COMPOUNDING PHARMACY
OWNER SUMMIT
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The Psychology of Pricing: A Primer

"The compounder's art is the marriage of science and compassion."
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Learning Objectives

1. Understand psychological price anchors and how patient expectations shape perceived fairness and value
2. Use dosage-form differentiation to optimize margins while improving adherence
3. Refine batching and workflow models to decrease unit cost without compromising compliance
4. Identify when a loss leader may be strategically appropriate in high-demand categories
5. Navigate legal and ethical boundaries with bundled services, subscriptions, and administrative fees
6. Respond to market disruptions without sacrificing profitability

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Why Pricing Psychology Matters

The compounding marketplace is shifting dramatically

Traditional cost-plus pricing fails to capture the true value of customized medications. Patient behavior, market signals, and perceived value drive willingness-to-pay far more than ingredient costs alone.

Key pressures facing compounders today:

- Rise of GLP-1 therapies and high-demand shortage medications
- Market consolidation and increasing ingredient costs
- Shifting patient expectations around price transparency
- Competition from online pharmacies and 503B outsourcing facilities

"The objective of strategic pricing is not to find the price that covers costs, but to capture the maximum value that customers perceive." — Nagle & Müller

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The Cost-Plus Trap

How most pharmacies price today:

Calculate ingredients + labor + overhead, add a standard markup (30-50%), and hope the margin is sufficient.

Why this approach fails:

- It ignores the value delivered to the patient and prescriber
- It creates a race to the bottom on price
- It leaves enormous revenue on the table

Example: Custom Topical Pain Cream

- Cost-plus (40% markup): $35 → Pharmacy margin: $10
- Value-based pricing: $65-$85 → Pharmacy margin: $40-$60
- Patient still saves $35-$135 vs. commercial alternatives at $120-$200+

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Value-Based Pricing: A New Mindset

Three Pillars of Strategic Pricing

1. Value Creation
Understand and quantify the economic and clinical value of your compounds relative to commercial alternatives. Custom formulations, unique dosage forms, and allergen-free preparations all create measurable value.

2. Value Communication
Effectively convey the benefits and differentiation of your compounded medications. Provider education, patient counseling, and outcome documentation are essential.

3. Value Capture
Set prices and structures that reflect the value delivered. Tiered pricing, bundled services, and segment-specific pricing maximize capture.

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Price Anchoring: How It Works

What is anchoring? (Kahneman, Ariely)
The first number a person encounters heavily influences their perception of what is "reasonable." This is one of the most powerful cognitive biases in pricing.

How anchoring works in practice:
- If a patient first sees an alternative at $200/month, your $85 compound feels like a bargain
- If a patient first hears your price with no context, $85 feels expensive
- The anchor determines the frame of reference for every subsequent price evaluation

Key insight:
Always present the higher-priced alternative BEFORE your price. Lead with what the patient would otherwise pay.
BE CAREFUL. PRICE CANNOT BE A DRIVER FOR THE DECISION TO COMPOUND.

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Anchoring in Compounding Practice

Practical anchoring strategies:

- Consider alternative pricing in other therapeutic catagories alongside your compound price on patient-facing materials
- Train staff to say: "This ingredients in this medication sell at $X commercially. Because you have a specific reason for this compound, it only costs $Y."
- Show the total cost of multiple separate prescriptions vs. your single combination compound
- Frame pricing relative to monthly cost of untreated conditions (ER visits, lost productivity, quality of life)

Economic Value Estimation (EVE)

- Total Economic Value = Reference Value (NBCA price) + Differentiation Value
- Your optimal price falls between your cost floor and the total economic value ceiling

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Loss Aversion & Framing

People feel losses more intensely than equivalent gains (Kahneman)

Framing effects in pharmacy pricing:

- "Save $115/month vs. other therapeutic alternatives" is more powerful than "Our price is $85"
- "Discontinuing your compound could mean returning to multiple prescriptions at $200+/month“
- TrumpRx’s Discount card might not be the right cost-savings strategy. Are you on the right drugs now? Is an 85 y/o just now starting Repatha? Crestor? Why?

