

THE PRICE OF MENTAL HEALTH

A STUDY OF THE PRICING OF PSYCHOTHERAPY

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The Price of Mental Health – A Study of the Pricing of Psychotherapy

Abstract:

During the year of 2020, care providers met an increasing demand for psychotherapeutic treatment, which is believed to be continuously large. This increased demand additionally puts emphasis on the management of one-man companies, as a considerable number of the psychologists working in Sweden are self-employed. The aim of this study is thus to investigate how psychologists set their prices, and seeks to fulfill a purpose of expanding the knowledge of pricing within the industry. The research is conducted through semi-structured interviews with non-digital therapists, within the private sector, managing their work of psychotherapy through one-man companies.

The research showed that the psychologists are initially choosing their price based on a competition-based method, with an additional input factor being the psychologist's moral stance. However, over time one can see a change of pricing method. Alongside a small increase in price over time, motivated by inflation and increased experience, an increased emphasis is put on the client relationship. Based on how much each individual can pay, the charged price is altered. One can thus conclude the two most significant factors: A base price level as a result of competition, and individual price differences as a result of ethical considerations related to the specific client.

Keywords:

Psychotherapy, Price Discrimination, Value-Based Pricing, Cost-Based Pricing, Competitor-Based Pricing

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1. Introduction

1.1. Mental Health in Sweden

The last decade has brought a 13 percent increase in mental health conditions (World Health Organization, 2022). During the year of 2020, both digital healthcare providers, as well as the psychiatric care providers and primary care, met an increasing demand for psychotherapeutic treatment, which is believed to be continuously large (Psykologtidningen, 2020). This increased demand on psychotherapeutic treatments additionally put emphasis on the management of one-man companies, as a considerable number of the psychologists working in Sweden are self-employed (Saco, 2022).

1.2. Background

1.2.1. Pricing for One-Man Companies

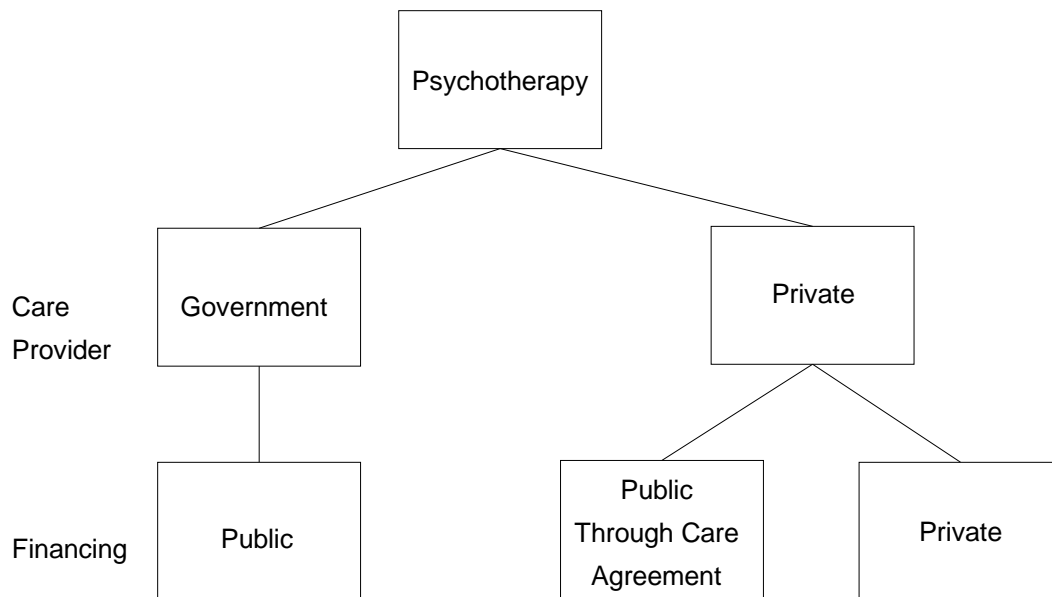
Setting a price for your business operations is a crucial process to ensure a company's success (British Business Bank, 2022). Acting as a small business, a one-man company, this process becomes even more significant as you do not have as large a financial buffer to fall back on and lower ability to adjust to environmental changes (Fairlie & Fossen, 2021). Small businesses rarely pursue a cost leadership strategy due to a lack of economies of scale, thus, differentiation strategy is often the most successful for small and medium-sized enterprises (Galli-Debicella, 2021).

1.2.2. The Swedish Market for Psychotherapy

There are approximately 14 500 legitimized psychologists in Sweden, of whom many are self-employed (Saco, 2022). Out of all psychologists working within the area of healthcare, 64 percent are employed within the public sector (Socialstyrelsen, 2021). There is no data collected in Sweden related to private psychotherapy, but 76 000 therapy sessions were conducted in Sweden in 2019 funded with governmental means. Around 80 percent were cognitive behavior therapy, and around 18 percent psychodynamic therapy (Mellgren, 2021).

1.2.3. Distribution of Therapy in Sweden

Figure 1.1 Structure of Psychotherapy Provision and Financing (Ebba & Malmström, 2022)



There are two channels through which psychological treatment can be provided: public and private (see table 1.2 for an illustration of the structure). The price of a therapy session within the public sector varies between regions, and a session in Stockholm costs 100 SEK. Furthermore, the individual is also covered by the high cost protection. This means that a patient does not need to pay more than a sum of 1200 SEK for treatments within the public sector during a year (Erlingsson, 2022). However, the wait to access treatment for mental illness is long within this sector (Öhman, 2017).

Thus, an alternative is to reach out to private actors. However, this often means a large price difference. Private treatments are normally priced between 800 to 1500 SEK per session (Holmér, 2020). The price of private therapy varies a lot depending on the psychologist, which can be seen as a result of the large number of possible different pricing strategies that one-man companies can apply (British Business Bank, 2022). Besides the financial aspect of pricing, there is also an ethical aspect to charging within the health sector. Psychologists thus need to balance this ethical perspective, with taking care of one's own financial needs (Koocher & Soibatian, 2017). Private licensed psychologists can however be connected to the governmentally financed care through a certain national rate and, by that, get visitor compensation (Mellgren, 2021). The result is that the patient does not pay more than she would for a therapy session within the public sector (Erlingsson, 2022). The compensation rate is decided through an agreement between the government and the Swedish Association of Local Authorities and Regions, and not by the individual regions (Mellgren, 2021). However, the

percentage of care facilities having initiated these kinds of agreements is low (Psykologtidningen, 2016). Thus, there can still be considered to be a large financial difference between private and public psychotherapy.

This research paper will focus solely on the psychologists working within the private care provider sphere, and who are financed through private means.

