PROFESSIONAL PRICING SOCIETY

The PRICING ADVISOR

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Price Elasticity of Demand is one of the most difficult and controversial tasks of forecasting price variations impacts. There are a certain number of myths and best practices we must consider in order to have simple and efficient estimations of these impacts. The purpose of this article is to share some of our practical achievements in this exciting field of the Pricing Science. Author André Koeppl is the Knowledge Manager at Quantiz Pricing Solutions. He can be reached at akoeppl@quantiz.com.br.

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Price Elasticity: Practical Implementation Lessons

Myth #1: Price Elasticity is static

Since 2006, our project experience in different segments confirms the economic theory that the Price Elasticity of Demand depends on several variables. Some of them are listed below.

Long term variables:

- Easiness of product/service substitution
- Number of similar substitutes in the market
- Degree of product/service differentiation
- Degree of importance in the budget of the buyer's clients
- Share of buy of the clients
- Time length and cycle of sales
- Price transparency
- Implicit cost of changing suppliers
- Brand value/image

Short term variables:

- Market share
- Variations in market share
- Price point related to the average market price point
- Prices of the leader

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PPS Happenings

Serving the Pricing Community Since 1984

Upcoming Events

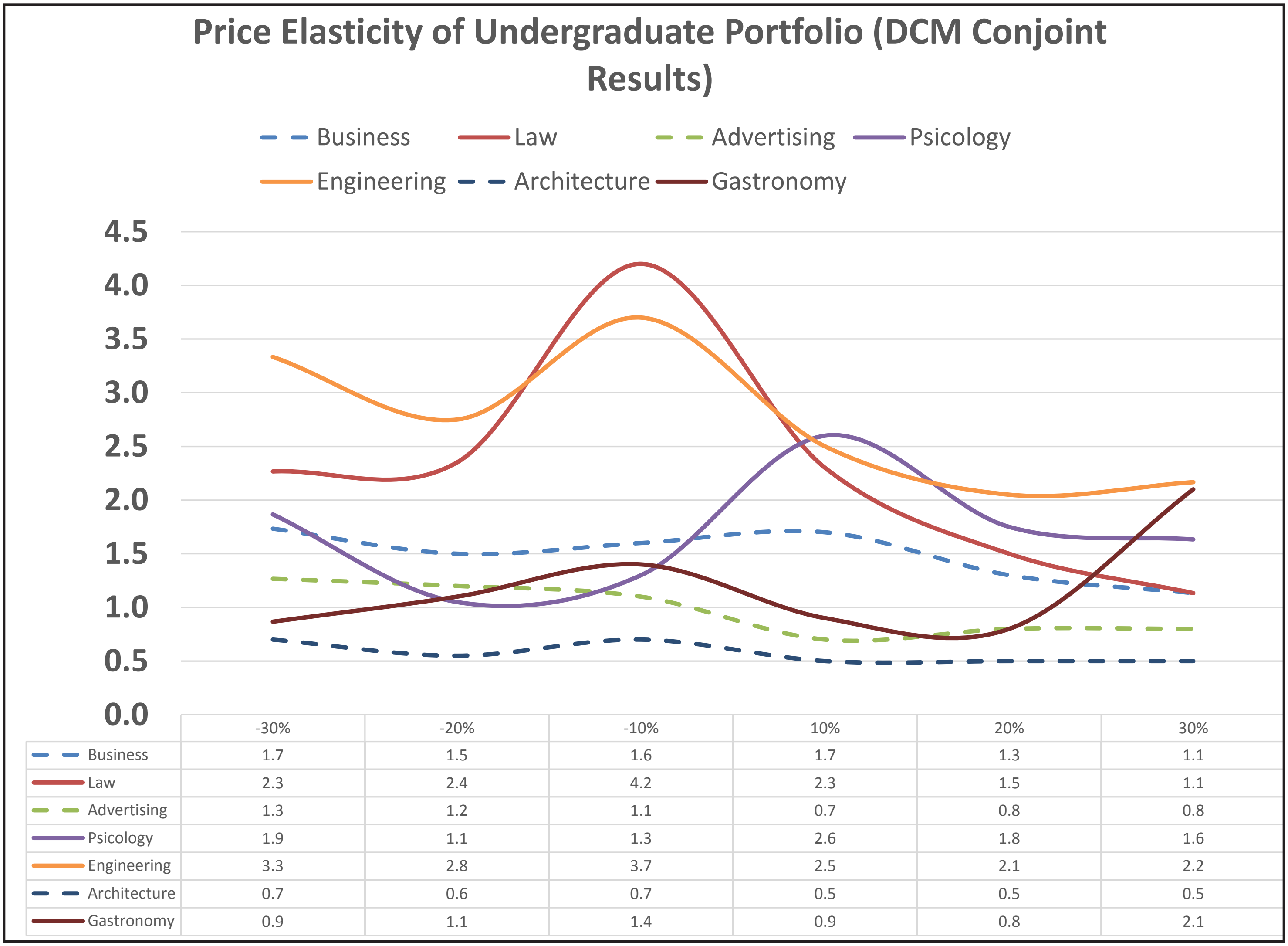
PPS 2nd Annual Latin America Pricing Workshops & Conference – Sheraton WTC Hotel – São Paulo, Brazil / 16-17 September 2015

