

How Perceptions of Money and Pricing Influence Demand for Refractive Surgery

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The realm of elective medicine has created a unique opportunity as well as placed a significant burden on the ophthalmic surgeon who performs refractive surgery. Collecting money directly for a medical procedure requires the refractive practice to be skilled in retail as well as clinical care. Setting and directly charging the fees for elective procedures is much more complex than typically given credit for; the fee schedule has a direct impact on the financials of the practice as well as perception of the procedure and the provider in the eyes of the consumer.

This report explores the psychology of money in society and the perception of price in retail settings via a review of current literature and research and their relevance to refractive surgery. The goal of this paper is to help surgeons understand the importance of these topics and provide advice on how to better handle the subjects of money and pricing within the practice.

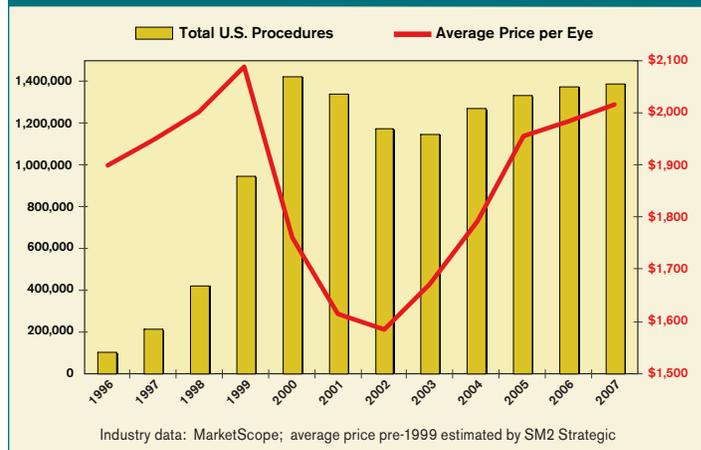
Introduction

Historical data from surveys of refractive practices demonstrate the difficulty with these topics. Prospective studies of telephone answering skills have shown that phone counselors typically are rated “below acceptable” in their ability to handle questions of price from interested LASIK candidates, with fewer than 20% of practices rated as “excellent” in this area.¹ Surveys of consumers who have considered LASIK underscore these results: The top response cited by those who did not have the procedure was “financial reasons” (33%), compared to 14% who indicated they were still afraid.² However, surveys of people after they have had LASIK indicate that price – specifically low price – was not a significant factor in their decision to go forward. Price ranked behind *recommendation from a friend*, *referral from another doctor*, and *confidence in the surgeon*.³

Elasticity of Demand

The difference between how consumers view price before the procedure (“*it’s too expensive*”) and after the procedure (“*that was a great investment; I wish I had done it sooner*”) illustrates the delicate nature of LASIK pricing of LASIK by providers. As shown in Figure 1, the average price charged per eye has fluctuated over the past 12 years, most acutely between 1999-2002, where the average fee charged dropped by \$500. Economists

Figure 1: US Averages: 1996-2007
Procedure Volume and Pricing LASIK



measure the elasticity of demand to determine how sensitive consumer behavior is to changes in price. A market is said to have *elastic* demand if lower prices translate to higher quantities (i.e., procedure volumes) and an increase in total revenue (price x quantity).⁴ In the case of LASIK, procedure volumes fell in each consecutive year following a decrease in price, and total revenue similarly declined. This is evidence of *inelastic* demand for LASIK, meaning that consumers are not responsive to changes in price. Some of the characteristics inelastic demand are markets with big-ticket purchases, where comparison among different offerings is difficult and price becomes an indicator of quality; each of these apply directly to the market for LASIK.

While demand and average fees have recovered since 2003, one negative consequence has been the change in perception of LASIK towards a commoditized market. Among those consumers mentioned above that did not have LASIK, 30% indicated that what made them inquire in the first place was a belief that the cost of LASIK had gone down was. This low-price perception has not affected other popular elective procedures, which are shown in Figure 2.

Consumers and Money

With over 5,000 book titles on topic of money management, one would think that money is an easy subject to discuss. Researchers, however, have consistently uncovered exactly the opposite. A leading academic, Adrian Furnham, describes the power of money as being tied to our deepest emotional needs.

Figure 2: Average Fees and Total Annual Revenue Popular Elective Procedures (Fees Listed Per Patient)

Procedure	Average Fee per Patient	Total Annual Revenue
LASIK	\$4,038	\$2.8 Billion
Cosmetic Dentistry (total category)	\$5,640	\$2.75 Billion
Breast Augmentation	\$3,600	\$1.2 Billion
Rhinoplasty (nose reshaping)	\$3,841	\$1.2 Billion
Abdominoplasty (tummy tuck)	\$5,063	\$740 Million
Blepharoplasty (eyelid surgery)	\$2,877	\$670 Million

All fees represent calendar year 2006 except LASIK (2007 data). Plastic surgery procedures do not include operating room fees. Sources: Market Scope, American Society of Plastic Surgeons, American Academy of Cosmetic Dentistry

