12.50	£14.25	£17.50	Please ask	£12.50

Programme exploiting the diversity of value propositions

Programme depending on the type of animal

On most veterinary clinic websites it is very difficult to find information about prices and compare their services!

Contact details

Contact us



Ph.D. Maciej Kraus

Partner

Mobile: +48 502 380 712

E-mail: maciej.kraus@movenscapital.com



MOVENS CAPITAL

Movens Capital S.A.
Plac Piłsudskiego 2, 1. floor
00-073 Warsaw
Poland

info@movenscapital.com

KRS: 0000606461
NIP: 9512408364
REGON: 363933450

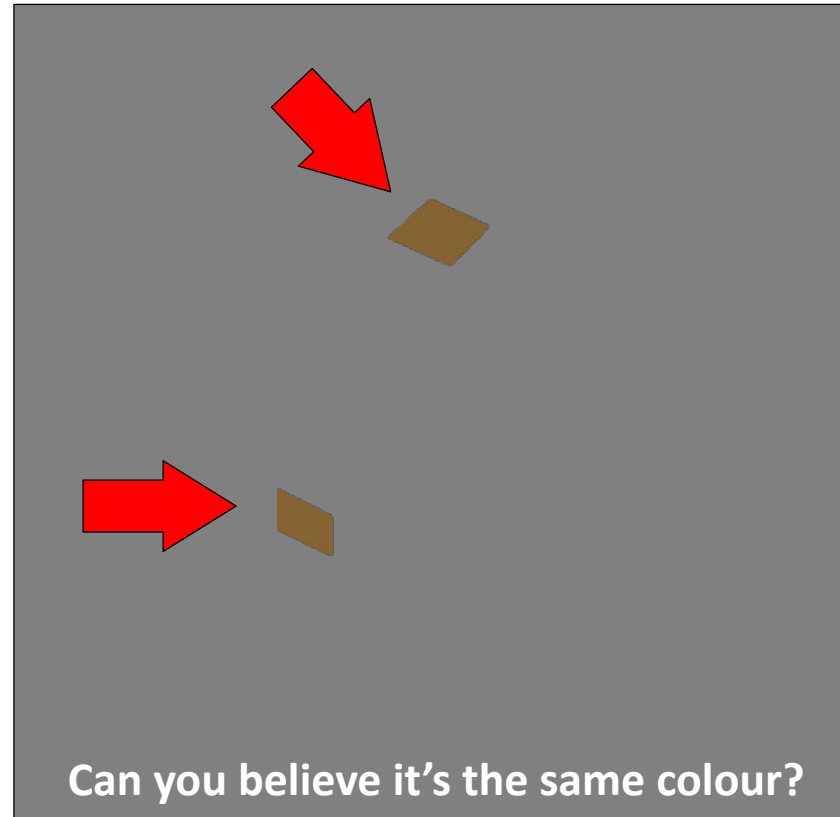


There is always someone



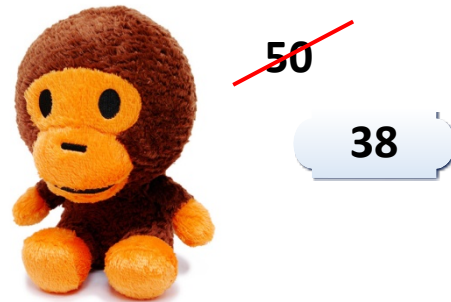
willing to do it cheaper

Is it the same or not?

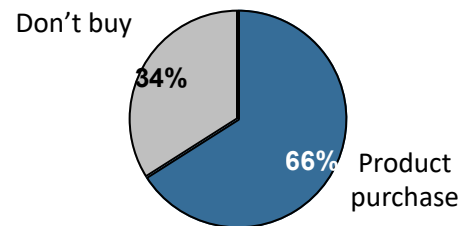


How adding an extra product affects consumer decisions?

Situation A

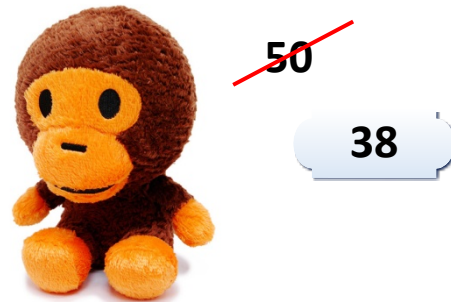


Customer behaviour

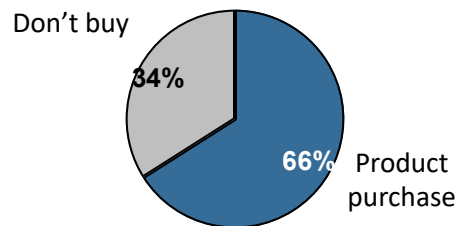


How adding an extra product affects consumer decisions?