26th Annual North American Fall Pricing Workshops & Conference – The Palace Hotel – San Francisco / October 20 - 23, 2015

11th Annual European Pricing Workshops & Conference – Mövenpick Hotel – Amsterdam, Netherlands / 2-4 December 2015

For the most up-to-date information about PPS events and programs, please visit our website at www.pricingsociety.com frequently.

Figure 1



	-30%	-20%	-10%	10%	20%	30%
Business	1.7	1.5	1.6	1.7	1.3	1.1
Law	2.3	2.4	4.2	2.3	1.5	1.1
Advertising	1.3	1.2	1.1	0.7	0.8	0.8
Psicology	1.9	1.1	1.3	2.6	1.8	1.6
Engineering	3.3	2.8	3.7	2.5	2.1	2.2
Architecture	0.7	0.6	0.7	0.5	0.5	0.5
Gastronomy	0.9	1.1	1.4	0.9	0.8	2.1

- Price gaps related to the main competitor

- (Psychological) Price references

- Dynamic of the market

The long term variables are inputs that tend to change slowly in the market and determine the steady part of the elasticity. Generally speaking, they are qualitative variables and it is very hard to measure the importance of these attributes in the elasticity number.

The short term variables are quantitative inputs whose importance are usually easy to measure. You can use multi-variable correlation analysis and/or some regression models to determine which of them you can use to forecast price impacts in the market.

Price elasticity is NOT static because the market is NOT static either. Many players will change strategy and tactics. Meanwhile, others will react to them, including the consumers.

The dynamism of the elasticity can be captured by the short term variables. The more dynamic the market and its prices, the more elastic the market becomes and the more often you will have to re-estimate elasticity.

Some elasticity estimations can become obsolete after six months, as is the case with technology products and services. We suggest that you re-estimate elasticity periodically and keep all your databases updated.

Myth#2: One number **fits all needs**

Because the market is NOT static, it is important to keep in mind that you can have at least two elasticity measures:

- Long term elasticity
- Short term elasticity

When using quantitative methods, a 12-month to 24-month monthly/weekly database can be used to measure the short term elasticity. In order to capture the long term elasticity, we advise longer databases or specific surveys methods, like Conjoint Analysis.

