Strategies for Responding to Pricing Pressure

Examining assumptions about the services it offers can help an EAP determine how to maximize revenues from its clients.

by Robert A. Mines, Ph.D., and Michael R. Mines

A common business assumption is that, in any industry, pricing will start out at premium levels and consistently move toward a commodity pricing level. Under this scenario, as an industry becomes more efficient and/or more competition arises, prices will drop accordingly. Each vendor in the industry must continually develop strategies to compete under these conditions.

This article addresses the "commoditization" of employee assistance services and proposes strategies for responding to downward pricing pressure. The article also reviews strategies for adding value or "up-selling" services to further enhance revenue from a given client. The article does not address strategies for demonstrating return on investment (ROI), though certainly any EAP provider would want to include such data in reports to, and communications with, purchasers of its services.

STRATEGIES FOR LOWERING PRICES

Many times an EAP provider will complain that a competitor has "low-balled" a bid, which then gets "spread sheeted" by the broker/purchaser and results in the provider getting kicked out of the bid process. The relevant question is: How did the competitor arrive at its price? There are many strategies, ranging from simple to sophisticated, that allow for a "commodity" bid without necessarily jeopardizing the profitability and, thus, the viability of an EAP firm.

First, the competitor may have deep pockets and is trying to offer services at below cost to drive out the competition, after which it will raise prices. Second, the competitor may be responding (perhaps irrationally) to perceived market pressures and trying to buy market share through low pricing, hoping to minimize costs later through reduced service delivery. Third, the competitor may have found ways to cut overhead and thereby deliver services at a lower price.

For example, the competitor may have developed efficiencies through the use of technology, such as using the Web to publish, sort, and route forms to appropriate personnel rather than incurring postage and copying costs. Or the competitor may keep costs under control by reducing "brick and mortar," cutting staff and using virtual staff networks. Lowering affiliate fees through effective case management and/or fee reductions or freezes can allow a competitor to deliver services at a lower price. Other financial strategies include debt reduction—Magellan, for example, is undergoing a significant debt restructuring that will allow it (theoretically) to continue its business operations and offer competitive prices.

Some competitors use the appearance of low prices to draw in purchasers, but impose a variety of costs that are not readily apparent. For example, administrative costs may be left out of the price listed for EAP services but included in the contract in another section. Other examples of "hidden" costs include the following: providing trainings on an á la carte basis; charging separately for critical intervention and conflict management services and management consultations; providing reports only twice a year and adding a fee for quarterly or monthly reports; and billing for onsite services in addition to the per member per month charge.

PROVIDING A CONTEXT FOR "UP-SELLS"

To compete in a commodity environment, an EAP provider must examine its assumptions about its scope of services. For example, an EAP firm might provide only a one-to three-session assess-and-refer model, or follow the EAP Core Technology strictly, or refuse to offer therapy. These are basic assumptions that provide a business context for an EAP provider and help it define how it sees itself within the inherent service and pricing environment.

If an EAP provider redefines its assumptions and, therefore, its business context, its service and pricing options expand. For example, it may consider itself a risk management organization, a labor assistance organization, a behavioral health organization, an organizational consulting firm, or an occupational health organization. These broader contexts offer "up-sell" opportunities beyond traditional EAP models.

These assumptions also help an EAP firm determine which clients it wishes to serve and how it can best meet their needs. Because EA professionals often have access to decision makers in a firm and understand the challenges and opportunities the firm faces, they possess "inside information" that can be used to

***Robert A. Mines** is chief executive officer and a licensed psychologist at Mines & Associates, P.C., an international psychology firm. He is a former board member of EAPA and former president of the EAPA Colorado Chapter.*

***Michael R. Mines** is a research associate with Mines & Associates, P.C. He is a psychology student at the University of Northern Colorado.*

develop new programs or services that can improve the client's bottom line. This is an opportunity for the EAP to think more widely about its own definition as an organization.

How an EAP organization defines itself will determine the scope of potential "up-sells" it can offer its clients. For example, our firm provided EAP services, PPO (preferred provider organization) services, fee-for-service EA services, training, and organizational development services to one of our client organizations, and the combined revenue from the four non-EAP categories was greater than that from the EAP services. The previous EAP vendor did not offer these profitable services and evidently did not understand the revenue potential of this account. How many of your accounts are being under-served and thus are vulnerable to competitors offering a broader array of services?

In addition to offering up-sells, EAP providers can ask their client organizations for fee increases each year. Many EAP firms do not do this because they are afraid they will lose clients, yet they do not test this assumption systematically and therefore lose revenue by negotiating with themselves rather than their clients. Ask yourself this question: Does my firm know the profitability of each account and make annual adjustments to keep each account profitable? Some of these adjustments may exceed the rate of inflation by significant amounts (5 to 25 percent). If an account is not profitable and cannot be made profitable, why is your firm conducting business with that client?

REDEFINING YOUR BUSINESS

If your EAP firm is losing revenue or is consistently unprofitable, what can you do to either cut costs or redefine your business/service context? Assuming your firm wants to increase its revenue streams through service diversification, the following line of questions needs to be asked and answered: What is the intellectual capital of my firm? What expertise can we develop or hire? What would it cost to enter new markets or provide new services? For example, what would it take to start creating revenue streams from the Internet?

The answers to these questions may well lead to others. For example, how much risk is the leadership of the firm willing to stomach? Is the firm willing to shoulder the liability of managing behavioral health carve-outs? Is the firm willing to risk providing CISD services as part of the basic service fee versus pricing it as an add-on? (Some firms almost went bankrupt in the aftermath of Sept. 11, 2001, because they gave away CISD services as a "loss leader" instead of realizing large revenue returns from the CISDs.)

Other questions to ask could include the following: What model of employee assistance does my firm sell? Could we increase revenue by offering an expanded service model? In what markets does my firm operate, and are there local or regional differences on which we could capitalize?

Finally, ask yourself if there are strategic partnerships your EAP firm can form with other organizations. For example, a large regional EAP that served a national account was told it would lose the account to a larger national firm that could provide EAP, managed behavioral health, and claims administration services. The regional EAP formed a strategic partnership with another EAP firm that offered behavioral health carve-outs and third-party administration. At the time of this article, the strategic partnership was one of three finalists for the account.

We in the EAP business will never see the end of our work, if only because we will never see the end of the addiction, stress, depression, marital and family problems, and other personal and work-related issues that give rise to it. We can change, however, how we define our work—the services we offer and how and to whom we deliver them. In an era when EAP services are seen as commodities, it is imperative that we step outside the traditional business assumptions of employee assistance and start delivering profitable services that solve the problems of client organizations. ■