

## PACKAGE PRICING AT DIE ANOTHER DAY (DAD) HOSPITAL

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Dr Ajit Narayanan was watching the fresh green paddy fields from his Toyota Innova while driving on national highway 47 (NH 47) between Palakkad and Thrissur in the God's own country. He turned towards Professor Dinesh Kumar and said:

There is a reason why this land is called God's own country. I don't think there are many places in the world that can rival the beauty of this land especially after monsoon.

Professor Dinesh Kumar nodded his head. Kerala was not new to him since he was born in Palakkad. However, his mind was preoccupied with the main reason for visiting Dr Ajit Narayanan and Thrissur. Dr Narayanan was the CEO of a multi-speciality hospital called the Die Another Day (DAD) Hospital in Thrissur. Although, the hospital treated patients of all illnesses, their speciality was cardiology and DAD was a very popular hospital among Keralites. They conducted on average 200 heart surgeries every month and were in the process of increasing the monthly capacity to 400 heart surgeries.

Dr Ajit mentioned the problem he was currently facing as the CEO of the DAD. He said:

Professor, the business models in health care is changing fast. As a hospital, we publish the price list for most of the treatments. We also negotiate package prices with many state governments for specific ailments, these government schemes are created for the benefit of economically weaker sections of the society. The package pricing is also creating intense competition between the hospitals; there is a price war for each treatment. But we don't know whether this is the right strategy. Sometimes I feel that we should charge like the olden days where the patient pays for all the costs associated with the treatment and the consultancy fee.

Professor Dinesh Kumar was aware of this new business model that was becoming very popular among hospitals across India. Many hospitals quoted package prices for treatments such as heart surgery, knee replacement, etc.

Irrespective of the expenses and the duration of treatment, the patient would pay only the agreed price since it was a contract between the patient and the hospitals. Hospitals cannot charge more than the package price under any circumstances. Many state governments' insisted on such contracts as there was a perception in the public that the hospitals insisted on unnecessary diagnostic tests whose profit margin was high.

Dr Ajit Narayanan commented that there was a high risk involved with the package pricing since the actual cost could far exceed the package price. He said:

It is like buffet pricing in restaurants, in which a customer pays a fixed price and can eat as much as he can. Restaurants have control over the menu, but hospitals don't have any control over the number of days it will take to a cure a person, because it depends heavily on an individual body!

There are many decisions that Dr Ajit has to take - whether to use package pricing or traditional pricing? Should package pricing be offered to all types of treatments if they plan to have package pricing strategy? How should one come up with the package pricing and how to use package pricing as a competitive strategy in the market since he was expecting many new hospitals to come up in Thrissur in the next couple of years.