atsa
Assistive Technology
Suppliers Australasia

Assistive Technology Pricing: Is it fair and reasonable?

Briefing Paper

Introduction

Available evidence demonstrates that AT prices in Australia are both fair and reasonable, and relatively low in comparison to prices elsewhere. Prices set by Australian AT retailers are a reflection of the costs of the products they sell, and the essential services they provide that are often included as part of the retail price.

Prices for AT from Australian retailers are usually higher than prices from internet-only AT retailers operating out of the USA. These internet-only AT retailers provide no services, and the consumer carries all risks regarding fit, appropriateness, assembly, adjustment, proper use, and sourcing spare parts. Australian consumers purchasing from international websites often have difficulty enforcing warranties and are not protected by Australian consumer laws.

The wide range of services provided by AT manufacturers, importers, distributors and retailers are essential to ensuring a good fit between the individual and their AT, particularly at the moderately to highly complex end of the AT pyramid. Any substantial efforts to further reduce AT retail prices are likely to reduce the provision of these essential services to both AT consumers and their therapists/prescribers, which in turn will result in worse outcomes for consumers and higher costs and lower productivity over time.

This briefing paper is a short summary of the extensive evidence about AT pricing and the supply chain presented in detail in ATSA's background paper *Assistive Technology Pricing: Is it fair and reasonable?* For more details on any of the evidence or issues raised here, please see the background paper at www.atsa.org.au.

Background

Concerns are sometimes raised that the prices charged by specialist assistive technology (AT) retailers in Australia are high relative to prices in other countries. These concerns lead to questions about whether the commercial retail market-place for AT in Australia (and the associated AT supply chain) is truly effective in delivering the best possible prices for private and public purchasers. Government funding and procurement programs for AT also appear to be making many major public policy decisions based on perceptions of excessively high prices for AT.

AT is particularly important because it is a primary enabler, assisting one in 10 Australians of all ages to undertake activities that others take for granted. Ensuring a good match between the individual and their AT is vital. The retail prices of AT products include the costs of an extensive range of services provided by AT suppliers (manufacturers, importers, distributors and retailers) to help ensure a good match.

The best AT selection decisions are made in the context of an active partnership between the AT user, their therapist/prescriber and the AT supplier. This is particularly true when the AT and/or the context of its use is moderately to highly complex.

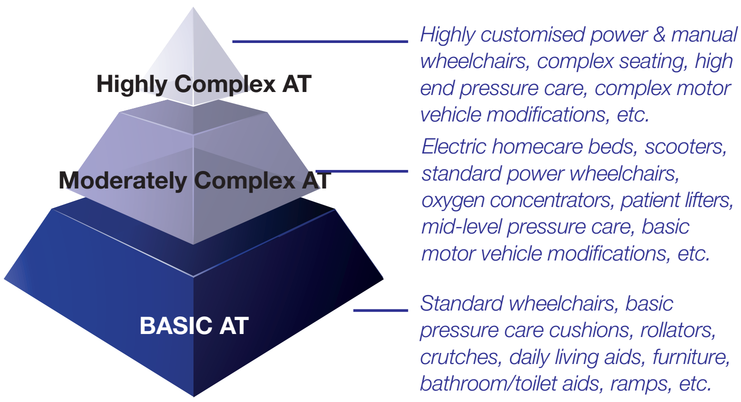
A viable and competitive AT supplier sector is pivotal to ensuring choice and effective AT solutions for AT users at the best possible prices. But price must not be the sole determinant of AT purchasing as this creates perverse incentives to drive down prices at the expense of achieving good outcomes for consumers, and the attendant savings to government and the community these good outcomes provide.

Not withstanding the general impression that AT suppliers are all about 'aids and equipment, hardware and gadgets', it is largely a service-based industry – particularly in relation to moderately and highly complex AT (see the AT Pyramid). These services are extensive and described in detail in both the pricing background paper and the briefing paper *Assistive Technology in Australia*. Some of these services include product development, testing and manufacturing at the back-end through to advice and education, in-home trials, fitting the product to the consumer, customisation and repairs/maintenance at the front-end.

All of these services are ultimately aimed at ensuring the best possible match between the AT and the individual, and many of them are incorporated into the retail pricing of specialty AT retailers.

Typically the level of supplier services required to get a good match increase as the complexity of the AT and the complexity of the goals and environment of AT user increases.

The AT Pyramid



AT Price Comparisons

Valid price comparisons are based on comparing like-with-like. In its 2014 investigation into AT pricing in Australia, the Queensland Competition Authority (QCA 2014, p 35) identified the following elements that must be considered to ensure like-for-like comparisons:

- 'differences in product specifications
- differences in supplier services
- [foreign currency] exchange rates
- customs duty and taxes
- delivery charges, including handling and insurance
- warranties
- transaction costs
- discounts and special offers
- other factors such as convenience and timeliness.'

Consequently, price comparison research is inherently complex and difficult – and the details matter.

Three sets of recent price comparison results are summarised below, with the first two drawn directly from the QCA's work, and the last one is based on research by ATSA. More detailed discussion of the work done by the QCA and ATSA can be found in the background paper.