1.3. Purpose and Research Gap

There is a lack of service quality information in the psychotherapy industry, where both the psychologist and the client are unsure of the end results of the service. The lack of quality transparency contributes to an uncertainty among psychologists regarding how to price their service, resulting in an empirical problem. By identifying the components of the pricing strategy used by psychologists, our study seeks to fulfill a purpose of enabling increased transparency regarding possible strategies used, and thus expand the knowledge within the industry.

Pricing is a complex area with multiple different schools of research. Thus, arriving at a universal truth regarding the optimal pricing across all industries is difficult. Realizing this, we hope that the knowledge gained through this study will contribute to insights and enlarge the understanding of pricing, rather than give an answer to it.

Applied in other industries, it is however important to take the industry specific factors and their influence into consideration, such as the presence of strong ethical beliefs and close client relations. Additionally, few scholarly articles have been written on the topic of factors in price setting of psychotherapy. This is thought to be partly due to a reluctance to publish papers on the topic of business in psychological journals (Koocher & Soibatian, 2017). This research could therefore contribute to the expansion of the knowledge within this area, aiding one-man companies such as psychologists in their management of their business.

1.4. Research Question

The aim of this study is to investigate how psychologists set their prices. The research is conducted on non-digital therapists, within the private sector, managing their work of psychotherapy through one-man companies. The question we seek to answer is:

What are the components of the pricing strategy of non-digital psychotherapy?

1.5. Delimitations

The research is limited to one-man companies. When conducting market research of the industry it was found that a vast majority of the private actors consisted of one-man

companies. To ensure that our study most accurately represents the reality of the industry, the research is delimited to solely this segment.

We have chosen to delimit the geographical scope of this research to Stockholm. The reason for this is mainly feasibility. As interviews carried out in person are often more multifaceted than ones carried out online, this has been our preference. To have a scope covering all of Sweden would have made carrying out physical interviews very difficult.

The scope of the psychologists has further been delimited to private actors. This is due to the complex pricing structures and associated legislations present in the public sector, which results in a set price which is homogenous for all psychologists in a specific region.

Interviewing solely psychologists with their own reception, the sample was naturally delimited to more senior psychologists. A prerequisite for being able to have a private reception is to have enough clients to be able to cover all of your costs. Furthermore, it might take some time to build up a client base. Consequently, most private psychologists seem to be older, as they have been able to acquire clients over their years in practice.

Lastly, the study only includes psychologists performing in-person therapy. This is because of the differences in operations resulting in different cost factors which could have an impact on the price setting. As this research was not intended to compare the two, we found that it could result in an additional unnecessary changing variable affecting the accuracy of the result, had the both been included.

2. Literature Review

2.1. Pricing of Services

Services are purchased without a physical exchange of substance (ScienceDirect, 2015). Four characteristics are often presented in relation to services: intangibility, heterogeneity, inseparability and perishability (Moeller, 2010). The intangible benefits are challenging, and sometimes impossible, to directly measure, especially since it might take a long time for the benefits to be realized (ScienceDirect, 2015). This intangibility results in that prices are difficult to set. In addition, the heterogeneity of services means that quality control is difficult to achieve (Zeithaml, Parasuraman & Betty, 1985).

2.2. Pricing of Therapy

Koocher and Soibatian discuss in their article “Understanding fees in mental health practice” ethical and practical aspects of fees in mental health practices in the United States. They mean that the fees are dependent on multiple factors such as level of experience, education, local competition, social beliefs of the clinician and the type of practice. Factors connected to the client are their ability to pay, and if the fee is paid directly by the client, or through a third party (Koocher & Soibatian, 2017).

In regard to a change of price, they mention that increased fees include an ethical aspect, as they have an influential role relative to the client. It is put forward that professional associations often encourage members to provide sliding fee scales to aid low-income clients. The authors write that from an ethical point of view, the actual fee charged is less important than how it is set, communicated and collected. Fee comparisons are explained to be difficult as a therapy hour can have a different length and as the work outside of therapy sessions is substantial. Recommendations to clinicians include comparisons with peers in the market and having discussions with clients early on about fees (Koocher & Soibatian, 2017).

2.3. Price Discrimination in the Light of Ethics

Personalized pricing strategies have experienced a surge of interest as a result of the increased customer information availability (Elmachtoub et al., 2021). Personal data enables personalized pricing, but the fear of having to pay more for the same service often makes consumers unwilling to accept price discrimination. First-degree price discrimination, charging all customers an individual price, relies upon consumers disclosing information. For the customer to reveal this personal data, trust is important. According to Rayna et al., it is possible to achieve mutually beneficial price discrimination by rewarding customers for disclosing personal information (Rayna, Darlington & Striukova, 2015).

Personalized pricing has lifted ethical concerns, such as decreased trust, loss of privacy, unequal power distribution and loss of welfare (van der Rest et al., 2020). Customers

being charged different prices suggests that those who have to pay a higher price have been exploited by being charged an unfair price. This is often put forward as an argument for price discrimination being unethical. This, together with the possibility for the seller to cover their costs at a lower price than the one charged, further supports the argument. The charging of different prices also imposes that the equal-treatment norm has been breached. Economists, however, argue that price discrimination often result in greater welfare than would a uniform pricing do. Elegido argues that the seller often does not gain an above average rate of return. He also argues that the fact that different parties are charged different prices does not in itself imply that one party is wronged (Elegido, 2011).

3. Theoretical Framework

3.1. Value-, Cost- and Competitor-Based Pricing

Setting your prices is a crucial part of the sales strategy, where setting a price too high can lead to a reduction of customer demand, and a price too low can make them question your offering's quality. Pricing strategy has been argued to be divided into three groups; cost-based-, competition-based and customer value-based pricing (De Toni et al., 2016).

Value-based pricing is defined as “a strategy for pricing goods or services that adjusts the price based on its perceived value rather than on its historical price” (Corporate Finance Institute, 2022). You conduct a deep analysis on your customer base in order to find out what they value highest, and base your price on your ability to provide them that value (Web Analytics Consultants Association, 2022). This pricing strategy is most often used when the purchase is an emotional one or when the offering is of scarce supply (Corporate Finance Institute, 2022). That is, when the customers' perceived value is likely to be high, and the provider experiences an opportunity to do a value-based price markup. This type of pricing strategy is known to come with more obstacles than the other two, since the method of determining value is a qualitative one which may result in a misjudgment of the customer value (Corporate Finance Institute, 2022). However, if executed correctly, it is said to be the most profitable way of pricing (De Toni et al., 2016).

Another aspect to consider when setting your price is your offering's associated costs. Having a cost-based pricing strategy is the simplest of the strategies, and includes calculating your costs, determining your wanted sales level, and consequently calculating the markup needed to achieve this level (De Toni et al., 2016). This pricing strategy is most commonly used in organizations where variable costs are a large part of the total cost, to ensure that the markup will cover the fixed cost. This method is popular due to its simplicity, but its simplicity is also resulting in disadvantages as it excludes multidimensional impact from other factors, such as competition (Corporate Finance Institute, 2022).

