JQRHS

Journal of
Qualitative Research in Health Sciences

https://jqr1.kmu.ac.ir
doi:10.34172/jqr.1517
J Qual Res Health Sci 2026;15:1517

Original Article

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Subtleties of Cost and Competition in the Pricing of Services in Indian Corporate Hospitals: A Qualitative Inquiry Using Gioia Methodology

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Abstract

Introduction: Pricing in healthcare systems is both vital and intricate. An empirical study of the factors influencing pricing in a private tertiary care corporate hospital in India remains unexplored. This study explored the nuances of cost and competition in pricing of services at private corporate tertiary care hospitals in India.

Methods: This approach was based on a systematic procedure in a qualitative research paradigm. Ten personal interviews were conducted with hospital administrators, finance managers, and marketers of private tertiary care corporate hospitals in India. We used the Gioia methodology to analyze qualitative data and arrive at the aggregate dimensions associated with costs and competition as factors in the pricing of services.

Results: The data structure has developed aggregate dimensions for costs and competition as factors influencing pricing for private tertiary care corporate hospitals in India. The aggregate dimensions of costs are cost hegemony, costing process, profit margin analysis, cost inflation factors, and cost information sources. The aggregate dimensions of competition include benchmarking, desire for dominance, comparison, and price adjustment.

Conclusion: The study elucidates critical aspects of cost and competition, affirming their role as crucial determinants in the pricing strategies of services within Indian corporate hospitals. Therefore, when setting prices, hospitals may pay attention to the dimensional aspects of costs and competition identified in this study. The study corroborates the imperative for a suitable policy intervention to guarantee transparency in the pricing of hospital services. This phenomenon can be attributed to two overarching regulatory imperatives. Firstly, it has the potential to facilitate the realization of universal health coverage. Secondly, it has the potential to expedite the nation's transformation as a prominent global healthcare destination.

Keywords: Pricing, Hospital services, Gioia methodology, Qualitative research

Citation: Sirur AJN, Pillai KR. Subtleties of cost and competition in the pricing of services in Indian corporate hospitals: a qualitative inquiry using Gioia methodology. J Qual Res Health Sci 2026;15:1517. doi:10.34172/jqr.1517

Received: December 4, 2024, **Accepted:** September 28, 2025, **ePublished:** July 7, 2026

Introduction

The escalating costs associated with healthcare-seeking activities hinder decision-making processes on both the supply and demand sides. Scholars have recognized the persistent nature of irrational and detrimental hospital pricing systems (1-3). These systems are characterized by significant variations in charges for identical services, resulting in an inherent fragmentation of the entire healthcare market (2). Newhouse's assertion that 'health care pricing is a puzzle highlights the intrinsic complexity of pricing mechanisms, as evidenced by the diverse financing arrangements designed to enhance the accessibility and affordability of health care (4). The absence of thorough consideration regarding pricing, particularly in the context of hospital services, has rendered prices misleading and unsubstantiated (2), and excessively complex, discriminatory, and distressing (5). The institutional characteristics of medical care markets render the measurement of medical service prices both challenging and complex (6). This complexity in pricing necessitates developing strategies to make healthcare costs more affordable. In this context, the present paper employed a qualitative methodology to investigate the cost and competitive aspects of hospital pricing in India.

Research in the domain of hospital pricing has been conducted intermittently over the past five decades. Numerous reviews and quantitative studies have been undertaken on hospital service pricing (7-11). However, we have not identified qualitative research approaches that could provide deeper insights and enhance the understanding of complex phenomena such as pricing (12).

Previous research has strongly contended that the

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challenges associated with hospital pricing are not easily resolved (11,13). Despite the extensive research over several decades, the complexity and elusive nature of pricing phenomena have resulted in limited clarity on the subject. Evidence from the global space suggests that strategic pricing decisions should be based on cost, demand, customer, competitive profit, product, and legal considerations (14-18). In the Indian context, there is a paucity of literature on service pricing, and research specifically addressing hospital service pricing is absent. Against this backdrop, we focused on answering the research question: Which factors related to costs and competition affect their integration into the pricing strategies of Indian corporate hospitals?