Application to price increases:

- Frame increases in terms of what patients keep (quality, access, convenience) rather than what they lose (higher price)
- Never apologize for a price increase — communicate the value that justifies it

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Loss Aversion v. Equivalent Gains

No one knew this concept better than Ebby Calvin “Nuke” LaLoosh – *As a baby the Gods reached down and turned his right arm into a thunderbolt.*

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Unfortunately, Ron Johnson, CEO of J.C. Penny did Not Share Nuke’s Wisdom (Term: November 2011 to April 2013)

- Ron Johson hired as new CEO of J.C. Penny November 2011;
- Former VP of Merchandising at Target
- Former SVP of Merchandising at Apple
- Economy had Rebounded from the “Great Recession”
- J.C. Penney Shares were Declining and Penny’s was Losing Market Share
- Competition was Winning: Walmart, TJ Maxx, Kohl’s, Macy’s…

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The Plan: Be Transparent in Your Pricing. This is My Lowest Price. All Day – All Days

- CEO Johnson has a plan. Stop playing games. J.C. Penny's, like its competitors (esp. Kohl's and Macy's) always ran a sale and coupons. It never really moved inventory unless there was a sale.
- Johson decided that the marked-down, sale/coupon price was the new anchor price.
- Customers know that $24.99 is really $25.00. They don't like to be manipulated and its not ethical.
- Customers know there is a coupon coming in the mail on Wednesday and they need to bring it in. Remove the hassle of remembering your coupon.
- **Just say, "This is the lowest price. No games!" So, what happened…?**

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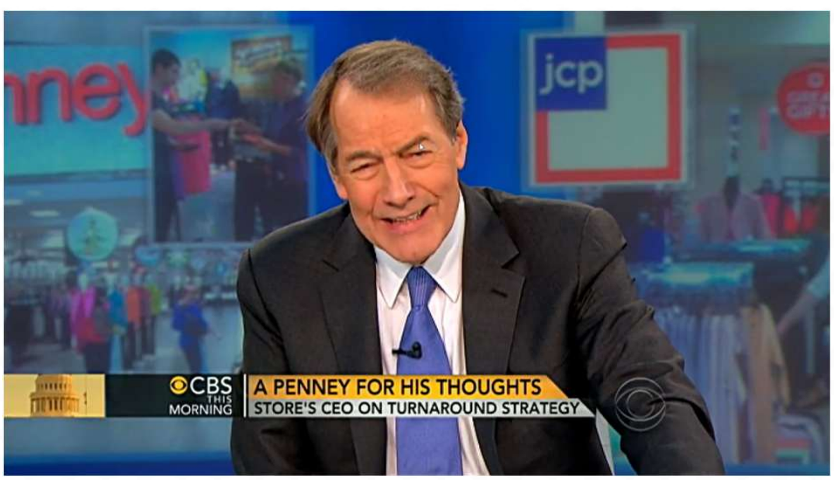
Johnson Creates a New Pricing Plan



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"Prospect Theory"

- Loss Aversion is 2x Stronger than the Pleasure from a Gain
- **"You will gain 10% in efficiency"**
  - **Appeals to your desire to win**.
- **"You are losing 10% of your potential revenue. This fixes that."**
  - **Eliminates the human being's stronger desire not to lose.**
- **How will I ever increase prices if I need to?**
  - **Introduce new, slightly higher prices with a pitch for value that would otherwise not be achieved.**

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A Case Study…

The Scenario: You currently charge $80/month for a compounded Bi-Est cream. You want to move to $95/month.

Weak approach (gain-framed): "We've improved our cream. It now has a lighter texture, pleasant scent, and beautiful packaging. You'll love the experience at $95/month."

Nice, but easy to dismiss. *"I don't need my hormone cream to smell like a spa."*

Stronger approach (loss-framed):

To the prescriber: "How many of your patients stop coming to you after writing for their HRT within the first 90 days? One of the biggest reasons for non-compliance isn't the hormone, it's the experience. Greasy texture, unpleasant smell, clothes staining. Every patient who drops off is lost revenue for your practice and a failed therapeutic outcome you have to manage. Our new *Signature Series* cream was designed for pharmaceutical elegance, fast-absorbing, not gritty, lightly fragranced, non-staining, so patients actually want to use it. That means fewer drop-offs and fewer follow-up calls chasing adhearance."

To the patient (via the practice): "If your current cream feels greasy or gritty, has an off-putting smell, or stains your clothes, you're more likely to skip doses or stop altogether — and that undermines the whole reason you started. Our *Signature Series* was designed so nothing about the experience gives you a reason to quit."

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What you're really selling….

Feature	Gain Frame (weaker)	Loss Frame (stronger)
Pleasant fragrance	"Enjoy a spa-like experience"	"Stop dreading your daily application"
Fast-absorbing base	"Feels luxurious on your skin"	"No more ruined sheets and stained shirts"
Elegant packaging	"Beautiful design you'll love"	"No more embarrassing tubes sitting on your counter"
Compliance-friendly design (Prescriber Appeal)	"Makes patients' routines easier"	"Stop losing patients who quit because they hate using it"

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The Decoy Effect & Choice Architecture

How choice design influences purchasing (Ariely)

- When patients face three options, the middle option becomes the most popular. Strategic placement of a "decoy" option can steer patients toward higher-margin choices.