Lastly, the pricing of a product can be influenced by its competition. Competition-based pricing involves making an analysis of your market, gaining insights on how competitors are acting, and making your own strategic decisions (De Toni et al., 2016). Competing on your price is most occurring in businesses where the product is low in variety (Besanko et al., 2013). On the contrary, when the product is differentiated, it acts as a competitive advantage which results in that a higher price can be charged (Porter, 1985). Competing on price may result in a price war, which likely results in economically devastating consequences for the involved parties and industry profitability, thus being a negative sum game (Rao, Bergen & Davis, 2000).

3.2. Price Discrimination

Price discrimination is the activity of offering the same product for different prices to different consumers. It exists when “the ratio of the prices of two similar products is different from the ratio of their marginal costs.” (Elegido, 2011). Pigou made a distinction between three categories of price discrimination: first-, second- and third-degree discrimination (Pigou, 1920). First-degree discrimination means all individuals are charged a different price, ensuring that the price exactly equals the demand, and all consumer surplus is gained by the seller. Since first-degree price discrimination extracts all consumer surplus it can be seen as the most profitable one (Philips, 1988). Second-degree price discrimination means the pricing depends on the number of goods bought (Varian, 1989). The company creates separate prices so that bulks of units are sold at different prices depending on their reservation price. Thus, some consumer surplus will be left. Third-degree price discrimination separates the buyers into different categories based on a certain mark, and charges a separate price to each category (Philips, 1988).

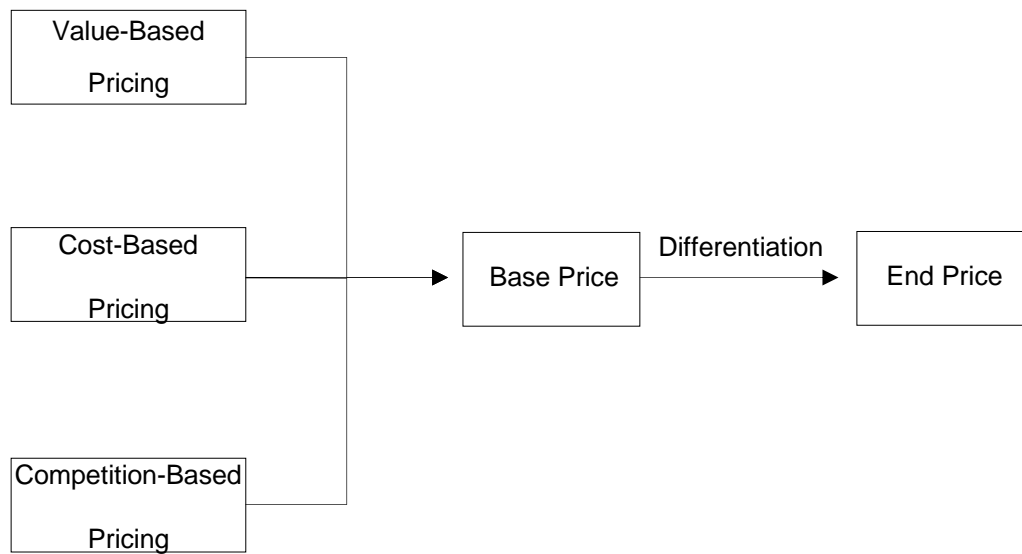
First-degree price discrimination might be imposed by using a “take-it-or-leave-it” offer. However, this is not common as the threat lacks credibility. It is difficult to find a way to commit to break negotiations in a situation of rejection, and it is often rational for the seller to continue negotiations even after a rejection. It is also difficult for the seller to gain access to full information about the buyers’ preferences and the seller incur transaction costs through the negotiation (Varian, 1989).

For price discrimination to be a possible strategy for a firm, three conditions need to be fulfilled. First, the firm must have some market power. Secondly, the firm must be able to sort its buyers. To be able to only lower the price for a certain customer, or category of customers, the firm must be able to differentiate between them. The firm can use exogenous characteristics, such as age, or endogenous characteristics, such as time of purchase. Sorting customers based on exogenous characteristics is easier, while the firm otherwise must make sure that consumers “self-select”. The third condition is that the firm must be able to prevent resale. There are many different mechanisms which can be used for this purpose, and some goods are protected by the inherent nature of the good, such as services (Varian, 1989). The psychotherapy market is therefore automatically fulfilling the third condition.

3.3. Connecting the Frameworks

The stated theories can be seen as complementary to each other (see illustration in figure 2.1). Originating from either value-, cost- or competitor-based pricing, one can form a basis from which one’s specific price offerings can develop. Price discrimination may then be used in order to set the end price, which is the one charged to the specific customers.

Figure 3.1 Connection of the Frameworks (Haaker & Malmström, 2022)



4. Method

4.1. An Abductive and Qualitative Study

The study and its results have been formed continuously, using theories to guide the empirical data collection, and then letting the empirical data form our theory selection. Thus, the study has progressed through an abductive process (Saunders, Lewis & Thornhill, 2019). To gain a deeper and wider insight into the topic, the interviews have been combined with desktop research.

As the area researched is a complex one, with a need for multidimensional answers to be gathered in order to answer the research question, a qualitative method is necessary. Furthermore, as the pricing within healthcare can be considered a sensitive question due to potential moral aspects, an initial fear was that the respondents would be dishonest in their answers. To allow for follow-up questions and reading between the lines, a semi-structured interview method was chosen, enabling the interviewees to more freely elaborate on their pricing strategies. The semi-structure allowed us to explore the most relevant topics further, while still keeping us to the theme chosen (Saunders, Lewis & Thornhill, 2019). Our interview guide can be found in Appendix 1.

4.2. Social Constructivism in Combination with Interpretivism

With the aim to give a more transparent picture and understanding of which factors lay the foundation for the pricing within psychotherapy, the study seeks to understand the sense-making of psychologists and the current situation of the world, rather than trying to change it. Thus, the study is placed within the interpretive research paradigm. It seeks to understand how psychologists make sense of the concept of pricing, thus taking a subjective ontological view. The authors are departing from a place of social constructivism, wherein the reality is seen as constructed by the actors living it. As price itself is a constructed notion, it seemed appropriate that also the study of the phenomenon allowed for the presence of subjectivism and sought to understand the building blocks of this conceptualization. Thus, it is also recognized that the results and interpretations of the empirical data collection are subjectively determined, both by the interviewees and interviewers. The respondents will give their subjective view of the phenomenon as they themselves choose what they bring up when answering the questions, and how they interpret their experiences. The result can therefore not be deemed as objective, but rather an interpretation of the socially constructed reality (Saunders, Lewis & Thornhill, 2019).