This study makes several contributions to the existing literature. Firstly, it examines pricing as a distinct element that merits focused attention and analysis, particularly within the hospital sector. Secondly, given the challenges associated with service pricing, the adoption of innovative approaches may serve as an effective strategy to address these issues. The qualitative methodology employed in this study enhances the understanding of the problem from an alternative perspective and proposes potential solutions. Thirdly, the study seeks to address pricing issues within the Indian context, a topic that has been infrequently explored. Lastly, while numerous studies have been conducted to comprehend the costing of services in India, the nuances of costs in the pricing of services within Indian corporate hospitals remain unclear, as does the aspect of competition.

Methods

Most of the previous studies on pricing hospital services followed a quantitative approach. To better understand the nuances of pricing, previous researchers have advocated interviewing hospital administrators (11,19). However, this study did not consider health insurance companies, as the scope of the study was to get an insider's view on the cost and competition aspects. Hospital administrators demonstrate proficiency in articulating the impact of health insurance on their decision-making processes.

In this study, we adopt a qualitative research approach. Qualitative research allows one to delve into the richness and depth of human experiences and behaviors (20). The research approach can reveal unexpected patterns and relationships that can lead to the development of new theories (21) and provides a unique lens through which to explore the nuances of costs and competition as factors, rationales, and processes that underpin the pricing of hospital services. In this study, we conducted semi-structured interviews with hospital administrators to explore costs and competition as factors that influence the pricing of services.

The hospitals included in the study were selected using a judgmental sampling method, whereby participants were chosen based on pre-established criteria (22). Recruitment of participants occurred between April and May 2023 from corporate hospitals in Bangalore, India. The study population was confined to hospital administrators, financial managers, and marketers. The sample comprised 10 individuals involved in pricing within their respective hospitals. The sample size was determined according to the principle of data saturation.

The data were collected utilizing a semi-structured interview guide, which facilitated one-on-one in-depth interviews (see Annexure). All interviews were recorded and stored on the first author's mobile device with the participants' consent, and the audio files were subsequently transcribed verbatim. The verbatim transcripts encompass the participants' and the interviewer's spoken words. The verbatim transcripts underwent a secondary review to ensure accuracy and completeness, during which the recorded interviews were re-examined. We redacted any identifying information in the transcripts to maintain participant confidentiality. Where identifying information was removed, a placeholder word was inserted to indicate the nature of the redaction (e.g., the hospital's name). All transcripts are stored in a folder labeled "Transcribed Documents." Each transcript is saved as a Microsoft Word file with the designation "IDI1 original."

The Gioia method offers a structured framework for analyzing qualitative data. The principal components of the Gioia methodology encompass the collection of rich qualitative data through interviews (as employed in our study; alternative methods include observations and document analysis); the initial coding of data while preserving the integrity of first-order (informant-centric) terms; the development of a comprehensive compilation of first-order terms; the organization of first-order codes into second-order (theory-centric) themes; and the distillation of second-order themes into overarching theoretical dimensions, where applicable. The assembly of terms, themes, and dimensions into a "data structure," which serves as a graphical representation of the processes involved in transforming the data from raw elements to dimensions, constitutes the most critical aspect of the Gioia methodology (23).

The first author conducted the initial analysis of the data, including the extraction of codes and themes and their subsequent development into a data structure. The findings were then presented to the second author to ensure internal validity. A consensus on the process was reached through discussion.

Results

Cost Factors in the Pricing of Services in Indian Corporate Hospitals

Participants provided insights into the role of costs in the pricing of Indian corporate hospital services (Figure 1).