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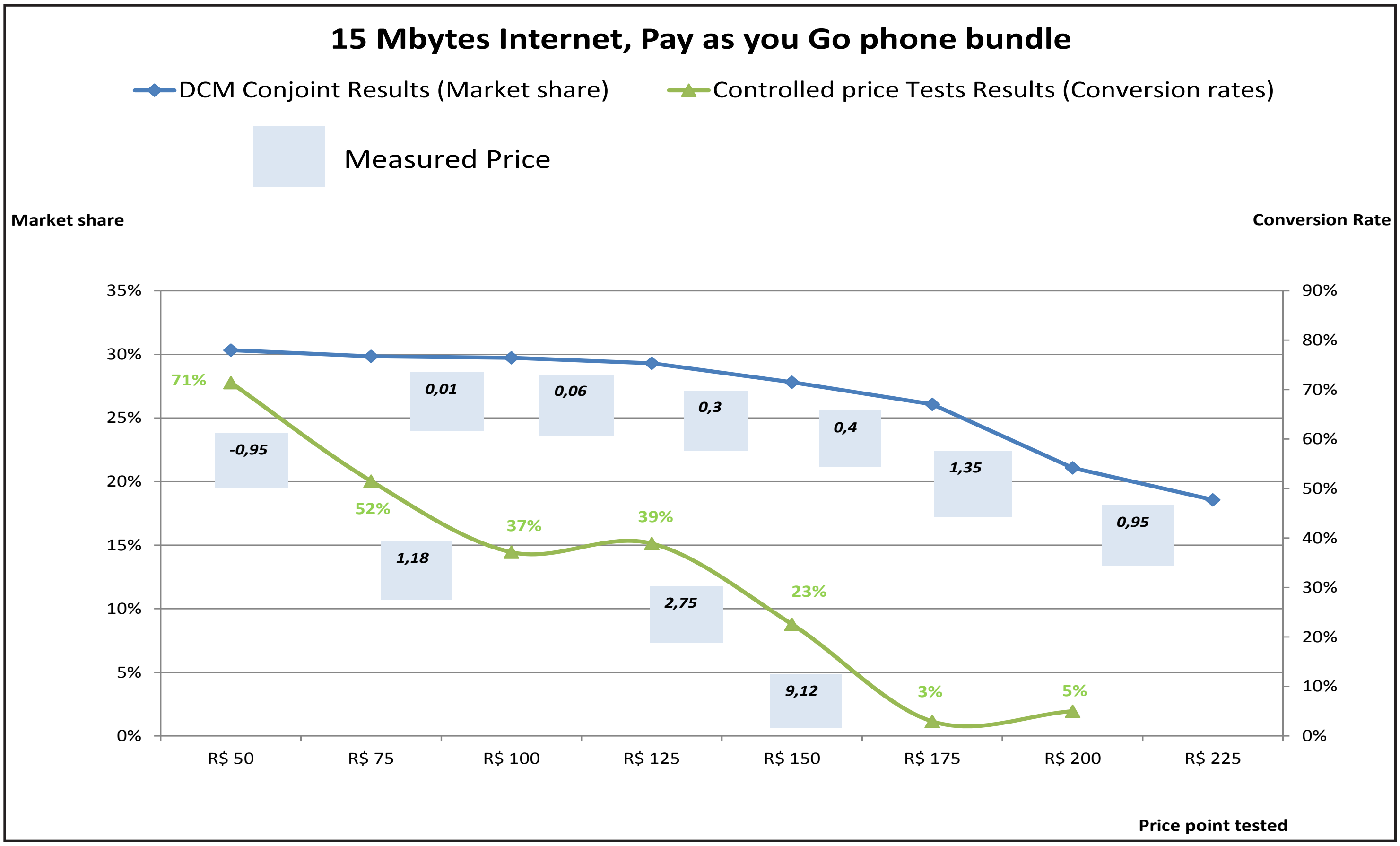
Figure 2



However, you must consider two additional situations in order to determine correctly your forecast model:

- Discount elasticity
- Price lists changes

Discount elasticity has proven to be bigger than short term elasticity. It is hard to estimate when the company plays different kinds of promotions, or when there are always many competitors' promotional actions taking place. It is difficult to correctly measure the efficiency of these kind of actions because promotions tend to cause pre and after hangovers in the clients.

Let's remember the classical formula of the elasticity:

$$\epsilon = \frac{\%\Delta Volume}{\%\Delta Price}$$

Have you ever used this formula when repositioning some products prices at the same time you update all your price lists?

The problem is that the yearly price/inflation increases tend to distort the perception of volume losses. Consumers and the market expect the new price increases. So, if you increase your prices following the official inflation rate, you will probably not lose volume.

You can solve this problem but adjusting the formula:

$$\epsilon = \frac{\%\Delta Volume}{(\%\Delta Price - \%Inflation)}$$

Only the differential price move is responsible for a volume loss/gain. So, you must understand which measure of elasticity is proper to use in each situation.

Myth#3: Price elasticity is a linear constant

The classical formula presupposes that the elasticity number is a constant, whatever the price or its variation:

$$\epsilon = \frac{\%\Delta Volume}{\%\Delta Price}$$

And it presupposes that the relation between volume and price is linear:

$$v(t+1) = v(t) * (1 - \epsilon * \%\Delta Price)$$

$$v(t+1) = v(t) * (1 - \epsilon * \frac{p(t+1) - p(t)}{p(t)})$$

Volume of today: constant Price of today: constant

$$v(t+1) = \alpha * p(t+1) + \beta$$

However, our practical experience in several projects have proven that elasticity can be approximated by a linear constant in some specific price bands, as shown by the dotted lines in Figure 1 on the previous page.

For Business, Advertising and Architec-

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ture courses, you can infer two kinds of elasticity:

- Elasticity when lowering prices
- Elasticity when increasing prices

Despite this linearity by parts of these courses, our experience has proven that elasticity is non-linear and can change abruptly, as you can see in the case of Engineering and Law courses.

Studies have proven that humans aren't linear. That's why in many cases you can try exponential, logarithmic or other models of elasticity. Keep in mind that the more distant the price point is in comparison to the today's price point, the less reliable your linear constant elasticity model will be.