Compounding example — Hormone Therapy:

Option A: Basic capsule, 30-day supply — $45
Option B: Troche with custom flavoring, 30-day supply — $75
Option C: Transdermal cream + consultation + compliance tracking, 90-day — $195

Option B becomes the natural choice. Option C anchors high and makes B feel reasonable. Option A exists to show B's added value.

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Ariely's "Predictably Irrational."

- A real ad from The Economist:
- The print-only option at $125 seems absurd; why would anyone choose it when print + online is the same price? But that's exactly the point. **It's a decoy.** *Its only job is to make the bundle look like an incredible deal by comparison.*
- **Without the decoy, most people chose the cheap online option.** With it, most people jumped to the $125 bundle because it felt like they'd be losing the free online access if they didn't.

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Dosage-Form Differentiation

Different dosage forms = different perceived value = different pricing

Low differentiation (price-competitive):
Capsules, oral suspensions — patients easily compare to commercial products

Moderate differentiation (moderate premium):
Troches, sublingual tabs, flavored formulations — some unique value, limited alternatives

High differentiation (premium pricing justified):
Transdermals, suppositories, sterile injectables, combination therapies — few or no commercial equivalents

The dosage form is not just a clinical decision — it is a pricing decision. Guide prescribers toward forms that improve adherence AND support healthy margins.

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Dosage-Form Margin Optimization

Aligning clinical value with business value:

Troches vs. capsules: Similar ingredient costs, but troches command 30-60% higher pricing due to perceived convenience over injections and improved bioavailability

Transdermal creams vs. oral forms: Transdermals bypass first-pass metabolism, deliver steadier drug levels, and justify premium pricing based on clinical superiority. Transdermals are less expensive to compound

Combination compounds vs. single-API: A multi-API preparation replaces 2-3 separate prescriptions. Price should reflect total savings, not just ingredient cost

Prescriber education is key:

Help prescribers understand why a troche or transdermal may be clinically more appropriate. When the clinical case is strong, the pricing case follows naturally. SHARE YOUR PRICING WITH PRESCRIBERS LIKE YOU DO WITH VETERINARIANS.

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Batching & Workflow Models

Decreasing unit cost without compromising compliance

Batching advantages:
- Preparing multiple units of the same formulation reduces per-unit labor and setup time
- Quality testing costs spread across more units
- Ingredient purchasing at bulk pricing reduces direct material costs

Key considerations:
- Beyond-use dating must support the batch size
- State board regulations on anticipatory compounding must be followed (30-day Turn Safe Harbor)
- Document demand history to justify batch quantities
- Track waste and spoilage rates to optimize batch sizing (Consider residue in empty container)

Lower unit costs improve margin at any price point — this is where operational efficiency meets pricing strategy.

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Strategic Loss Leaders

When pricing below margin makes strategic sense

A loss leader is a product priced at or below cost to attract customers who will then purchase higher-margin items. Used carefully, it can be a powerful acquisition tool.

High-potential loss leader categories:

- GLP-1 compounds (semaglutide, tirzepatide) — massive patient demand drives foot traffic
- Sexual wellness compounds — recurring refills and high patient loyalty
- Basic dermatologic formulas — gateway to comprehensive skincare programs
- Introductory hormone therapy pricing — leads to long-term refill relationships

Critical rule:

Only use loss leaders when you have a clear path to higher-margin follow-on products. Track conversion rates rigorously.

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Bundled Services & Subscription Models

Moving beyond per-unit pricing

Bundling strategies:

- Compound + initial consultation + follow-up at a single price that exceeds the sum of discounted parts
- "Pain Management Program" vs. discounting a topical cream
- "Hormone Wellness Package" including compound + lab coordination + quarterly check-ins

Subscription / auto-refill models:

- Predictable revenue and reduced patient acquisition costs
- Modest discount (5-10%) justified by guaranteed volume and reduced administrative overhead
- Improved adherence outcomes strengthen prescriber relationships

Golden rule:

Never lower the price without removing value. Add value at premium tiers instead. Automotive industry model (trim packages)

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Legal & Ethical Guardrails

Pricing with confidence within regulatory boundaries

Key legal considerations:
- State board regulations on advertising, pricing disclosures, and patient solicitation
- Anti-kickback and fee-splitting implications of prescriber pricing arrangements
- Administrative fee structures must reflect genuine services rendered
- Insurance billing accuracy — cash pricing and insurance pricing must be consistently documented

Ethical pricing principles:
- Value-based pricing is not price gouging — it reflects genuine clinical and economic value
- Transparency builds trust: patients should understand what they are paying for
- Shortage pricing requires particular sensitivity — balance profitability with patient access

Consult with a healthcare attorney before implementing novel pricing structures.