Hegemony of Costs

The participants underscored the critical importance of cost considerations in pricing strategies. Effective cost monitoring can enable hospitals to identify and mitigate areas of excessive expenditure, thereby facilitating competitive pricing and enhancing profitability. Conversely, neglecting cost considerations may lead to

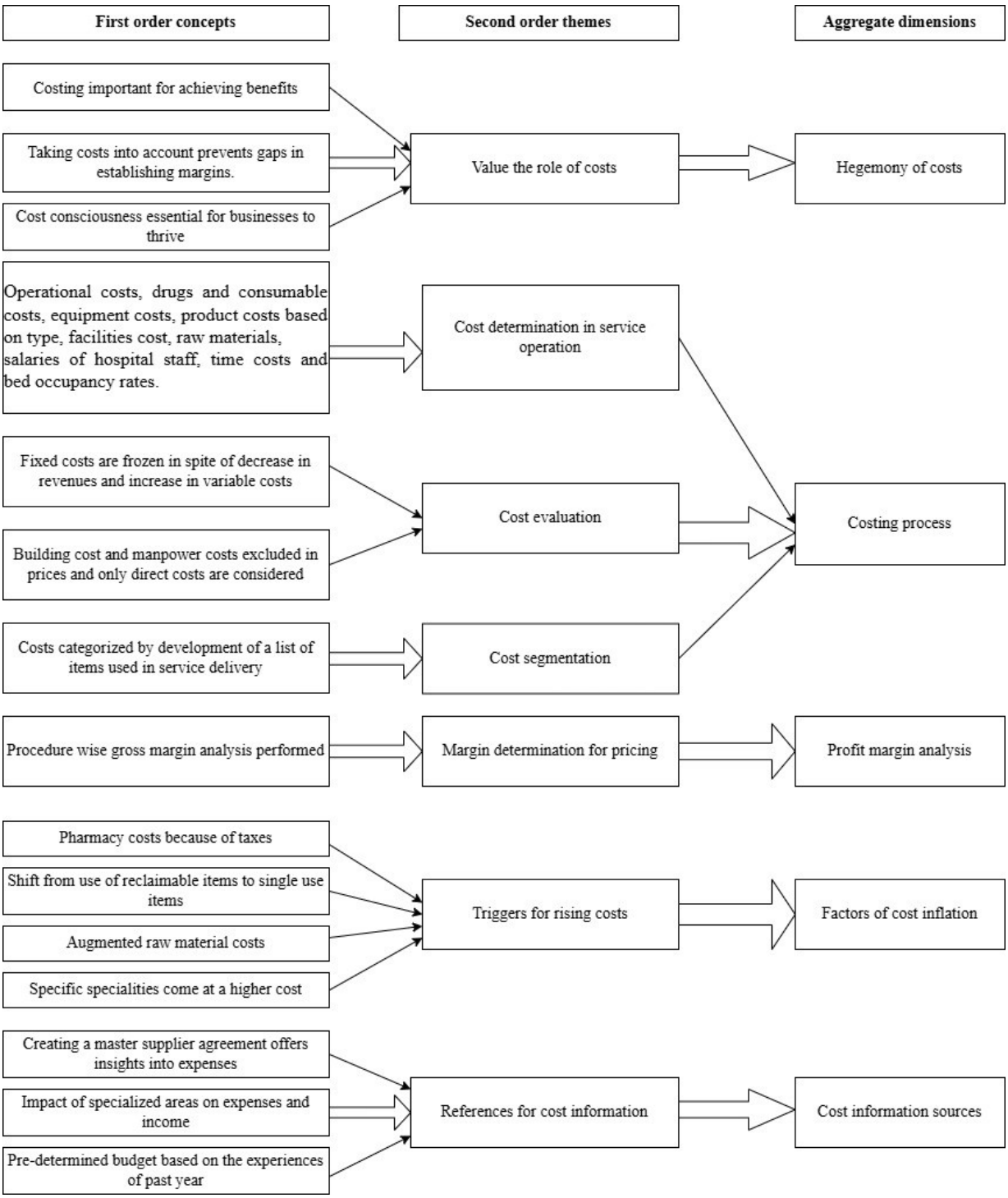


Figure 1. Aggregate dimensions of cost
Source: The present study

various deficiencies, including insufficient margins that fail to cover the costs of services rendered. Consequently, hospitals need to adopt a cost- and revenue-conscious strategy. Additionally, cost analysis plays a pivotal role in the development of precise budgets and financial plans. Participants (P) describe this as follows:

