

## **Pricing Case Studies**

### Activity 1 – Calculating the Service Cost

Petersburg Apothecary is planning to implement a lipid management service (LMS). The service will measure and monitor patients' lipids levels, and provide education and recommendations of ways that patients can better manager their lipid levels. The service will be open for 10 hours per week. A pharmacist will be hired to run the LMS and will be paid \$40 per hour. The pharmacy will be renovated to provide space for the LMS. The renovation will cost \$5,000 and will be depreciated over 5 years. The LMS will occupy 150 sq. ft. of the pharmacy's total area of 1250 sq. ft. Equipment for the service will be leased at \$1,000 per year. The manager estimates that the service will incur an expense of about \$500 per year for patient education materials. Them manager will devote 2 of his 60 work hours per week to managing the LMS. Other employees will work 2 of their 65 hours per week in the LMS. The manager estimates that the LMS will provide about 1,000 sessions per year.

A pro forma income statement for Petersburg Apothecary is shown in Figure 2.

1. What is the full service cost of a session in the LMS?
2. What is the differential cost of a session in the LMS?

### Activity 2 - Setting the Price for a New Service

What should the manager for Petersburg Apothecary charge for a session in the LMS? In developing a price, consider the costs following non-cost factors:

1. What is the demand for the service? How could the manager develop a better estimate of demand for the LMS? How sensitive will consumer be to the price of the LMS?
2. Who are the LMS's competitors? What do they charge for similar services?
3. Assume that Petersburg Apothecary is a professional apothecary-type pharmacy. It is located in a medical center and carries only prescription and OTC drugs and health-related equipment and supplies.
4. Is this a service for which price may signal quality?
5. Assume the pharmacy's initial goal is to build volume for the LMS.
6. How will the services offered in the LMS affect patients' non-monetary costs?

**Figure 2**  
**Pro Forma Income Statement Petersburg Apothecary**

Sales:	\$
Prescription	1,065,014
Other	173,529
Total	1,238,543
Cost of Goods Sold	940,186
Gross Margin	298,357
Expenses:	
Manager's salary	72,565
Employee pharmacist salary	41,600
Employees' wages	41,947
Rent	18,710
Utilities	7,944
Prescription containers	6,911
Delivery costs	2,514
Computer	3,833
Advertising	7,367
All other expenses	56,146
Total Expenses	259,537
Net Profit	38,820