The QCA sourced comparative pricing data regarding 'lowest available prices' from the websites of AT retailers. The lowest prices from USA and UK internet AT retailers are from 'internet-only' retailers, meaning that there are no shop-front overheads and no services provided to purchasers, with the purchaser taking all risks and responsibility to ensure that the AT is the best AT solution for them, including assembly, adjustment and learning how to use it. In contrast, Australian websites selling AT are all underpinned by brick-and-mortar AT retailers, with the associated assistance and protections for consumers and costs to AT retailers that this entails.

The QCA compared prices for 24 products, and also prices for these same products plus delivery costs to Australia. Delivery costs are particularly important because most AT is manufactured overseas, and AT is of no value if consumers do not actually have it. Excluding delivery costs, overseas prices were 38% lower. When delivery costs were included, Australian prices were 24% lower compared to overseas prices.

In relation to the QCA price comparisons, it is important to note that:

- The overseas prices are from internet-only AT sellers, not full-service AT retailers as is the case for the Australian internet prices utilised.
- As noted by the QCA (2014, p iv): 'Australia is a high cost country — Purchasing Power Parity analysis [for a broad basket of consumer goods] shows that general price levels, expressed in Australian currency terms, are 20 per cent higher here than in relevant comparator countries. The difference in relation to the United States is around 30 per cent.' The differences in AT prices (excluding delivery costs) simply reflect these purchasing parity realities for most retail products sold in Australia, especially as most of the lowest prices used in the QCA research were from the USA.
- Although QCA did factor in exchange rates, the figures used were the official exchange rates without currency exchange commissions. Consumers purchasing goods from overseas typically pay a currency exchange commission ranging from 5–10%. When this amount was incorporated into the comparison calculations, on average undelivered AT was 28–33% cheaper overseas; and delivered AT was 29–34% cheaper in Australia.

The price comparison work by QCA for 'delivered' AT demonstrates clearly that Australian AT prices are not high, and are somewhere between 'low' and 'average' when compared to prices overseas. The evidence is even more convincing when taking into account: the additional expense of air-freight costs for some AT; currency exchange commissions; the low overheads, lack of services and resulting low prices of overseas internet-only AT sellers relative to full-service AT retailers in Australia; and purchasing power parity analysis. Also, for fullservice retailers in Australia the costs of all pre-sales work such as trials are only recouped when a sale is actually made, which anecdotally is reported to occur for about 50-60% of trials.

As part of its submission to the QCA's AT pricing investigation, ATSA undertook an international comparison of recommended retail prices for a sample of AT (see ATSA 2013). ATSA found that AT prices in Australia are lower on average than across 6 comparable OECD countries by approximately 14%. This result is based on the average of the differences across the 12 products compared where there were data from 3 or more countries. For the 6 products where there was only 1 overseas price for comparison, Australian prices were 27% cheaper.

Prices on different products and/or in different countries might have resulted in different findings. Additionally, while recommended retail prices are a good indicator, these are not 'enforceable' and actual retail prices may be higher or lower. However the congruency of ATSA's findings with the QCA's findings supports the validity and reliability of both price comparison methods used.

Also, consultation with Australian AT suppliers (including manufacturers, importers, distributors and retailers) indicates that these results reflect their own knowledge and experiences. Most suppliers have extensive anecdotal evidence about their own markets and pricing internationally. They also frequently comment that the Australian AT supply sector is generally very efficient, as well as not being very profitable for most suppliers – largely as a consequence of the high levels of competition and the levels of services required to support good consumer outcomes.

The lack of profitability in the sector is a significant indicator of the robust level of competition between AT suppliers – an Ibis*World* (2012) analysis of the wheeled mobility segment of the Australian AT market found that average profitability was only 0.9% over the previous 5 years.

Why the Perception of Excessively High AT Prices in Australia?

Given that the available evidence does not support claims that AT prices are excessive in Australia, it is important to consider why these perceptions persist. Numerous factors are probably involved including over-simplistic price comparisons between AT prices on overseas internet-only AT retailers and full-service AT retail shops in Australia; sensationalist media reports; the ongoing invisibility of many of the services incorporated into Australian AT retail prices; and the high costs of AT that is moderately to highly complex.

The issue of internet versus full-service AT retailers has already been considered above. In relation to sensationalist media reports, of those which ATSA has been able to investigate, none have withstood scrutiny (see Case Studies A and B in the background paper).

The invisibility of many of the services incorporated into the retail price of AT persists. ATSA continues to highlight this range of services in its work such as in our briefing paper: *Assistive Technology in Australia*. Additionally there has been some examination of the potential value/risk of separating out these services and charging for them separately. The general consensus by AT suppliers is that such a move would likely increase the overall costs of AT because: (a) high levels of competition in relation to AT retail prices constantly forces AT retailers to find ways to provide these services as effectively and efficiently as possible; (b) 'de-coupling' these services would increase paperwork, the number of transactions required, and could reduce the strong links between consumer outcomes, suppliers' services and AT products.

Prices at the lower end of the AT complexity have consistently dropped in recent decades, largely due to improved manufacturing technologies and low labour costs in countries such as China.

However, prices for more complex AT products have continued to rise. A powered wheelchair with complex controls and customised seating can retail for between $15,000 and $40,000, depending on the details of the products and services provided. Many of these products are manufactured in North America and Europe, where labour and other costs have continued to rise, and this combined with the ongoing costs of innovation, product development, and safety testing/standards have kept product costs high.

References

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