Building upon the ontological reasoning is the underlying interpretivist epistemology. The analysis of the interviews will be dependent on the authors' interpretation of the respondents' answers and implications. Not only do the authors influence how to interpret the results, but also what should be examined in the first place, and how. Thus, the results will be based on the respondents' and our perception and interpretation of reality, which is constructed by different interactions between individuals. The data collected will be colored by the context in which it is found, and thus, it is important to

capture not only the interviewees specific answers to the questions, but also leave room for their own interpretations of the core aspects of pricing (Saunders, Lewis & Thornhill, 2019).

As the authors of this article will influence the research, the values they hold are bound to do the same, thus, the axiology is value-bound. The collaborative nature of data collection between interviewees and interviewers makes it crucial that the authors are aware of this fact and continuously reflect upon it. Reflexivity is therefore an important part of the research to make sure that the authors are aware of their impact on the study and are questioning how this impact does in fact affect the end result (Saunders, Lewis & Thornhill, 2019).

4.3. Primary Data Collection

4.3.1. Interview Sample

The main source of data is retained through interviews with psychologists with a geographical scope limited to those having a physical reception located in Stockholm. The purpose of our interviewee selection is to gain a variety of characteristics, such as gender and treatment programs. This gives a more complete picture of how psychologists in Stockholm work with their pricing strategy.

A total of 52 psychologists were contacted, from which eleven interviews have been conducted (see summary of the respondents in table 4.1). At that number, a point of saturation was reached, at which the marginal information was diminished. The respondents were contacted by e-mail through contact details retrieved from their individual websites.

Table 4.1 Overview of Respondents

| No. | Respondent | Location | Minutes Interview | Program | Gender |
|-----|------------|----------|-------------------|-----------|--------|
| 1. | Katrin | Digital | 23 | CBT | Female |
| 2. | Lennart | Physical | 22 | PDT | Male |
| 3. | Lena | Digital | 23 | PDT | Female |
| 4. | Elsa | Digital | 19 | CBT | Female |
| 5. | Karolin | Physical | 24 | CBT & PDT | Female |
| 6. | Edvin | Digital | 12 | CBT | Male |
| 7. | Per | Digital | 40 | CBT & PDT | Male |
| 8. | Martin | Digital | 18 | CBT | Male |
| 9. | William | Physical | 29 | CBT | Male |
| 10. | Isak | Physical | 23 | PDT | Male |
| 11. | Florian | Physical | 30 | CBT & PDT | Male |

Note: CBT = Cognitive Behavioral Therapy, PDT = Psychodynamic Therapy

4.3.2. Interview Design

The interviews were performed in a way to gain insights both in terms of the psychologists themselves and their career, their reasoning regarding their pricing and their interpretations of the clients' response to their created value and price per session. The different segments included in the interviews are presented in table 4.2.

Table 4.2 Interview Segments

| Introduction | Pricing Strategies | Clients' Perspective |
|---|---|--|
| Background and education of the psychologist. | Reasoning regarding their own pricing and their competitors'. | Interpretations of how their clients view their value relative to their pricing. |

4.3.3. Interview Setting

Due to the on-going pandemic the authors left the interviewees to decide whether they wanted to have the interview in their physical private reception or digitally, through a video call. Out of the eleven interviews which were held five were conducted physically, and six digitally.

4.4. Analysis Method

When analyzing the data, a thematic analysis was conducted. Starting off with a color coding and a creation of first order categories, an initial coherence and categorizing of the data was established. Following this, second order categories, constructs, were established with the influence of the theoretical framework. This was achieved by exploring the relationships between the initial findings, grouping them together into common themes and thus providing a higher level structure of the empirical findings. Finally, based on the different elaborated constructs, an answer to the research question could be finalized. Thus, the raw data collection, going through a theory driven analysis, resulted in an answer to our research question.

4.5. Ethical Considerations and Implications

In order to ensure the authenticity of this study, and to optimize the likelihood of honest answers from the respondents, measures regarding ethical aspects have been taken. All of the respondents have been notified before participating about their data confidentiality and anonymity. This has been ensured further by them filling out a consent form, in which this is all stated. The interviews were recorded, transcribed and then deleted. The psychologists have not, in line with their professionally associated contracts, shared any information associated with a specific client of theirs and all conversations have been done in a generalized and anonymous manner.

4.6. Method Criticism

An addition to the method could have been to include interviews from the opposite side of the industry, the clients. As of now, we have solely looked at the psychologists' perspective and their interpretation of the reasoning behind their prices. Even though the clients do not have any power when setting the prices, it is self-serving for the psychologists to present the ethical aspect of their pricing. Therefore, there is a fear that the responses are not displaying an accurate picture. Thus, using triangulation by contrasting their view on how they set their prices with their clients' views, would have given more nuanced and trustworthy results and increased the validity of the research.

In regard to the reliability of the research, it could be argued that we as researchers will inevitably affect the outcome of the interviews, as the follow up questions which were asked were a bit different depending on the respondents' answers. As this was not decided by a specific response, but rather adjusted depending on what was deemed necessary, the replicability of the research could be hurt.

Ensuring that the research reflects the participants' realities is crucial. The translation of the interviews from Swedish, in which they were conducted, to English, does however pose a risk of the quotations being altered from the original. To improve the credibility, all interviews were recorded and two people were present at all interviews. Discussing our interpretations of the responses with each other also reduced the individual research bias.

5. Empirical Data

After having conducted eleven interviews, the empirical findings have been categorized and summarized into seven core points of interest in answering the research question.

Table 5.1 Section Content

| Section Number | Section Heading |
|----------------|---|
| 5.1 | Competitor Comparison |
| 5.2 | Competence, Education and Type of Treatment |
| 5.3 | Offerings and Price Differentiation |
| 5.4 | Inflow Focus |
| 5.5 | Side Incomes |
| 5.6 | Signaling Through Pricing |
| 5.7 | Ethical Aspect of Pricing |

5.1. Competitor Comparison

Ten out of eleven respondents mentioned that to find a starting point for their price setting, they talked to colleagues or gathered information through an industry organization. “Primarily I ask colleagues working with similar methods. (...) When I began, I heard that many took X per session, so I started with that.” One respondent said that she uses the tool “Saco-search”, where she can find a list of fees for psychologists, “There I enter the Stockholm region and try to look at those who are born the same year as me. There I can see the medium salary, what is the tenth percentile (...) I try to create a market awareness of where I should be placed.”

