

**NEVER IGNORE  
THE POWER OF  
PRICING TO DRIVE  
MEDTECH GROWTH**





# Is Pricing Power More Important Than Good Management?

Warren Buffett says, “The single most important decision in evaluating a business is pricing power. If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business. And if you have to have a prayer session before raising the price by 10%, then you’ve got a terrible business.”<sup>1</sup>

In the article; *3 Questions To Ask When Building a Pricing Team*, the quantity of pricing experts in companies can vary from one to hundreds.<sup>2</sup> Some organizations recognize pricing’s great importance, others don’t. Some organizations have one pricing professional per \$50 million in revenue vs. one per \$10 billion. This shows that there is no consensus on this critical metric that recognizes the market’s motivation to pay, and the impact of individual pricing decisions on the operation of a company.

## Price Strategy Research

The methodology we recommend is made after careful consideration of the risk/reward benefit. While there are several methodologies, the most frequently used are described below.

Price Strategy Methodologies	Definition
<b>Premium Pricing</b>	Your device performance brings improved and evident clinical outcomes or reduces cost to the clinical environment and the price of your device reflects this.
<b>Value Based Pricing</b>	Closely related to premium pricing, this device pricing is according to what clinicians think your product is worth.
<b>Competitive Pricing</b>	Your device is priced based on what your direct competition is charging.
<b>Price Skimming</b>	A large sales force is required to accomplish this. Place your prices as high as the market will bear and lower them when necessary to penetrate the market.
<b>Dynamic Pricing</b>	Constantly change price to meet current demand.
<b>Penetration Pricing</b>	Set prices that are lower than those of the competition to gain as much market share as possible.
<b>Economy Pricing</b>	This is closely related to penetration pricing. Set prices lower than the competition to grab share and make money on volume.
<b>Cost Plus Pricing</b>	Don't do this! This is the easiest way to leave money on the table in this method, People take the cost of goods sold and add a percentage. Medi-Vantage never recommends this price strategy.

Chart 1: Price strategies and their definitions.

# Conjoint

A conjoint provides statistically significant answers, which makes it the highest priced form of price strategy research but also the lowest risk. It can sometimes cost in excess of several hundred thousand dollars, depending upon how many market segments need to be queried. Adaptive conjoint analysis is a good choice (the survey design adapts to the respondent's input, reducing the time the respondent spends on choices they won't select). On the whole, 100+ survey takers per medical specialty will be required to complete a minimum of 15 product choice tasks. Every product choice task requires physicians (or patients, hospital administrators, or nurses) to select a device from three to five theoretical product prices (described as five to seven device features).

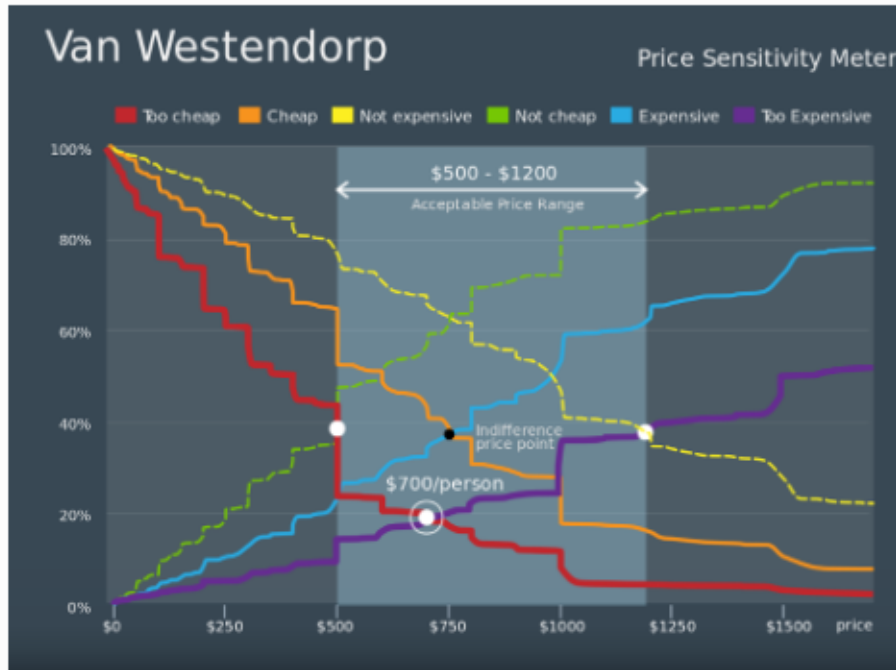
Sound complicated? It is, but if you have a highly risk averse management team, this may be the best choice.

# Gabor Granger

This method measures the end user's willingness to buy a device or service for previously defined price points that you select based on your knowledge of the market and the assistance of your advisor. Then you can assess price elasticity by aggregating the data points of the respondents. Then, based on the number and variety of sales scenarios you develop with your advisor, the optimal price can be determined.

Usually, this methodology is reserved for questions about options to increase prices to the point where concerns about a decrease in sales are minimized. Alternatively, medtech companies use the Gabor Granger to identify price points where the end user's motivation to pay can increase or decrease exceptionally.

# Van Westendorp



The Van Westendorp methodology<sup>i</sup> can be used to provide statistically significant results but is often not as expensive because the level of programming required is less and respondent time on the survey is reduced which means honoraria can be decreased. Four elementary questions are:

- “At what price would this medical device be priced so low that you would feel the quality can’t be very good?”—to understand what is “too cheap.”
- “At what price would you think this medical device is a bargain?”—to decide what is “cheap.”
- “At what price would you think the medical device starts to get expensive, so that you would give some thought to buying it?”—to establish what is “expensive.”
- “At what price would you think the medical device to too expensive that you would not buy it?”—to learn the “too expensive” price.

# **Budgetary Impact Models (BIM) – Designed by Price Strategy, Critical to Value Analysis Committee Success**

The next step is to use your price strategy research to design a BIM to persuade the value analysis committee (VAC). It is important to design your price strategy research to yield data that is usable for the BIM, in a form that the VAC can understand, relate to and interact with, inputting their own data.

After your sales representatives have started the sales process and have persuaded clinicians that your device is preferable to those of your competitors, they will need to convince the VAC (often through a clinical champion) using economic data. The detailed budgetary impact models from Medi-Vantage are built on an interactive spreadsheet (usually downloadable to the sales reps iPad) that lets the hospital administrator or clinician enter their device costs, patient data, and device utilization, etc., into the BIM to understand the impact of your device adoption on their own usage and expenditure scenarios.

This results in a cost/benefit and ROI analysis for the VAC to know the economic value along with the clinical value.

Pricing has the power to impact the financial strength of your company. Ask your R&D team to design your devices including price strategy goals set by your marketing team. Hospital administrator data generated by Medi-Vantage research shows that even during the years of COVID-19, many medical device companies were able to get a 1% to 2% price increase. Compared to other industries, this is substantial in the face of the economic headwinds that all industries have been seeing since the pandemic.

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