P1: *'costs play a very vital role; otherwise, there will be a lot of loopholes where we will be having eh more costs and low margins,' 'cost conscious and also revenue conscious which is very important otherwise it is not a game to sit and do a business.'*

Costing Process

The assessment of the influence of costs on pricing has led participants to primarily engage with the costing process by identifying costs across various service operation domains, including operational costs, drug and consumable costs, equipment costs, and facilities costs, among others. Participants suggested that costs directly associated with the execution of a specific procedure or the procurement of pharmaceuticals should be considered in the price-setting process. They further contended that it is inappropriate to incorporate costs related to buildings

or personnel in the calculation, as this tends to result in price increases. Providing adequate facilities can lead to a rise in service costs, resulting in higher prices. The fees for physician consultations and the expenses associated with employing nurses constitute a significant source of revenue for hospitals. Participants acknowledged that hospitals implement cost freezes for fixed costs even when revenue increases. However, it was noted that increases in variable costs are reflected in prices. No specific costing methodology was identified as being employed by hospitals; for instance, activity-based costing may be utilized. Furthermore, costs are classified according to the specific items used for a service. The concept of cost segmentation is widely recognized.

P2: *'Okay, and despite all these things, I cannot put my building costs and other manpower costs and all. Definitely, that is going to hike or increase the price, which is going to burden the patient. So, we will be reasonably looking at the direct cost involved in that particular activity or the medicines, whatever we purchase, and based on that cost we will tell'*

P3: *'Based on your cost or manpower and the cost of the medical equipment, whatever, including the investment and your expenses for the month. Considering that you will be fixing the price.'*

P4: *'See eh the facilities provided… the more facilities you provide… there is a cost to it….so it will drive your cost up…. (Right sir) …so pricing has to go up…'*

P5: *'Because normally there is a consumable cost involved and also the service cost. Example, every nurse during their shift, if they go and meet a patient, there are nursing service charges. So, if you look at that revenue itself, that is a huge revenue: doctors' consultation fees.'*

P6: *So we have divided the complete list of items/services into small, mid-level, and high-level, so these pricings look a bit.*

Profit Margin Analysis

Profit margin analysis is an essential tool for assessing hospitals' financial performance. It aids in the development of strategic pricing policies and facilitates the identification of potential areas for improvement. By comprehending the implications associated with various profit margins, hospitals can optimize revenues, manage costs, and ensure long-term sustainability. Participants have cited gross profit margin analysis to determine pricing margins. However, operating and net profit margin analyses were not addressed.

P2: *We are doing top procedures like TK, TKR, angioplasty, angiogram, top. Top major procedures… so, what we are doing… analysis… gross margin analysis… gross margin basically we are checking each procedure-wise how much gross margin is there… so like. Example. (unclear word) case. Maybe it's a high-end case. Implant cost will be… one (unclear word) estimation; we are giving 20 lakh per procedure, but implant will be 15 lakhs. Will have a high-end impact. So their margin will be less. So we are maintaining 15 out of 20 procedure gross margin…*

Factors of Cost Inflation

Cost inflation arises from the progressive increase in the prices of goods and services over time. Participants identified several factors contributing to escalating costs. For example, they compared the expenses associated with pharmaceuticals and the service charges of medical professionals, such as doctors and nurses, determining that pharmaceutical costs significantly influence overall pricing more than other hospital-related expenses. The primary reason is that pharmaceutical products frequently must be procured from external suppliers. Consequently, transportation costs and tax inclusions may also contribute to the elevation of prices.