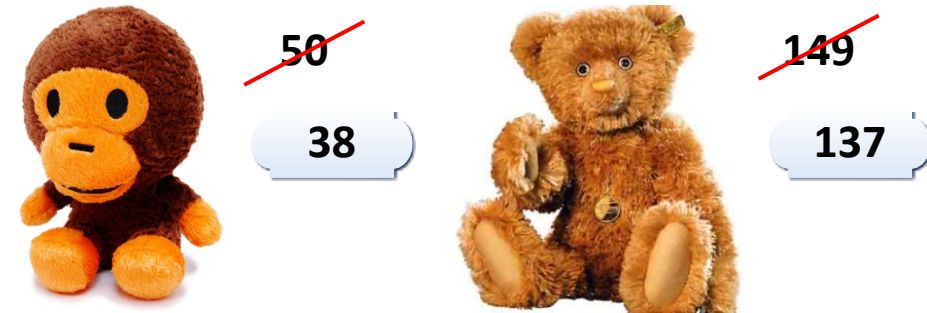
Situation A



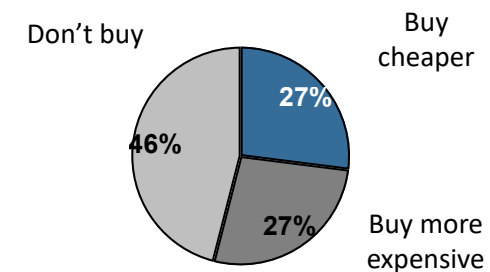
Customer behaviour



Situation B



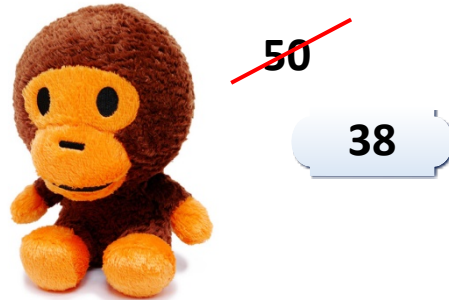
Customer behaviour



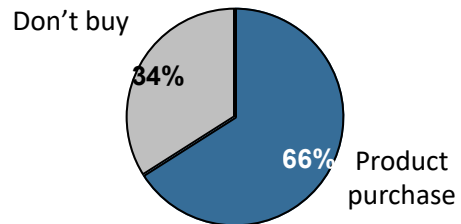
Adding an extra product at a promotional price will increase the complexity of the decision process and reduce the customer's willingness to purchase.

Can you help customers to make purchase decisions?

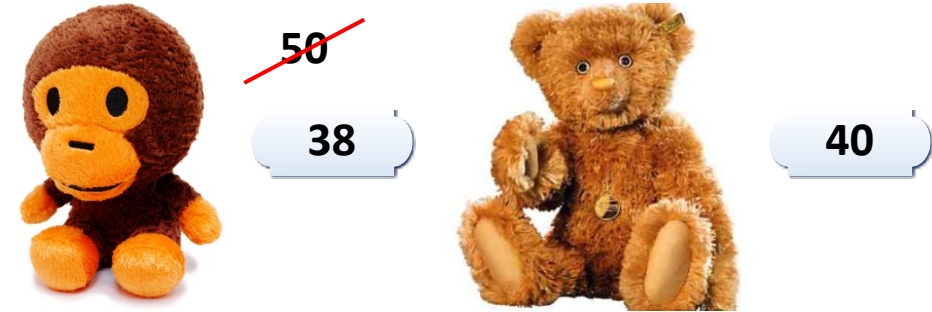
Situation A



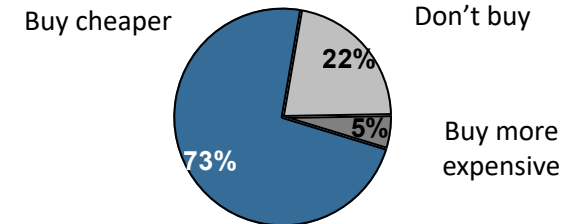
Customer behaviour



Situation B



Customer behaviour



▶ Introduction of less profitable offer helps customers to make a purchase decision.

Webinar · Thursday 2nd July · 7:00PM BST · 2:00PM EST



Veterinary Pricing: A Behavioral Psychology Approach

Speaker



Dr Maciej Kraus Ph.D

Guest Lecturer at Stanford Graduate School for Business
and London Business School

STANFORD
BUSINESS GRADUATE
SCHOOL OF

London
Business
School

Sign up

at petsapp.com/webinar