Many respondents also gave the image of the competition being irrelevant for their pricing. “I do not have any idea of how many competitors I have working in the private sector. (...) What is essential for me is that I have a demand.” Although, some seem to be affected by what others are charging. “I happened to enter a website of young psychologists charging the same as I did last year, X per session. So I increased my price. (...) I do not want to compete on the same terms as those who recently graduated.” Another respondent mentioned that “most clients are probably comparing prices so the industry standard does affect price setting in that way.” Even those who said that they had no picture of the competition on the market, argued that they would not increase their price with 200-300 SEK due to some kind of industry standard. “I have not seen that [high of a price] anyway. I do not know what would happen with the inflow in that case.”

5.2. Competence, Education and Type of Treatment

One factor of pricing which was brought up by the majority of the respondents was their self-evaluated competence. This was often referred to as dependent on two things: the number of years of education, “I think it is an advantage being a psychotherapist too since it is an additional education..., then you are something more than solely a psychologist actually”, and the number of years working in the industry, “I evaluate my own work as very high quality due to the fact that I have a high level of work experience”. One respondent argued that her experience also made a difference for the clients. “I can in a very short period of time put my finger on where people are stuck. (...) Thanks to my experience and knowledge it goes much faster for me now.” The price of the education was also brought up, with an apparent feeling among the respondents that these investments in education were large. “It is a question about many millions [sic!]. (...) So I do not believe that it adds up from an economic point of view.” Having extended competence in these two measures was repeatedly a reasoning when motivating their own self-evaluated high charging price.

Another regularly occurring theme of argument was the choice of program treatment used in their practice. In particular, a clear distinction between cognitive behavior therapy (CBT) and psychodynamic therapy (PDT) was made, where CBT was argued to charge a significantly higher price per session. “I know that those working with CBT charge even more, that is due to them having shorter treatments and thus people are willing to pay a higher price”. Since the number of sessions is smaller, the total price for a treatment would still be equivalent to one of PDT they argued. As one respondent said regarding the higher prices charged for CBT “Shorter treatments make people willing to pay more if they only have a limited amount of sessions. So it is not really possible to compare it, it is like pears and apples. I do not think I could charge that much.”

5.3. Offerings and Price Differentiation

Only one of the psychologists does not work with price differentiation and different offerings. “I try to stay with a set price, I think that is the easiest.” Instead, a frequent way of thinking among the psychologists is to have a reduced charging price for the initial sessions. The argument is to give the clients an opportunity to get to know their psychologist before signing up for a treatment program. “I offer an initial session without charge, so that they can come the first time for free.”

Many of those using a price differentiation strategy charge a lower price for psychology students, or those with smaller purchasing power. “Earlier there was a requirement of having your own therapy as a student of 50 hours. Then I lowered my price a little, 10-20 percent.” Some also charge a higher price for corporate clients. “Some have an employee who pays, and then I usually push the price a bit higher.”

One respondent had special price offerings depending on how often the client had a session, with lower prices for more frequent visiting clients. “If you come here every week you pay X, if you come here every other week you pay Y, if you come here every

third or fourth week it is more of a supporting talk or coaching, not so much of a treatment. (...) Then it costs Z.” Many state that they never impose a price increase for a client. “I have worked for 40 or 30 years. But I never increase the price for those who are clients here.” Thus, as a client one often gets to continue paying the price one paid initially, even if the psychologist has raised the prices for new customers multiple times.

5.4. Inflow Focus

Half of the respondents evaluated their prices and decided upon changing their prices based on the fullness of their calendar. “I have reasoned that if I can fill my calendar with that price I will stay there. If I get too few clients I might lower my price by a hundred SEK.” Multiple psychologists said that the focus is on filling the calendar, rather than on the price. “I do not think about the price in that way - I think more about the inflow.” said one respondent. Another person said that he had increased his price when he felt it was possible. “Because I believe I will have a full calendar anyway.”

However, reasoning of the opposite kind was also brought up by one respondent. “I have a goal to be able to work for a long time, but not for long hours. (...) Over time I want to be able to work less, but debit the clients more”. Indicating a focus of total income rather than that of client inflow.

5.5. Side Incomes

Many of those being interviewed had other incomes on the side of their client practice, affecting their price setting strategy. According to them, it resulted in them not needing to charge as high of a price as their competitors only working with clients. “As this practice is not my main source of income, I feel like I have a larger span of pricing possibilities”. Examples of side incomes are projects with private corporations, assistance to public sector organizations and coaching of younger psychologists.

The fact that many within the industry have other sources of income was also brought up as a source of conflict between the actors. “My colleagues will sometimes joke about them wanting me to raise my prices, saying it works against the market competition, as it is to them seen as a form of price dumping”. However, not a large enough conflict to feel pressured to change their prices as a result.

Furthermore, some of the interviewees were retired and solely welcomed clients based on good will, and a burning interest for the subject, which resulted in them reasoning about having a lower set price for their clients.

5.6. Signaling Through Pricing

“... but I don’t want to lay my price lower, because then people think ‘what the hell, what is this even?’”, one of the respondents argued. Stepping below what many of the respondents perceive as the normalized span of pricing of a session, is experienced to have a negative impact on customers. It appears to create a sense of negative evaluation

and expectation of the treatment and its quality, which consequently have been brought up as an argument for not lowering their prices this far.

In addition to the signal of quality from the psychologist herself, it also appears to create a signal internally for the client, resulting in a more efficient treatment procedure. “In some cases it feels like it has created a halo effect. A positive effect that you believe your treatment is working better when paying a higher price for it.” Taking responsibility for one’s own life, investing in one’s own wellbeing, is experienced to make the treatment more impactful. This importance of the physical transaction itself even resulted in one of the respondents charging his clients of young ages with “something of their own that they value highly”, which could be items such as stones. This highlights the importance of internal signaling of pricing for the clients.

5.7. Ethical Aspect of Pricing

The ethical aspect of price setting seems to be present for a majority of the respondents. One respondent said: “I think I could do it, increase my prices substantially. But I do not want to, it would not feel right.” Multiple people said that the price can be seen as high for the clients. “And then I see clients pretty often, once a week or sometimes twice a week, and then it is tough to pay X SEK per session for almost anyone.” The price is thought to limit who can attend psychotherapy. “It is a pretty large amount of money we are talking about for an individual, Y per month if you visit every week. It is a bit sad that it might only be a certain category of people who have the possibility of going to therapy.” Another person mentioned that the ethical pressure of setting too high a price was something which affected both the individual person, but also kept the prices lower on a general level. “It can feel difficult to charge the client at all. So I try to separate it mentally. But I believe it has a large impact on the pricing generally among psychologists, that you get that feeling that it is difficult to demand payment. You get to know them, care about them...”.