Myth#4: All the methods to measure it will converge to a magic number

We have pointed that there are several kinds of elasticity numbers. These numbers will vary depending on the method you measure or estimate them. The way you measure elasticity affects your perception.

In Figure 2 you can compare two measures of short term elasticity: by Conjoint Analysis and by Price tests.

This is the example of the consumer situation affecting the measure of the desired experiment. The Conjoint elasticity was lower than the Price test elasticity because the answerers of the Conjoint weren't in the real buying experience, so their decisions were risk free. On the contrary, a very well statistically planned and executed price test presented us with bigger, non-linear elasticity.

So, depending on the method, you can get to different numbers of elasticity. You must take into consideration the real experience of consumers in order to correctly estimate the elasticity and avoid making bad decisions, such as increasing prices because of apparent inelasticity shown by the Conjoint analysis.

Our experience points to the following methods, ranked in order of efficiency (1- the best/6- the worst):

1. Statistically controlled price tests
2. Price surveys regression analysis
3. Conjoint analysis research
4. Direct price research
5. Expert judgment
6. Internal database analysis (volumes x net prices)

Myth#5: Price elasticity is a One Variable Function

Remember our short term list of factors that affects the elasticity. All of them point to the fact that elasticity is dependent of external factors or players.

It's very simplistic to assume the elasticity only depends on your own prices. Your prices affect all the other players as theirs affect your prices. The unique situation when you can use a one variable elasticity model is when you don't have any market information.

Using a 24-month Nielsen Scantrack database, we have mapped all the elasticities of a consumer goods supplier among many different selling channels see Figure 3. Testing many regression models, we concluded that a non-linear cross-elasticity model fit better than any other model.

The table a-) shows the result of a one variable (price) model and its quadratic error sum (the indicator that shows how next the model is to the reality).

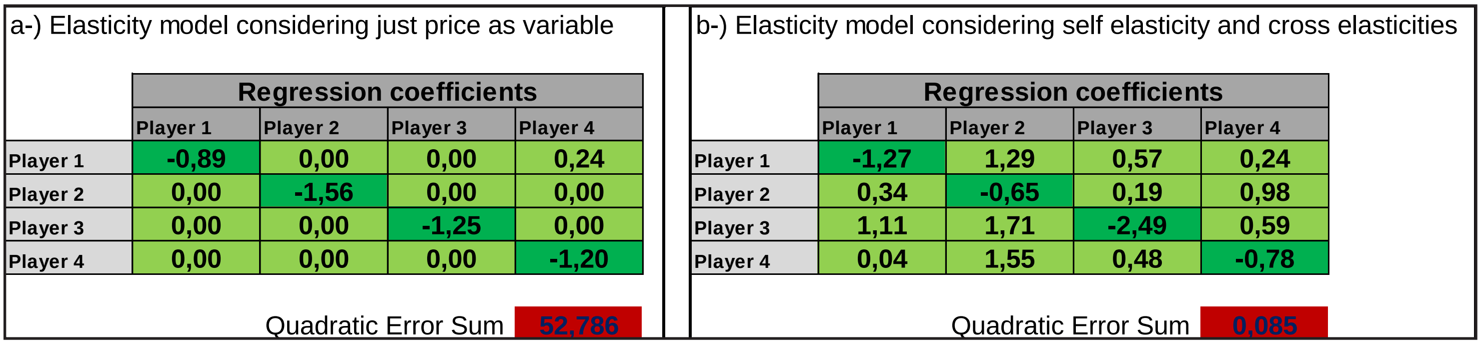
The table b-) shows the result of a more complex regression model, considering the self-elasticity and the cross-elasticity of the main competitors. This solution is just 623 times better than the one variable model.

Conclusions

Estimating elasticity demands a little more math than we usually use in our pricing activities. It's an exploratory action and you need to be patient and very analytical to correctly arrive at good solutions.

And, despite all of the work you will have to complete to obtain it, the elasticity number itself is less important than you imagine. It serves very well to forecast impacts on your sales, clients and competitors, but the reality will be always determined by external factors and players. Things can go in other directions that you never imagined or simulated before, so collect all of the data you can, prepare yourself with good Excel simulators and be ready to be very flexible in new situations.