P7: *'I think it is the pharmacy consumables and the pharmacy materials more than the doctors or the nurses charges, but pharmacy because we have to get it from outside. We have to pay the vendors, and there will be a few taxes included as well as I mentioned GSTs are there. So, all those, I think, are the pharmacy consumables and the materials that we get from outside.'*

Single-use or disposable medical devices are intended for a single application before being discarded. These items offer advantages such as a reduction in adverse effects by decreasing infection rates and minimizing environmental impact. However, the shift from reusable to single-use items can significantly affect costs. The initial expenses of single-use items are often higher than reusable alternatives. Hospitals bear the responsibility for the proper disposal of medical waste, which includes single-use items. Maintaining adequate stock levels for these items requires storage space and incurs associated costs. Additionally, using single-use items necessitates an increased need for personnel to manage inventory and waste disposal. Disposing of large quantities of single-use items may also lead to potential regulatory costs.

P1: '*Nowadays, we see that everything we use is disposable. In olden days, what they were doing was using everything to its capacity, that repeated use of things. Now what will happen?*

P1: '*… four times patient has to come a week and every time we use it and throw it away… after three hours we cannot use it…so the disposables,'*

The increased cost of raw materials has significant implications for hospital operations. This rise in raw material costs can be attributed to several factors, including global supply chain disruptions resulting from the pandemic-like effects of the Coronavirus disease 2019 (COVID-19) pandemic, geopolitical tensions, natural disasters, monetary policies, commodity price fluctuations, an ageing population, advancements in medical technologies, and stricter regulations. An increase in raw material costs can elevate operating costs, reduce profit margins, cause shortages of essential supplies, and exert additional pressure on healthcare budgets.

P2: *'The cost of the medicines also increased. The raw materials required in the hospital. The surgeries, sutures, everything is increasing.*'

The increasing complexity of healthcare and the

concomitant rise in demand for specialized care have resulted in the proliferation of specialties and super-specialties. These have played a substantial role in improving outcomes, but have led to rising costs in hospital services in India. The construction and maintenance of facilities capable of accommodating specialized treatments entail substantial financial expenditures. Additionally, super specialists and specialists command higher salaries compared to general practitioners. Their extensive training and expertise render them highly sought after in their respective fields, albeit at a greater cost. Furthermore, many super-specialty treatments are resource-intensive and expensive, often resulting in prolonged hospital stays and increased overall costs.

P10: One of the major contributors in the corporate hospitals… where specialized care is given… mostly, that is the cardiology, neurology… yes sir…there a major contribution to cost is the import of major equipment and devices… because they are heavy equipment that they are using…. half-line machine, monitors, all these… these are extremely expensive…they are all imported… spare parts are imported…maintenance contract they have to pay… so, there is a very heavy cost on thee… because we have figures now… the equipment… sophisticated… cardiology specialties …almost 80% we are importing… even today, that is very high cost…

Cost Information Sources

Cost information for pricing strategies can be derived from both external and internal sources. However, none of the participants mentioned collecting cost information from internal sources. One participant highlighted the necessity of establishing central contracts with vendors and suppliers. Hospitals possessing substantial market power can exert influence on suppliers to establish offices in nearby and easily accessible locations. This strategy can facilitate cost reductions, particularly in transportation and consumable expenses, and mitigate potential delays in delivering essential items to hospitals. Consequently, a central contract offers enhanced clarity in comprehending costs and revenues and establishes appropriate margins.