Multiple of the psychologists changed their prices according to the purchasing power of the client. “I make a short inquiry about what incomes they have. (...) Then I get a picture of what this person will be able to pay, and I have a range within which my prices are. (...) The price is based on the economic situation for them.” Some change the price if the client’s economic situation is worsened. “To make it possible for the person to come even if they pay less. That is important to me.” One respondent reasoned about the possibility to charge more. “But I am not interested, then there would be a completely different group I would meet and work with.”

One expression is used multiple times: “Robin Hood”. “It is some kind of Robin Hood rate. You hear about those who have inherited money. (...) They get to pay more. I have sometimes taken more than X from them. They get to cover the costs for those who pay less.” Some psychologists give treatment to those who cannot afford their fees, and finance the cheaper treatment with the help of those who have the ability to pay more.

The want to help the client is apparent. “I want to contribute to making it easy to get help. (...) I do a few pro bono treatments so that it feels meaningful. So that not only those who are well off can come to me.” Another psychologist said: “If there is someone who comes to me in a very poor condition, of course I do not charge them.” One respondent mentioned that money is not what drives most psychologists. “You do not really choose this course of profession if you want to become rich.”

6. Analysis

The categorized core points of interest are analyzed through the chosen theoretical framework. The theories are applied to the empirical material for which they are relevant.

6.1. Price Discrimination

6.1.1. Offerings and Price Differentiation

Price discrimination is a common way for psychologists to conduct their pricing strategy. Third-degree price discrimination, separating buyers into different categories, is frequently used through reducing the price for new customers the first few sessions, or charging students a lower price.

Second-degree price discrimination is not very common among the psychologists. Only one out of the eleven interviewed psychologists used this kind of pricing strategy by charging different prices based on the frequency of therapy sessions. While the pricing is not entirely based upon the total number of sessions a client purchases, it is based upon the number of sessions a client buys within a certain time period, and can therefore be deemed as a second-degree price discrimination.

First-degree price discrimination was commonly used within the industry. The motivation seemed to be mostly based on ethical values. The psychologists reduced or increased the price based on the purchasing power of the customer. First-degree price discrimination extracts all consumer surplus, and is thereby argued being the most profitable form of price discrimination. Thus, it cannot be dismissed that the use of this method is also a way to maximize profit. However, that the respondents repeatedly state it being possible for them to charge a higher price, without them wanting to increase their price, makes this incentive less likely. The price discrimination seems to be introduced to be able to lower the price for certain groups of customers. Rather than being an active choice, the use of price discrimination to be able to charge a higher price seems to solely be the result of wanting to be able to charge a lower price to some consumer groups. This will be discussed further in 6.1.2.

The way the first-degree price discrimination is conducted is through private conversations with each client regarding their purchasing power. As might be apparent, for a large company with many customers, this would be too time consuming. In addition, in a company with many employees, it would be difficult to ensure consistent evaluation, and thus fairness. The psychologists' ability of doing this is thus enabled because they are managing a one-man company, with relatively few customers.

6.1.2. Ethical Aspect of Pricing

The use of first-degree discrimination is appeared to be frequently used by the psychologists. The motivation seems to be a want to provide also those with a weak financial position with psychological treatment. Thus, the aspect of ethics enters the pricing strategy. The ethical aspect worked in both ways, reducing the charged price for some, increasing the price for others. While the main cause of receiving a lower price was a weak financial situation, the main motivation of a higher charged price was funding from a corporate function instead of a private pocket. However, while these were the characteristics motivating charging a higher price, the core reason seemed to be to cover up for those who were charged a lower price. Thus, the ethical aspect of pricing was the main motivation for the heavily used first-degree price discrimination.

Not only did the ethical aspect affect the pricing strategy on an individual level, but also on a more general industry level. The standard price level, before adjusted on an individual level for specific customers, is permeated by an ethical sense of not wanting to charge too high a price in this industry as a whole, as put forward by the respondents. Even though the psychologists sensed that charging a higher price was possible, they did not want to do it, as they did not deem it ethical doing so. Thus, the ethical aspect affects the pricing process on several different levels.

6.1.3. Side Incomes

The use of first-degree price discrimination of psychologists is clear, but why the use is so often occurring is further to be analyzed. One recurring argument brought up by the respondents was the fact that many of the psychologists in the industry had additional income sources besides the one from their private psychotherapy practice. As several of the respondents stated, when gaining income from side businesses within the psychotherapy industry, your dependency on your private practice income is diminished. This, thus, opens up for charging a lower price for the paying client. In a way, the psychologists are cross-subsidized. This aligns with the empirical material showing how those not being fully dependent on their private practice income goes to a larger extent in their price discrimination. Thus, the price discrimination which, previously stated, is caused mainly by an ethical aspect, is further amplified by the limitations in scope of working hours in the psychologists' private receptions. On the other hand, those only having one source of income do not have the possibility to reduce their price to the same extent. Thus, they do not have the same competitive advantage, but are still being pressured to reduce their price.

6.2. Value-, Cost- and Competitor-Based Pricing

6.2.1. Competitor Comparison

Ten out of eleven psychologists mentioned that they use colleagues or industry standards to set a reference point for their fees, showing that a competitor-based pricing method is common. While many seemed to charge a similar price as their colleagues,

some used it as a benchmark to make sure that they were not charging too low a fee. However, multiple respondents also said that competition was irrelevant for their pricing. Combining these two, it seems many used competitor-based pricing to find an initial price level at the start of their career, but as the psychologists became more experienced, it seemed as if the price of their competitors had a smaller influence upon their pricing decisions.

Some respondents mentioned the existence of an industry standard for fees as a consequence of clients comparing prices. The result being that psychologists want to place themselves in the proximity of this market standard line. This also shows that the pricing of competitors seems to have an influence.

6.2.2. Competence, Education and Type of Treatment

A majority of psychologists said that their competence, a result of both education and experience, was a deciding factor in setting their fees. This can be analyzed from different angles. Firstly, more education and experience were believed to result in a higher value for the clients. To charge a higher price because of these factors could in that way be seen as value-based pricing. However, some adjusted their fees depending on what competitors with similar, or different, levels of competence, charged. For example, a very inexperienced psychologist charging a certain price could make a more experienced psychologist increase their price from that level. This would insinuate a competitor-based pricing strategy. Lastly, the cost of the education was also discussed, where the fees were not believed to cover up for the investments in education. As the education was put forward as a reason for charging a higher price, this can be viewed as a cost-based pricing strategy.

Regarding type of treatment, CBT was argued to be able to charge a higher price per session than PDT, as the total price of treatment would be equivalent due to the smaller number of sessions required within CBT. As the psychologists argue that the price of treatment in the end shall be equal for the clients having received the same value, one treatment, this is an example of the perspective of value-based pricing. As is apparent, psychologists seem to use multiple kinds of reasoning in regard to their price setting based on competence, education and type of treatment.