Figure 3



a-) Elasticity model considering just price as variable

	Regression coefficients			
	Player 1	Player 2	Player 3	Player 4
Player 1	-0,89	0,00	0,00	0,24
Player 2	0,00	-1,56	0,00	0,00
Player 3	0,00	0,00	-1,25	0,00
Player 4	0,00	0,00	0,00	-1,20

Quadratic Error Sum 52,786

b-) Elasticity model considering self elasticity and cross elasticities

	Regression coefficients			
	Player 1	Player 2	Player 3	Player 4
Player 1	-1,27	1,29	0,57	0,24
Player 2	0,34	-0,65	0,19	0,98
Player 3	1,11	1,71	-2,49	0,59
Player 4	0,04	1,55	0,48	-0,78

Quadratic Error Sum 0,085

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Pricing Governance: Unglamorous Excellence

In this article, the author explains how good governance is a core enabler of any organization's long-term price performance and explores the characteristics necessary for establishing a strong, effective governance system. She also offers strategies for firms seeking to implement or improve their pricing governance. Diana Zuzek is the President and CEO of Beanstalk Revenue Management, where her team works with clients to optimize profit performance through strategic pricing and marketing actions. She can be reached at dianazuzek@beanstalkrm.com. Learn more at www.beanstalkrm.com.

What differentiates robust, sustainable price performance from its flaky, short-lived alternatives? A big part of the answer isn't terribly flashy: governance.

Before you run and hide, let me point out that, years ago, my first reaction to governance was to do just that. But reflecting on my experience as 3M's Chief Pricing Officer, I am more confident than ever that good governance is a core enabler of any organization's long-term price performance. In fact, I believe that **governance should be the centerpiece of any pricing program and is critical to gain sustainable results.** Admittedly, governance occupies the lowest rung of the "cool" ladder, along with pocket protectors, Chevy Novas, and mixing plaid and stripes. Governance doesn't get invited to parties or admired for its contributions to society. Even hipsters stay away.

However, I think **governance's reputation for bureaucracy and buzz-kill exists because most governance we encounter is bad governance, and bad governance truly deserves to be ostracized.** Bad governance leads to frustration and power struggles, while reducing stakeholders' confidence in and commitment to the processes and policies that are in place. Arguably, no governance (where short-term, sporadic gains can take place) might be better than bad governance.

Good governance, on the other hand, can be revolutionary. Good governance has its priorities straight. It knows what to pursue and what to leave alone. It speaks clearly, intelligently, and with authority, while staying light and agile. It is engaging, keeping people focused on priorities and driving healthy behaviors. In short, good governance helps to boost the predictability and profitability of any pricing program.

In pricing terms, good governance has the following, interdependent characteristics:

- Leadership engagement and support
- Strategically aligned and carefully selected objectives (the critical few)
- Well-defined and clearly communicated policies and metrics
- Periodic, consistent performance monitoring and reporting
- High stakeholder engagement and support
- Actionable guidelines for adjusting the governance model over time
- Capable supporting infrastructure (tools, resources, skills)

Let's take a look at each of these factors in a bit more detail.

Ultimately, leadership endorsement and advocacy will set the effective limits of governance. Leaders must understand how the specific policies, procedures, and metrics enable business strategy and profit performance, and must willingly and enthusiastically promote accountability. Above all, leaders must walk the walk, avoiding the urge to waive or sidestep governance protocols on a whim.

For leaders to stomach this level of championship, governance must be very carefully deployed. Governance should be implemented with a fervent commitment to nimble protocols and wholly devoted to advancing core business objectives. In other words, those business objectives must shape how pricing governance is implemented. The policies, procedures, and roles of various stakeholders in the organization should be strategically aligned to the central business strategy.

With the conceptual framework for a governance model established, managers must develop the operational components of governance. This includes policies, processes, and metrics. Policies should outline the specific rules and criteria for making pricing decisions, along with the underlying rationale. Processes should be developed to ensure accountability to policies. Metrics should be selected based on their ability to properly and fully represent price performance relative to the key objectives.

Once again, policies and processes should be light, agile, and kept to the minimum required to ensure quality outputs. Metrics should likewise be prioritized carefully. Select enough to

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portray a rounded, balanced picture of performance, but avoid introducing unnecessary noise, confusion, or distractions.

Armed with metrics, the organization must begin to hold itself accountable. This includes routine reporting of price performance to key stakeholders, often as part of a monthly leadership meeting or some other similar venue. Take advantage of existing structures and rhythms, but be intentional.

> Engage senior leadership to understand their expectations around price performance and accountability, and obtain their commitment to an aligned governance model.

Governance must not be an afterthought. More important than the reporting is the subsequent action planning focused on emphasizing positive trends or mitigating negative ones. This action planning should be a team effort, with participation and support from senior leadership, as well as marketing, finance, and sales roles.

If these first few pieces are properly thought out and communicated, organizations should expect to see strong stakeholder engagement. Employees should be comfortable with the rationale and execution of governance as a program and its various aspects.