P1: *'First, I will tell them, you have to have an office in the northeast, west, and south. Because I am a big company, I have a command, and eh I can influence the company to open offices there. The reason is that, through them, my consumables are readily available in the northeast, west, and south, so my transportation cost and transportation delay are avoided; by this means, there is a central contract that has been taken so that we know our cost and revenue lines. Based on that, we can easily calculate the margin with only a few vendors.'*

Budgets derived from historical data, specifically actual expenses from the preceding year, serve as baselines for projecting future costs. Participants have noted the utilization of the previous year's budgetary information as a source for cost estimation in pricing. Nevertheless, reliance on past performance may not predict current and future expenses. Patient volume, regulatory changes, and technological advancements can substantially impact costs. It can be augmented through cost accounting, market analysis, and benchmarking to enhance the accuracy of budget-based cost information.

P6: *So that's how it has been done, so that we do a budget before every year, so that ok, this year this is what we have landed up so from next year*

Competition Factors in the Pricing of Services in Indian Corporate Hospitals

In making pricing decisions, it is imperative to consider the characteristics of the market structure. Participants in this study underscore the significance of competition in pricing strategies and identify several competitive factors that may impact pricing (Figure 2).

Motivation to be Competitive

While hospitals are generally regarded as essential services, they predominantly function within imperfectly competitive markets. Participants observed that hospitals are concerned about losing self-paying patients to their competitors. The intensification of market competition can instil apprehension in hospitals regarding the containment of their pricing strategies. Consequently, hospitals often consider the pricing strategies of their competitors, as patients are increasingly informed about their healthcare options, associated costs, and quality.

P1: *'When there is competition, you may lose 5-10% of the patients irrespective of the name (ok) so you cannot lose 100%, but there is competition…in case of competition… we'll have to think about all those competitor prices also….'*

Benchmarking

Benchmarking hospital prices presents a complex challenge due to the inherent variability of healthcare services, the influence of local market conditions, and the impact of patient demographics. It is often observed that the pricing strategies of competitors, including those for newly introduced services, are reviewed by the hospital marketing team as part of the marketing research process. This review serves as a valuable source of information on competitive pricing. Prices are frequently benchmarked against those of hospitals with comparable regional characteristics.

P9: *eh, usually it is done by the finance and marketing departments along with the hospital*

administrators…see, for example… eh. if there is a new service (ok)or new surgical code to be

created…so marketing will get an idea like what is the price across … hospitals in other areas

or maybe surrounding that particular hospital…

Strategic planning and research play a crucial role in establishing competitor-based pricing. Baseline studies and market research are conducted to develop a procedure-specific pricing strategy for hospitals. Research is essential when prices require updating or revision.

P7: *'they'll do lot of strategy… research for that pricing… suppose.. their increase or not.. suppose they'll charge high…'*

