Strategic Pricing...Why Bother?
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In today’s healthcare environment, why should a hospital bother with trying to effectively align their charges to be competitive in their marketplace and capture more net revenue? Hospitals are under an increasingly larger microscope for their charges and now many are mandated to publish their prices for services to the general public. So, why should a hospital review their charges and perform a “Strategic Pricing” analysis?

Strategic Pricing is a process of analyzing a hospital’s charge structure, third party payer contracts and competitors’ charges so that the hospital can set its charges to be “strategically” aligned in their market. When your pricing strategy and charge rate schedules are not matched up correctly to the various payments plans you have from third party payers, you are losing net revenue. Cash is vital for a hospital to grow and survive. When hospitals continually make “across the board” rate increases they might as well throw a dart at a dart board from 100 feet away. The chance of the hospital achieving anything but additional write off of their charges is very slim.

Strategic Pricing is a more precise way to look at increasing charges. It is a “software” based review that looks at your current charge structure, analyzes your payer contracts and aligns your charges to effectively manage these within your current operational structure. Strategic Pricing allows the review to go to the detail service line level in each department, but it also allows the flexibility to look at your charge structure by department or service line and manage your charges accordingly. A hospital can elect to increase or decrease charges for a department or service line as they see the need to in their market.

Third party payer contracts are analyzed so that your charges will align with the payment rates within the contracts and so that the annual charges increase will take full advantage of any rate adjustments allowed by the contract. This process allows the Strategic Pricing model to understand where changes are needed in your charge structure to ensure that you are aligned with any fee schedules and fee restrictions that are in place in these contracts. Without this
step, a hospital could be losing net revenue by not charging enough for a service or having to deal with claim rejections by not charging according to the contract.

The final step is to review the hospital’s charges for services versus that of their competitors. As I mentioned above, consumers are price shopping and your charges can affect whether or not a consumer elects to use your hospital for services. Having charges that are above the “market” can cause consumers to look elsewhere for services in order to avoid the extra costs for your services. Being competitive in your market will mitigate this “shopping” for services among consumers and give you the confidence that your hospital is competitive in your market.

The advantage of this process is that it turns your charge structure into one that is defensible, competitive and compliant with the third party payers in your market. There is a confidence that you will achieve in knowing that your hospital is positioned to take advantage of this strategy and it will allow you to better support quality healthcare in your community.