Although naysayers will need to be managed, the primary objective around engagement is not to enforce token compliance, but to truly gauge comprehension of and commitment to the policies and processes in place. Where concerns exist, it is vital to fully understand the underlying motivations and fine-tune the program as appropriate.

One of the hallmark characteristics of good governance is its flexibility. Over time, priorities will shift, market conditions will change, or it may become apparent that the current polices and procedures simply aren't meeting expectations. Governance needs to be intentionally agile enough to respond to these circumstances. Note that this isn't license to make changes frequently or haphazardly.

Governance should drive performance, not vice versa. Nor does this flexibility excuse poor up-front planning. Rather, a good governance model should identify specific timing or performance triggers that initiate a deliberate and intentional calibration or adjustment of the governance model as a whole.

Although infrastructure is not a component of governance per se, it is crucial to effective governance. Infrastructure includes the people, tools, and capabilities required to effectively craft, implement, and execute the tactics and actions required to keep performance levels where they need to be. Without a solid infrastructure, governance has no dependable way to effect change.

If your organization is thinking about implementing or reinvigorating pricing governance, here are a few actions to consider taking:

1. Engage senior leadership to understand their expectations around price performance and accountability, and obtain their commitment to an aligned governance model.

2. Determine which metrics would best explain price performance in terms of the company objectives, and identify necessary counter-balance metrics to manage trends to the extreme.

3. Document current policies and procedures (or update existing documentation). Start to identify improvement opportunities, and unnecessary rules or process steps.

4. Understand the perspectives and opinions of key stakeholders, aiming to understand their views on how well the current process is working, who should own pricing decisions, and how price performance should be measured.

5. Evaluate your current reporting rhythm. Is it frequent enough? Is the right audience involved? Is there an emphasis on considering and selecting appropriate response actions?

As you work through these topics, you will likely gain some solid insights into how to best improve your existing governance models, or how to most effectively deploy new ones.

Good governance may never be the heart and soul of the party, but it will make sure the right people come, the food is good, the bar is stocked, and that nothing gets too out of hand.

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Of Course Disney Should Use Surge Pricing at Its Theme Parks

Recent reports indicate that The Walt Disney Company is considering implementing surge pricing for theme park admission to take advantage of high demand periods. Although some critics consider these types of tactics to be price gouging, as this article explores, these pricing strategies not only give less price sensitive customers more choice, but also activate dormant customers. Rafi Mohammed is the founder of Culture of Profit LLC, and author of the The 1% Windfall: How Successful Companies Use Profit to Profit and Grow. *This article originally appeared on the Harvard Business Review web site at HBR.org.*

The Walt Disney Company is reportedly considering implementing surge pricing at its various theme parks. Admission to Disneyland in Anaheim, CA, for instance, is currently $99 for any day of the week. The rumored pricing plan involves offering Gold ($115), Silver ($105), and Bronze ($99) ticket options that are priced based on anticipated demand. Gold would be good for admission any day of the week; Silver ($105) would be for off-peak weekdays and weekends; Bronze ($99) would get you in on select off-peak weekends.

Implementing demand-based pricing strategies at Disneyland, or any theme park for that matter, simply makes sense. Raising prices during popular times such as Fourth of July weekend capitalizes on higher consumer valuations. Is this gouging? Some observers think so, and companies such as Uber have faced criticism for so-called "surge pricing." But if customers are willing to pay more in certain instances, I vote for accepting this "free money."

One refinement I'd consider making to the rumored Disney pricing plan is reducing the lowest Bronze plan price. It's worth investigating whether a significantly lower price can activate "dormant customers" to fill the park on otherwise sparse days. By dormant customers, I mean those who are interested in coming to the theme park, but haven't done so because the price has been too high. By offering deeper discounts on off-peak days, customers who otherwise would not have enjoyed Disneyland could now do so. This would result in growth. Since theme parks are high fixed cost/low variable cost entities, revenue from discount-enticed new customers is virtually all profit, or free money. These newly activated "dormant customers" would also likely show up hungry and snap up souvenirs, resulting in more free money.

Using discounts to activate dormant customers can be highly effective. Randy's Car Wash, located across the street from the Harvard Business Review's office, offers a $5.99 wash special on Tuesdays. Shazam: demand is so strong on some Tuesdays that a police officer has to direct traffic. The upside of discounting for Randy is, again, free money.

Having a lower price option as part of a surge pricing strategy provides a great rebuttal to potential pushback on premium prices: "Yes, we've raised prices on popular days, but you now have the option to visit at a much lower price on certain days." Framing pricing options in this manner makes a price increase more palatable. Instead of forcing a "take it or leave it" decision, customers tend to feel better because they've chosen to pay more: "I had the opportunity to get a lower price, but I decided to pay more because that option was more convenient for me."