Because of money’s “psychological alchemy” in being translated into goods and services, it has the ability to bring out irrational behavior, “crawl(ing) down to the most remote levels of our personalities.” Many people in American society subscribe to the Judeo-Christian ethic, which Furnham states is paradoxical on money. We value altruism and selflessness, but also hard work, acquisition and capitalism. The result is that money is a powerful motivator (in terms of meeting needs) but also a powerful inducer of negative emotion (embarrassment, shame, guilt).⁵

In their book “Money Madness,” authors Goldberg and Lewis state that ambivalence about money is the societal norm, with “the same individual holding opposing philosophies about money, both desiring and condemning it.” This finding helps explain why people can believe that “you get what you pay for” and at the same time try to seek a bargain (i.e., get more than you pay for) via price-shopping among providers.⁶

Attitudes around money vary widely and have been shown to correlate with levels of mental adjustment and personal fulfillment. Various money attitude scales show that consumer behavior is influenced by whether money is viewed as a tool to influence or with suspicion and doubt, whether a person saves and spends money based on a Leisure Ethic or Protestant Work Ethic, and a person’s “money world” combination of being tight versus loose and materialistic versus non-materialistic.^{7, 8, 9}

Physicians and Money

Princeton University Professor Robert Wuthnow writes about human relationships being contaminated by too much exposure to money, with particular unease when money expands into areas where it has not been evident before, such as medicine. In the doctor-patient relationship, the discussion

of money clashes with the doctor’s role as healer and his goal of helping patients.¹⁰ This conflict can be seen in multiple studies on physicians and discussion of fees. One study reported in JAMA showed that although 63% of patients reported wanting to talk about out-of-pocket costs, only 15% of these same patients reported actually having discussed fees with their doctor.¹¹ Another study, focusing on doctors’ responses to questions about insurance plan compensation, concluded that doctors tend to get uncomfortable and defensive around details and would benefit from specific interpersonal skills training in this area.¹²

Such findings are understandable in traditional healthcare, where insurance premiums lessen the requirements for direct interaction on money between the patient and the provider. What about when 3rd-party payment is removed from the equation? One study of a private-pay clinic in India examined the shift in power from the physician to the consumer and its impact on doctors. The report revealed the stress doctors feel in an environment where they are completely dependent on patient referrals, with many expressing fear of losing their reputation due to patient dissatisfaction.¹³ This stress is likely a result of the dynamic created when the physician and patient are engaged in a direct financial relationship.

In a book on the collection of fees in psychotherapy, authors Herron and Walt contend that many psychotherapists are uncomfortable with the inherent philosophy of being reimbursed for their services.¹⁴ They describe how money is not only a way to measure the value of goods and services (i.e., “Is this doctor worth it?”) but also a means to measure the self (i.e., “Am I worth it?”). These findings suggest that physicians need to find that balance between charging too much (based on ego) and charging too little (based on self-esteem).

These studies shows a clear gap between patient expectation and fulfillment of a need to pro-actively include money as part of the discussion. Research done on automobile purchases suggests that when consumers were presented with pricing and terms (eg, financing options) early on, this helped to positively influence overall judgment of satisfaction at the end of the decision process.¹⁵ Similar findings were found among consumers who financed their LASIK, with 96% of survey respondents indicating that financing had a positive effect on their impression of the practice.¹⁶

With all the issues surrounding money that affect both consumers and physicians, it should come as no surprise that issues exist when it comes to how money and price have been handled in the realm of refractive surgery. The following section examines the role of pricing in consumer behavior.

Pricing and Consumer Perception

Price – defined simply as what is given up or sacrificed in order to get a product – can be internalized differently by individuals for the same item. Zeithaml’s model of price perception describes different ways that people internalize monetary cost: Total price, amount per month, relationship to another vendor/provider with the same product, or relationship to another potential expenditure. At times, consumers encode the cost of an item without an actual figure attached, simply labeling it as either “expensive” or “affordable.”¹⁷

The Range Theory of Price Perception, put forth by Janiszewski and Lichtenstein, holds that consumers make price decisions based on a range of remembered experiences, with an upper and lower bound to the range. Within this range, most consumers have an *internal reference price*, the price they expect to pay based on their own past experience. The impact of new prices in the marketplace are such that when the upper bound is increased (i.e., a new “most expensive” offering), perceptions of a given market price become more favorable. The opposite holds true when the lower bound is decreased (i.e., a new “most discount” offering).¹⁸ This theory helps explain why some inquirers are surprised to learn that LASIK is not \$500 per eye (or less); the promotion done by low-cost providers succeeded over time in lowering the internal reference point for many consumers.

Range Theory also contends that with infrequent purchases (eg, refractive surgery), it should be easier to encourage consumers to evoke a wider range that is less sensitive to deviations from their internal reference price. This has been precisely the case with the addition of new technology and the subsequent increase in average fees from 2003 to 2007.