6.2.3. Inflow Focus

As a psychologist, you as a person and your time is your primary resource in providing the service. Thus, this is also one of the main costs, and a lacking resource when demand exceeds. A cost-based strategy suggests one is setting the price based on the associated costs with your service, and the desired mark-up. The focus put on the amount of client inflow is basing its prevalence in the opportunity cost associated with having hours free from clients. Hours in which the psychologist could have gained income are lost. As a consequence, the psychologists adjust their price to ensure a consistent inflow.

Setting your price based on a heavy influence from your organizational costs, including premises, education and salary, is not very recurring in the empirical material, as for why the cost-based strategy is not that prevalent in this industry. However, the reasoning regarding opportunity costs associated with psychologists' time resource is one frequently brought up, and thus the cost perspective is still present.

6.2.4. Signaling Through Pricing

The psychologists expressed a reasoning of it not being beneficial setting a too low price per session due to how it is perceived by the client. Using the value-based strategy, one would analyze the client's perceived value and match it with a price high enough to capture all value to maximize full possible revenue. In the psychotherapy industry, the strategy is perceived to be expressed in a little different manner. The psychologist analyzes the perceived client value, but does not do this in an effort to exploit it, but instead in a fear of setting a price too low relative to this, and by that, also scaring the client off. Thus, the client value does have an influence on the pricing strategy of a psychologist, but has different motives than the original theory.

The signaling through pricing is also apparent in a different matter, as a higher price is seen to have a positive influence on the effectiveness and the perceived value of the treatment. Again, this adds a new perspective to the theory. Instead of exploiting value through your pricing, your pricing is used to increase the value of the service. The course of events is flipped around, but comes with the same result of getting paid for all the value the client experiences.

7. Discussion

Based on insights gained from the empirical material, contradictions with the chosen theory and other findings to investigate further are developed below.

7.1. Empirics Conflicting Theory

7.1.1. Personalized Pricing Relative to Trust

As put forward by previous research, first-degree price discrimination requires trust, as disclosing of information by the consumers is necessary. At the same time, the use of personalized pricing has been seen to reduce mentioned trust. In the psychotherapy industry, trust is of utmost importance for the customers in their choice of psychologist. Nonetheless, personalized pricing is a widespread method. However, the trust does not seem to be considerably affected by this practice, as despite the crucial need for trust in one's psychologists, the personalized pricing does not seem to make the clients change psychologists.

7.1.2. Price Discrimination

First-degree price discrimination discusses and makes reasoning regarding “take-it-or-leave-it” offers, where a continuous price negotiation is preferred because of the difficulties for the seller to be fully informed about the buyer's preferences. However, our empirical findings contradict this. After having set a price, and suggesting it to the client, the price is according to some of the respondents not up for a negotiation. Having an approach by which you open up for a further discussion regarding the price is argued to enable a path of pushing down the prices to unreasonable levels. In addition, you portray an image of insecurity, having a negative impact on both the price you are able to charge, but also the faith the client puts in your competence.

Another interesting contradiction which has been found relates to one of the conditions for conducting price discrimination, namely the first one: having market power. As the private psychology industry consists of a large number of actors, many being one-man companies, retaining market power as a result of a large market share is irrelevant. Despite this, we can see a large use of price discrimination by the psychologists. Thus, from this point of view, this aspect of the theory can be viewed as inapplicable to the industry of psychotherapy. However, as the possibilities of differentiation in the industry are large, this can be seen as a sort of market power alternative to the one of market share. Their organizations are differentiated to such an extent that the psychologists' own personalities and relationship to each client becomes their niche, thus, a completely unique competitive advantage eliminating perceived competition. Therefore, the condition of market power can still be reasoned as being relevant, however, as a result of differentiation instead of market share.

7.1.3. Value-Based Pricing

Value-based pricing argues that the price of a product should reflect its associated customer value. When a product is perceived to be valued higher by the customer, the price should be increased, and revenues maximized. The psychologists, however, contradicts this by stating that they try to help those who are in greater need of treatment, but do not have the financial means of buying therapy, by reducing the price. The need for therapy is in other words high in this group, implying that the perceived value of the service is high for the customer. This should according to the theory translate to a high price, but as has been explained, the price is reduced for this group, and thus, contradicts it. On the other hand, the price for those well off, is kept high independent of their need, indicating that value-based pricing is not applied on this customer segment. Concluding, in regard to the customer segment on which the value-based approach is practiced, the psychologists seem to do the opposite of what is presented in the theory.

This also contrasts the halo effect which was presented by the therapists; that a higher price contributes to a more effective treatment. If the price is lowered for this group of people, the halo effect would imply that the quality of their treatment could also be worsened.

7.2. Sticky Prices

Many of the respondents put forward that they base their price on the fact that they should have a full calendar. Thus, an empty calendar results in a price decrease so that the calendar becomes full, and vice versa. However, the psychologists are also hesitant to increase their price, which can seemingly be seen as a discrepancy between the different pricing strategies used: adapting the price to the fullness of the calendar and keeping the price consistent. However, the sticky prices are mainly related to the already existing customer base while the calendar focus is directed towards potential new customers. The conflict in the practical execution of the pricing strategy is therefore not as present as it first seems.

Thus, we can still see a difference in how the psychologists view their existing customers in comparison with potential customers. The high moral responsibility the psychologists feel towards their existing customers prevent them from increasing the price for this customer group. The same ethical standards are not present for the majority of potential customers, allowing the psychologists to raise the price for this segment. Thus, the sticky prices have a major influence on the pricing strategy of psychologists, but solely in regard to their existing customer base. This puts emphasis on the difficulties in maintaining the barrier between business and relationships, resulting from the close client-psychologist relationship.

One could also argue another motivation for the sticky prices being to maintain the level of customer goodwill, and be a result of a fear that increased prices will scare clients away. Additionally, it could be perceived as comfortable keeping the same customers,

instead of having to initiate new relationships. Potentially, it could also be more interesting to continue working with a client for a longer time, gaining a deeper relationship with the same person.

7.3. Effects of Cross-Subsidizing

As has been stated, the industry is to a large extent originating from a competition-based strategy in their pricing. The presence of actors being cross-subsidized through other types of incomes, and thus being able to charge a lower price, could potentially drive down the average price in the industry. However, this seems not to be the case, as the prices in fact are considered high by the psychologists for a person with average monthly income. The possibilities of differentiation, together with the use of prices to signal quality, can thus be seen as lowering the impact of the competitors' prices in regard to reducing other actors' prices.