There are plenty of other industries – such as restaurants, barbershops, and health clubs – that can also benefit from surge pricing. Surge pricing has typically been used in industries with perishable goods (e.g., hotel rooms), but it can be used any time when demand varies. Should beer prices at the TD Garden be higher at a rowdy Boston Bruins game than when a traveling circus is using the arena? I think so.

Another instance when surge pricing can be used is in cases of fluctuating supply. Restaurants, for example, often charge "market price" for seafood entrees to reflect varying supply conditions. Uber argues surge pricing increases the supply of its drivers (attracted to the opportunity to earn more money), which better serves customers. I visit a neighborhood where four gas stations are located in close proximity and compete vigorously on price. However, only one of these stations is open 24 hours. Should the all-night gas station raise prices every evening between 11 PM – 6 AM when its competitors are closed? Yup, I think so.

Managers are often wary of raising prices during times of high demand because they fear a consumer backlash. It's a fair concern, but it's worth noting that consumers are becoming desensitized to surge pricing, as high/low pricing is being used more often in more industries. If well-known companies that are fiercely protective of their brands are contemplating (and using) surge pricing, other companies are probably good to go. And of course, another way to view this strategy is instead of raising prices, you are offering discounts during low-demand periods.

Back in economics 101, we were taught that every company faces a demand curve for its products and services. The reality is this demand curve is not static: there are times when demand is higher and other times when it is lower. **Surge pricing enables companies to capture additional profit when demand is high and just as importantly, provide discounts to generate growth during off-peak periods.**

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China's Private Health Insurance: Navigating Uncharted Waters

With limited coverage from public health insurance schemes, an aging population and a relatively early retirement age, private health insurance is expected to play an increasingly important role in the Chinese health insurance market. In this article, the author examines current challenges being faced by private health insurance providers in China and provides strategies for achieving pricing success and market share in this new and largely unexplored market. Serina Tang is Senior Consultant at Simon-Kucher's Boston office. She can be reached at serina.tang@simon-kucher.com.

An ever-changing and ever-challenging health insurance market

China's healthcare system has been through constant reforms. As part of these reforms, expansion of public health insurance extended coverage to more than 95 percent of China's citizens by the end of 2011. Citizens were enrolled in various public health insurance schemes, including Urban Employee Basic Medical Insurance (UEBMI), Urban Resident Basic Medical Insurance (URBMI) or New Rural Cooperative Medical Scheme (NRCMS), depending on their place of residence.

Although the different public health insurance schemes combine to offer broad coverage to the Chinese population, the average plan benefit is very limited. It is estimated that even with public health insurance, people on average need to pay more than half of the expenses out of pocket. High copayment, low annual maximum reimbursement amount, inflexible plan policies, as well as limited drug inclusions make individuals and families still vulnerable to the burden of medical expenses.

In the private sector, growth has mainly been driven by government purchasing of "critical illness policy" from private insurance companies. As part of the healthcare reform, "Critical Illness Coverage Policy for Rural and Urban Residents" was first introduced in 2012, aiming to provide additional coverage for 20+ pre-specified life threatening diseases. Private insurance companies were entrusted with the design and administration of critical illness policies, which the government will purchase for its rural and urban residents. Critical illness policy has been the most significant driver for annual gross written premium (GWP) for private insurance companies. There has also been an increased number of individuals purchasing private health insurances, but their impact falls far behind government purchasing.

Besides critical illness insurances, product offerings from private health insurance companies are limited in general and the level of sophistication is low. Most of the current private health insurances are lump-sum products purchased as add-on on savings products or life and accident insurance products. Certain types of reimbursement products are available, but their coverage is usually identical to public health insurance schemes, i.e. these policies do not cover drugs and services outside the coverage of public health insurance schemes in order to control risk. For example, innovative branded biologic cancer drugs not listed on the National Reimbursement Drug List (NRDL) are usually not covered by these private reimbursement products.

With limited product offerings, low level of product sophistication and customer awareness, the overall private health insurance market size is still very small despite a relatively high growth rate driven by government purchasing. Several factors make China's health insurance market challenging for most private insurance companies:

Lack of a stable provider network: Successful insurance products require a stable provider network where cost of procedures and medications are transparent and risk could be adequately controlled. Such a provider network does not exist currently.

Lack of standardized data: Mature insurance products are based on actuarial calculations that take into account a variety of factors, including population, geographical and historical statistics, changes in the risk pool, and the cost of providing medical care. Claim adjudication also requires coherent medical records and comprehensive treatment data. Such standardized data environment is currently not established.