Pricing and Perception of Quality

The use of price as an indicator or “surrogate for quality is widespread, especially when consumers lack the ability to judge quality objectively. Two recently published studies demonstrate the power of price as a cue for quality: The first had consumers rate their preference among five different brands of the same red wine, each glass labeled with the retail price per bottle of that wine (ranging from \$5 to \$90). Not surprisingly, consumers rated the \$90 bottle higher than the \$10 bottle and the \$45 one higher than the \$5 one. However, the \$90 wine was also poured into the glass labeled \$10, and the \$5 wine was poured into the glass labeled \$45 (See Figure 3). Study researchers also monitored brain stimulation via function MRI employed during the tasting. They found that the part of the brain that responds to pleasurable experiences showed greater stimulation when subjects drank the wine labeled more expensive. In another arm

Figure 3: Pricing as a Cue of Quality: Perceptions in Wine Tasting Experiment



of the study, when price was removed as a cue, subjects consistently rated the least expensive wine as their favorite.¹⁹ These findings point out that the relationship between price and perceived quality may be physiological as well as psychological.

The second study involved healthy consumers who were given a brochure describing a new fast-acting pain reliever. Study volunteers were randomly divided into two groups, with one group being told the new drug costs \$2.50 a pill and the other being told it had been marked down to 10 cents a pill. Volunteers in both groups then received light electrical shocks to the wrists to see how much pain they could tolerate both before and after taking their pill. 85% of those taking the full-price pill reported less pain afterward, compared to 61% of those with the discounted pill. In both groups, all subjects took an identical sugar pill, indicating the power of a price-induced placebo effect.²⁰

Summary

Pricing for LASIK has been subject to fluctuation over the years, in part due to a lack of understanding by providers as to the mechanisms that influence consumer behavior with respect to elective medical procedures. Although LASIK is the most commonly performed surgical procedure, it is by no means the most expensive. The population has shown a willingness to pay for self enhancement and transformation that alters appearance and/or function. As providers of refractive surgery, it is important to keep in mind that price is just one part of the equation and a small part of the overall experience. While many candidates seem to focus incessantly on cost before they have the procedure, very few make mention of it afterwards, except perhaps to say that “*it was the best money I ever spent.*” Satisfaction with LASIK is already very high, and better discussion of money and fees by the refractive staff may well lead to even higher levels of overall satisfaction.

IMPROVING YOUR MONEYTALK

① Don't get defensive when people ask about your fees

When people make mention of your fees being “expensive,” don't assume they are looking for the cheapest provider. Many people are doing their due diligence and need reassurance while they are resolving their own internal conflicts about spending. Your role is to help resolve that conflict between unwillingness to pay and desire for the best treatment. Remind yourself that “how much?” is a normal question and not an attack on your clinical expertise.

② Help consumers “ earmark” their money

Human beings are adept at putting money into different psychological “buckets;” people of all economic situations care deeply about proper differentiation of their monies. Just like the Christmas fund, the college fund, and the “mad money” fund, you should encourage candidates to be setting up their LASIK fund as a means of establishing a “mental budget” for the procedure.

③ Position LASIK as a lifetime investment

Elective procedures are a means of “investing in self.” Given that 80% of sensory input is through our eyesight, and that eyesight is used 16 hours a day, spending money on better vision is one of the best investments a person can make in their lives that pays off on a daily basis.

④ Level the Playing Field

Because money serves as a powerful instrument of inequality, the entire concept of credit serves an important function in reducing social awkwardness in the economy. Patient financing creates a psychological benefit in helping a candidate break down the total cost of LASIK. The provider benefits with an offering that is “competitive” relative to other discretionary spending options available to consumers.

⑤ Use multiple ways to characterize the expenditure

Because people internalize price differently, it's important to have a variety of descriptions when relating cost to the lifestyle of the candidate. Describing LASIK as “about the same cost as braces” is helpful for a mom with pre-teens, while “it's about the cost of a nice dinner out once a month” is helpful for a newly-married LASIK candidate.

⑥ Choose the right person(ality) to discuss fees

While everyone on the team should be able to articulate both your price and your value proposition, detailed discussions of price and financing should be in the hands of the person most comfortable talking about money. This is typically not the surgeon, due to conflict with the healer role, lack of skill in this area, and the risk of inadvertently “talking down” to patients from a different social strata.

⑦ Think of your price as a cue for your quality

The relationship between price and perceived quality is well-documented, especially when the consumer lacks the ability to judge quality in an objective manner. When setting and communicating your fees, recognize that the specific price you quote will immediately create an impression in the caller's mind as to the quality of your refractive services.

⑧ Expand the upper bound of the range

Having available a very-high priced offering in your mix will make your standard offering appear more favorable. For example, bilateral LASIK at \$5000 appears more reasonable as a form of vision correction when in the context of bilateral premium IOLs that cost \$9,000 (and similarly less favorable when compared to spectacles at \$300 per pair).

⑨ Involve others early and often in the process

Be prepared to address the lower bound of the range. Your staff should know all the prices offered in your community and be prepared to address why and how your services are different. Your audience will include other decision influencers (spouse, parent) in addition to the patient.

⑩ Creating excellence at each step leads to higher satisfaction

Treat the patient communication process – especially the discussion of fees – every bit as seriously as your surgical protocol. Scripting and role playing are critical to becoming skilled in seamless discussion of financing options.

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