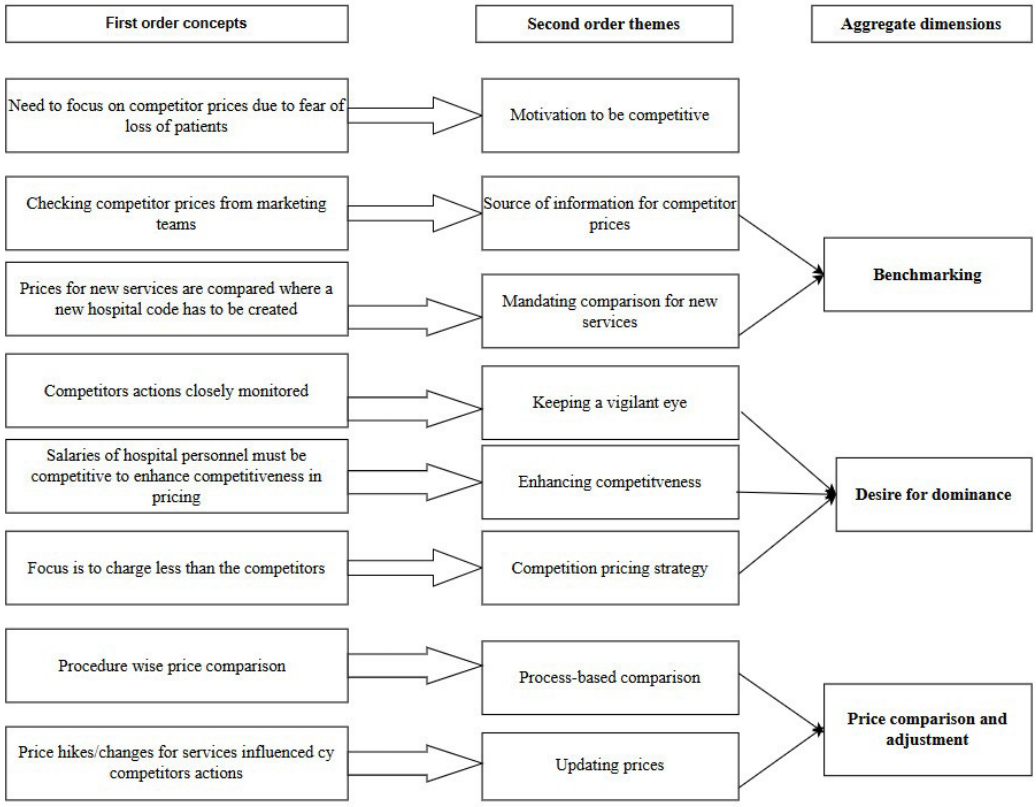


Figure 2. Aggregate dimensions of competition
Source: The Present study

Desire for Dominance

Participants indicate that competitive dynamics compel hospitals to remain vigilant and monitor the actions of their competitors. Pricing emerges as the primary factor motivating hospitals to observe their competitors, enabling them to adjust their pricing strategies accordingly. The emphasis is on setting prices lower than those of competitors, while also considering the services offered and the quality of care provided by competitors. Additionally, hospitals aim to enhance their competitiveness by offering attractive salary packages to their staff.

P7: *'Let's do a competition check. Let's see how much our competition is charging. We have to be competitive. Let's try and price it. Maybe premium or slightly less than our competition to attract more patients. So that's one of the other strategies that you would have come across.'*

Price Comparison and Adjustment

Price comparison with proximate hospitals serves as the primary determinant for the magnitude of price increases. Participants have confirmed the verification of service prices at neighboring hospitals, typically involving at least five to six competitors, to inform decisions regarding the percentage of price increases. These percentage-based price adjustments generally coincide with the budget-setting period and receive approval from top management. However, participants have reported variations in the timing of these price increases. Hospitals engage in comprehensive research on the service prices established by other institutions.

P3: *'We will compare the prices of the nearby hospitals…. then we are deciding how much we have to hike, 5%, 6% like that; on a percentage-wise basis, we are increasing. 'So, before pricing any change, they will verify with competitors. So, they'll check whether you have… so top 5-6 competitor… so, they will check whether it will be applicable… or not applicable… they'll do a lot of strategy… research for that pricing… suppose… their increase or not… suppose they'll charge high…'*

Discussion

The present study investigated the influence of costs and competition on pricing within Indian corporate hospitals, thereby addressing a gap in the existing literature concerning the pricing factors influencing healthcare services in India. While previous studies (5,25) have explored regulatory aspects of pricing in this sector, there is a notable lack of empirical research examining the roles of costs and competition. For instance, some studies (26-28) focus on providing robust cost estimates for schemes like Ayushman Bharat (PM-JAY) but do not adequately address the implications of pricing of services beyond these schemes. We did not find any articles on the role of competition and market structures in pricing for hospital services.

In this study, we identified that hospitals prioritize cost considerations as a crucial component of their pricing strategies, which is a departure from past studies on pricing (1,7,17,25). This focus is essential for driving the costing process, a fundamental element of any business operation.