Lack of negotiation power with hospitals: With limited medical resources and overwhelming demand, large public hospitals have limited incentives to cooperate with private insurance providers. Insurance companies often have little leverage against large public hospitals, making contract negotiation and risk management difficult.

Lack of insurance product management expertise: For more sophisticated insurance products, sales, distribution as well as adjudication during the claim settlement process require comprehensive protocols and management skills, for which domestic insurance companies may not have yet developed the expertise.

With limited coverage from public health insurance schemes, an aging population and a relatively early retirement age, private health insurance is expected to play an increasingly important role in addressing these implications and fill-

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ing in the gaps. However, with the aforementioned challenges and limitations, the path forward seems blurred. How should stakeholders navigate uncharted waters and seize unfolding opportunities in private health insurance?

Be the first mover

Some companies are already preparing themselves to influence the market and act upon emerging opportunities. In 2013, the multinational pharmaceutical manufacturer Roche entered into a new round of cooperation with reinsurance company SwissRe and domestic Chinese insurance companies to launch cancer-focused private health insurance products into the Chinese market. The cooperation aims to increase patients' financing capability for oncology treatments and address issues with limited public insurance coverage.

Unlike critical illness insurances where a one-off payment is made when a critical illness is diagnosed, Roche's cancer insurance product provides coverage for every step of a patient's treatment pathway. Coverage and reimbursement amount is specified separately for cancer diagnosis, hospitalization, prescription drugs, surgery and transplant etc. Complementary physicals and medical consultations are offered as value added services to policy holders.

All three partners in this cooperation play important and distinctive roles. Roche provided its insurance partners comprehensive cancer data including incidence, cure rate, death rate, drug treatment duration and cost, hospitalization and surgery cost by regions in China, which is critical for insurance product design and risk control. SwissRe provides domestic insurance companies with not only risk sharing, but also expertise and support on insurance product design, pricing and management. Domestic insurance companies are responsible for the day-to-day operation of the insurance product, by leveraging their large national distribution networks, strong sales forces and branding.

Granted, from the pure perspective of product design, Roche's cancer insurance is still largely a lump sum product where a pre-specified payment is made independent of actual medical expenses, rather than a more sophisticated reimbursement product where reimbursement amount is tied to actual medical expenses incurred during treatment. However, it serves as a pilot for exploration and foundation for future cooperation. It opens up the possibility of strategic cooperation between different stakeholders to integrate resources and overcome some of the aforementioned challenges facing China's private insurance market. Roche's comprehensive cancer treatment data enables its insurance partners to more accurately tailor product offerings and manage risks in underwriting. Meanwhile, the involvement of international reinsurance companies fills in the gaps in product design and management expertise which domestic insurance companies may be lacking.

As the healthcare system is going through the transformation, opportunities are unfolding in the private health insurance market.

Both pharmaceutical MNCs and the overall private health insurance market could potentially benefit from similar cooperation. For pharmaceutical MNC Roche, although it is not involved in profit sharing from the sales of this insurance product and is not likely to see a direct impact on its topline in the short term, the strategic benefit will likely play out in the long run. Roche could be at an advantaged position versus competitors through increased brand awareness, positive PR influence and patients' increased financing capability to afford branded cancer drugs, among which Roche products are top contenders. For the private health insurance market overall, similar cooperation may help take private health insurance in China to the next level of sophistication. The cooperation between a pharma MNC, a domestic insurance company and an international reinsurance company overcame challenges in lack of standardized data and insurance product management expertise to some extent. With the potential involvement of hospitals in the future, which could allow for a more stable provider network and transparent risk control, the emergence of more sophisticated private health insurance products could become the truth.

A path to be explored

As a foundation for China's social security, healthcare reform in China is most likely to be a constant process: incremental progression rather than drastic changes. As the healthcare system is going through the transformation, opportunities are unfolding in the private health insurance market. **With the increasing demand and consumption of healthcare services, private health insurance will become an important force to supplement public insurance schemes, and to alleviate the burden of increasing medical expenses for individuals and families.**

The growth of private insurance needs to be fostered by a stable network with the involvement and resource integration from all key stakeholders. As presented in the Roche insurance case, resource integration between key stakeholders including hospitals, insurance, reinsurance companies and MNC pharmaceutical companies could be a promising approach in the future.

Unique challenges call for innovative business models and strategic cooperation. A path forward for the growth of private health insurance in China is yet to be explored, however the companies that will succeed in an ever-changing and ever-challenging environment are likely to be those who are always on the outlook for new opportunities, who prime the market and set the stage for long term growth.