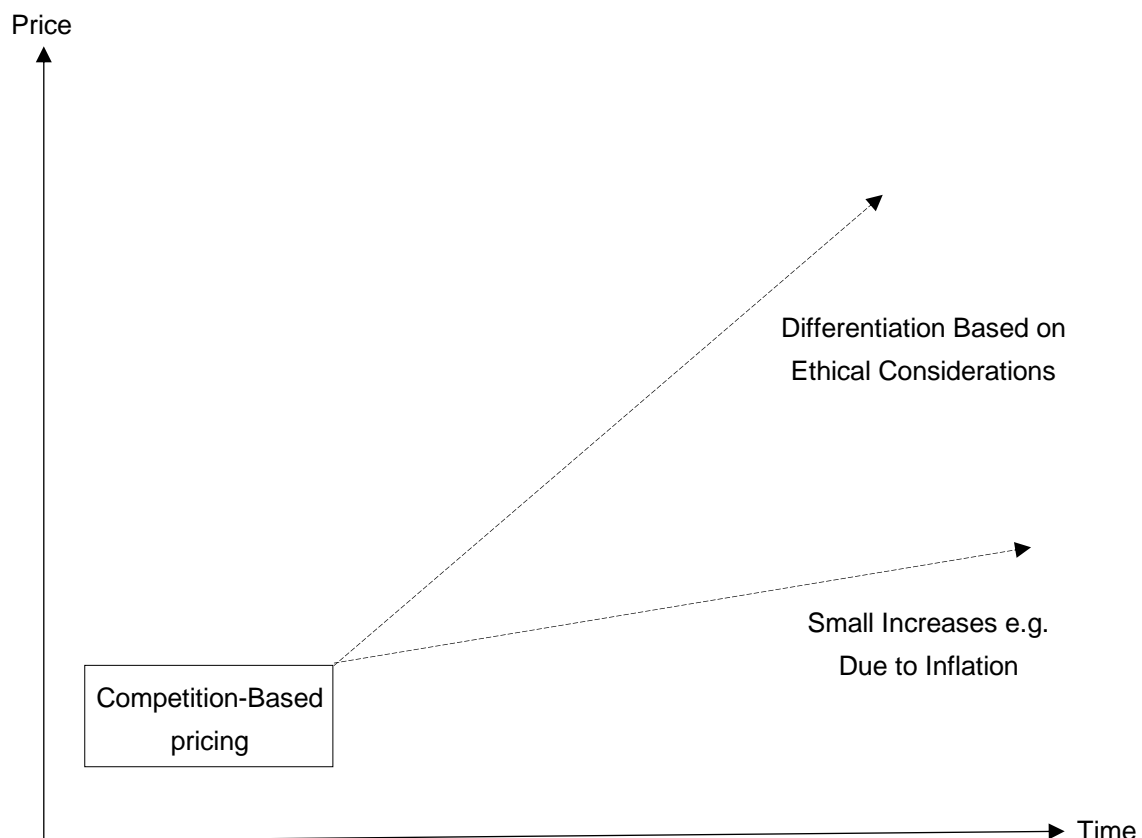
8. Conclusion

8.1. Answer to Research Question

Initially, the price set by a psychologist is mainly based on a competition-based method, where comparisons are made with competitors and a price is set accordingly. An additional input factor is the psychologist's moral stance of what is a reasonable price. However, over time, one can see a change of pricing method. Alongside a small increase in price over time, motivated by inflation and increased experience, an increased emphasis is put on the personal relationship with the client. Based on how much each individual can pay, the charged price is altered (see an illustration of the conclusion in figure 8.1). When the psychologist senses a span of possible prices, the one chosen is said to be set mainly based on gut feeling.

To answer the question of which components act as the base when pricing non-digital psychotherapy, one can thus conclude that the two most significant factors are: A base price level as a result of *competition*, and individual price differentiation as a result of *ethical considerations* related to the specific client.

Figure 8.1 Illustration of Psychologists Pricing (Haaker & Malmström, 2022)



8.2. Implications for Management

The chosen area of study has industry specific aspects which complicates the possible generalization of its results. First of all, playing a great role within this industry is the ethical aspect of pricing. Both the close client-psychologist relationship, and the goal of the service being to provide for the client's health, enhance this complex addition to pricing. As this is not applicable for all industries, it will limit how extensively the results can be used. Another important aspect for this industry is the great prevalence of actors who are cross-subsidized through combining their private practice with incomes from other psychology based incomes.

However, even though there are limitations to the general managerial implications which can be drawn from this study, there are still valuable ones to draw. To start off, the creation of client relations is a beneficial differentiation. The relationship with your client will, on its own, act as a competitive advantage difficult for competitors to compete with as it requires trust, and thus a time investment. When having gained a relational competitive advantage, the barriers to changing suppliers are strong, which enables a pricing strategy of high margins. Your niched product, your relationship with your client, goes as deep as to a person-to-person level, creating a force of market power independent on the extent of market competition and eliminating this threat tremendously. Thus, this study implies that putting efforts into making your service a relationship based one is beneficial, and may give a larger freedom in setting one's prices in relation to demand. In this heavily personalized industry, one can state that as long as the supplier stays within a reasonable price range, the price itself is not crucial for business survival.

Furthermore, an additional implication for managers is that there seems to be a lower barrier to pricing of certain services. Setting a price which the customers perceive too low, could create a sense of suspiciousness towards the service quality and value, resulting in it being a push- rather than a pull factor. Thus, customer analysis is given further weight of importance, and price competition should be kept within a certain span.

From this study, it has become apparent that the existing research and theory are not always applicable. Reality is multifaceted, and there being a universal strategy to pricing, possible to apply in all industries, is not the truth. To hold deep general knowledge about a concept, does not mean that one is automatically an expert on this concept in all environments. It is difficult, not to say impossible, to arrive at one single answer to the question of pricing applicable in all business situations. Even if a large portion of the literature wants to tell us that one certain strategy is the right one, all industries are different. Working within management, this insight is a very important one to understand to keep approaching new situations with a curious and humble mind.

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10. Appendix

10.1. Interview Guide

Table 10.1 (Copy of Table 4.2 Interview Segments)

| Introduction | Pricing Strategies | Clients' Perspective |
|---|---|--|
| Background and education of the psychologist. | Reasoning regarding their own pricing and their competitors'. | Interpretations of how their clients view their value relative to their pricing. |

Introduction

- Could you tell us a bit about yourself and your career?
- What is your education?
- What type of treatment do you use?

Pricing strategies

- How do you decide upon your price?
- Do you have a set price or is it subject to change?
- What room do you perceive that there is for psychologists to set their own price?
- Have you ever increased your price?
 - Why did you choose to increase it?
 - How did you choose to increase it?
- Do you have a strategy with your price setting?

Clients' perspective

- How do you judge the value of your treatment?
- How do you know if your customers are satisfied?
- How do you believe the customers value your treatment?
- How do the customers experience your pricing?