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Responding to Market Disruptions

Maintaining profitability through volatility

Drug shortages:
Shortage medications carry urgency premium and reduced competition. Price reflects availability value, not just ingredient cost. Monitor FDA shortage list proactively.

FDA enforcement actions:
Regulatory changes can eliminate competitors overnight. Be prepared to scale capacity and adjust pricing to capture displaced demand.

DEA actions:
Rescheduling of drugs can create a license to print money overnight.

New device-assisted compounding technologies:
Automated compounding equipment reduces labor costs and improves consistency. Factor equipment ROI into pricing strategy.

GLP-1 market shifts:
As branded manufacturers respond, compounders must differentiate on service, convenience, and total cost of care — not just price per dose.

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Customer Segmentation & Price Fencing

One price does not fit all

Key segments for compounders:
- Cash-pay individuals vs. insurance vs. workers comp vs. veterinary
- New patients vs. recurring patients vs. VIP/long-term
- Standard turnaround vs. priority (24hr) vs. STAT (same day)

Price fencing keeps segments separate:
- Volume commitments required for bulk pricing
- Time-based restrictions on promotional rates
- Service bundling with premium pricing tiers
- Written agreements for provider/clinic pricing

Never discount your base price. Create a value-added tier instead.

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Communicating Price with Confidence

Price objections are usually a failure of value communication

Common objections and responses:
- "Too expensive" → Reframe to value: "Let me share what's included and how it compares..."
- "Cheaper elsewhere" → Differentiate: "Can I explain the quality differences and services we include?"
- "Insurance won't cover" → Show total savings: "Let me show how this may save money vs. multiple co-pays..."
- "Can I get a discount?" → Add value, don't cut price: "Let me show our multi-month savings program..."

Staff training is essential:

Every team member should be able to communicate value, not just defend a price tag. Practice scripts, role-play objections, and build confidence. Remember this, you are valuable. You are not the pharmacy for every patient.

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10 Best Practices for Pricing

1. Lead with value, not cost — price from the customer's perceived value downward
2. Know your economic value — complete EVE analysis for every compound category
3. Segment deliberately — develop clear tiers with enforceable price fences
4. Never discount without removing value — protect your price integrity
5. Communicate value, not price — train every staff member to lead with benefits
6. Monitor contribution margins — review by compound category monthly
7. Respond to competition strategically — never start a price war
8. Review prices semi-annually — costs, markets, and value all change
9. Document everything — maintain pricing SOPs, exception logs, and approvals
10. Invest in prescriber relationships — prescribers drive compounding volume

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Sources & Further Reading

Behavioral Economics & Pricing Strategy

Kahneman, Daniel. Thinking, Fast and Slow. (Price anchoring, loss aversion)
Ariely, Dan. Predictably Irrational. (Behavioral pricing)
Cialdini, Robert. Influence: The Psychology of Persuasion.
Nagle, T.T. & Müller, G. The Strategy and Tactics of Pricing.

Additional Resources

Boesen & Snow Law — Compounding Pharmacy Pricing Guide (2026 Edition)

Pricing is not a one-time project — it is an ongoing strategic capability.

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Why the University of Arizona College of Pharmacy is Better Than Your Alma Matter

There's a Point, I Promise…I Tell Long Stories

John Dillinger (1903–1934) was a notorious American gangster and bank robber during the Great Depression, famously dubbed "Public Enemy Number One." Leading a violent gang, he robbed over 20 banks and four police stations, gaining notoriety for daring prison escapes. He was killed by federal agents in 1934 outside the Biograph Theater in Chicago based on a tip from a woman in red. **Not a good guy.**

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Pharmacists Don't Panic; They Think How Can I Leverge This?

Allen Garns, a Mesa artist, created **Dillinger at the Owl Drug**, an image of Tucson's Owl Drug Store as it looked in the 1930's and 1940's. Owned by Jesse Hurlbut, the store, located at the corner of Congress St. and Sixth Ave, was regularly visited by outlaw John Dillinger. Note the woman in red, who may be a reference to the woman who directly led to Dillinger's capture. (Last page of your book.)

The University of Arizona College of Pharmacy has the jar of already chewed gum saved by Pharmacist Hurlbut. He wasn't going to scold a gangster with a weapon, but he might be able to make some coin on the gum. Even relics of the notorious can be as valuable as the relics of the famous.

Owl Drug Co., Tucson, Arizona

John Dillinger's Already Chewed Gum

The historic Owl Drug Co. in Tucson, Arizona, was one of America's great neighborhood pharmacies — where the art of compounding was a daily practice. Among its many curious artifacts: a jar of gum already chewed by the infamous John Dillinger, preserved as a piece of pharmacy folklore and Americana.

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