Several initiatives, such as conducting margin analyses, are being implemented at the hospital level to develop robust pricing strategies. Hospitals also acknowledge the various factors contributing to cost inflation and utilize multiple sources of cost information. The concept of cost inflation was not covered in the previous works (13,17,25) on hospital pricing. Regarding competitive dynamics, hospitals are highly motivated to maintain their competitiveness. They use price benchmarking, comparison, and adjustment to withstand competition and achieve market dominance. There is no evidence of this routine price manoeuvring for strategic survival in the existing literature (1,5,7,13,25) on hospital service pricing.

Our research indicates that cost and competition are pivotal elements in pricing strategies. This study offers an insider perspective on pricing mechanisms. Generally, the factors influencing pricing are well-documented in existing literature. The predominant approaches to pricing include cost-based, competition-based, and value-based strategies (7). Implementing these strategies in hospitals has consistently been scrutinized due to the inherent complexity and nature of hospital services. There is an absence of standardized services and pricing mechanisms across hospitals. The research methodology employed in this study addresses the complexities of costs and competition in pricing services within Indian corporate hospitals. This study represents a novel investigation into the inherently intricate domain of service pricing, particularly concerning Indian corporate hospitals.

Hospital markets do not exhibit many structural characteristics associated with perfect competition. Furthermore, there is no theoretical framework to ascertain the minimum number of hospitals required to sustain a competitive environment. In our study, participants highlighted the significance of market research practices and competitive analysis in comprehending competitors' pricing strategies. Hospitals consistently consider the pricing of nearby hospitals when setting their service prices. Price competition persists in Indian corporate hospitals.

This study focused solely on the supply aspect of pricing. Participants demonstrated apprehension and hesitation when responding to inquiries regarding the pricing of hospital services. The topic itself appeared to provoke irritability among many participants. Furthermore, many hospitals were unwilling to engage in the research, potentially limiting the breadth of the findings.

It is imperative to conduct a comprehensive examination of the processes and methodologies employed in cost identification and costing. This should encompass a detailed analysis of various cost types, including the significance of marginal cost pricing and per-unit identification. Furthermore, it is advantageous to acquire a deeper understanding of the data collected for competition-based pricing, the utilization of such data, and the relationship between insurer and hospital market concentration and service pricing. Additionally, it is valuable to consider the differing production conditions among competitors and the strategies for retaining price-sensitive customers. Mechanisms such as competitive bidding and option pricing are instrumental in mitigating price escalation and establishing lock-in costs.

Conclusion

This study assessed costs and competition as essential elements in pricing strategy, serving as a foundation for identifying unresolved questions regarding these two factors. The research confirms the application of cost-based pricing in Indian corporate hospitals and refutes the notion that pricing is an arbitrary process. Competition among Indian corporate hospitals remains significant, although some degree of monopolization persists. When setting prices, hospitals must pay attention to the dimensional aspects of costs and competition identified in this study. There is a pressing need for an appropriate policy intervention to ensure transparency in the pricing of hospital services. It must be a regulatory imperative on two grounds. First, it can underpin the attainment of universal health coverage. Second, it can accelerate the growth of the country as a global healthcare destination.

The primary limitations of the study can be delineated as follows: firstly, the omission of perspectives from health insurance companies, governmental bodies, think tanks, and organizations employing economists; and secondly, the neglect of the advantages offered by mixed methods approaches, such as triangulation. The potential for future research in the field of healthcare pricing resides in the capacity to overcome these identified limitations.

Acknowledgements

The authors are grateful to the editorial team and the anonymous jury members for their comments and suggestions. We would also like to thank all participants for their voluntary contribution to this study. The researchers acknowledge the support of AI tools like DeepL and Paperpal for refining the language.

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Competing Interests

The authors declare no conflict of interest in this study.

Ethical Approval

We received ethical approval from the Institutional Ethics Committee of Kasturba Medical College, Manipal Academy of Higher Education, Manipal (IEC number: 165/2021).

Funding

This study was self-funded by the authors and received no external financial support from any funding organization.

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