

Section V:

Pricing Mix

Chapter 19

Pricing Decision and Strategies

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Chapter Id: ASU/NSP/EB/PMM/2022/Ch-19

doi: <https://doi.org/10.52458/9789391842666.nsp2022.eb.asu.ch19>

INTRODUCTION

Price is one of the most significant marketing, product, physical distribution, and promotion combinations. It is evident that pricing generates money for corporations. When determining the pricing of a product, a company should keep its price objectives in mind. Customers are more inclined to identify a product's quality with its value. Before selling a product at a price, sellers should sell it at a price, according to Philip Kotler. This might not apply to pharmaceutical items.

Can the pricing still be considered a part of the marketing mix in a highly regulated industry like pharmaceuticals in India? Does the pharmaceutical marketer have a choice when the government decides on prices, conversion criteria, and packaging norms for all critical medications and formulations? Is there a choice, if we're being completely honest? There is always an option available, regardless of how constrained it may be. Within the context of the pharmaceutical industry in India, price might not be the single most important component of the marketing mix. Nevertheless, it is of sufficient significance. One must make the most of all of the opportunities that are available to them. The leftover degrees of freedom have to be utilised to the fullest extent possible. In this regard, it might be beneficial to have a quick discussion about price concepts, pricing objectives, and pricing strategies.

Pricing is a decision that requires strategic thinking. The selection of which pricing strategy to employ and when to employ it is heavily influenced by a wide variety of circumstances. Among them are the following:

1. The degree to which various market groups are sensitive to price changes
2. The product's and the company's position on the market in terms of image, market share, and other factors
3. The stage of the product's life cycle
4. The current stage of the product's life cycle
5. Production efficiencies gained through increased scale
6. Methods of distribution
7. changes in pricing made by the competitors
8. The segmentation of the company's product line and product mix, including the number of product packs that fall under restricted categories I and II, in addition to the categories that are uncontrolled. This division of products into controlled and uncontrolled categories is unique to the pharmaceutical business in India.

It is critical for a pharmaceutical marketer to have a solid understanding of the aspects that play a role in determining price in order to be able to devise pricing strategies that are both lucrative and in line with the market's expectations for his products.

IMPORTANCE OF PRICING

Choosing a pricing target and strategy is a vital aspect of a business owner's responsibilities and the business plan or planning process. It involves more than simply calculating the production cost and adding a markup. Pricing is one of the most important aspects of your marketing plan, which is an element of a comprehensive company plan. Pricing merchandise is a strategic endeavour. The pricing will influence how buyers perceive the goods and their decision to acquire it. Additionally, price helps distinguish your goods from those of your competitors. Nevertheless, the price you set must be consistent with your other marketing methods and the product's characteristics. Whether or not you construct a formal marketing plan, it is essential to conduct some of the research required for a marketing plan before determining the pricing methods you will employ.

The knowledge gathered from the research will assist you in determining acceptable prices for your items or services, prices that represent the product's quality and qualities. Your marketing objectives and expertise of the industry, competitors, and market are vital. Considering the following questions can assist you in determining objectives and tactics that will contribute to the success of your business:

- What assortment of products do you offer? The assortment of products you offer will either restrict or expand the price options you might employ. If you believe that a specific price strategy might help you achieve your pricing objective, you may want to consider modifying your product mix.
- Who or what is your intended audience? Your pricing aims and methods will be informed by the demographics of your target market. Are prospective customers interested in price, quality, or value?
- Do you sell your goods wholesale or at retail? Your method of product distribution can have an impact on your pricing objectives and tactics. Direct marketing allows you greater control over how things are arranged, displayed, and priced than wholesale marketing.
- How long is the expected lifespan of your product or service? The product's life cycle can influence your pricing objectives and methods. With a shorter expected life cycle, it will be essential to sell more product or produce greater profit margins than with longer-lasting products. Life cycles that are longer allow you more time to reach your price aim.
- What is the anticipated product demand? When a product's demand is anticipated to be high, you have greater pricing flexibility since customers are less likely to be concerned with price and packaging because they desire your goods. Consider the prices consumers are willing to pay when new video game consoles are released.
- Do other entities, such as the government, have the ability to determine your product's pricing range? Certain products, including milk, are subject to government-imposed price restrictions. Familiarize yourself with any price restrictions applicable to your sector or product.

PRICING OBJECTIVES AND ITS DETERMINANTS

There are numerous price objectives to carefully examine. The option you choose will determine your pricing approach. To determine which price aim to use, you'll need a thorough understanding of product characteristics and the market. Your

selection of an objective does not permanently bind you to it. As company and market conditions evolve, it may be essential or prudent to modify your pricing aim.

When determining prices, you absolutely need to have your goals very well defined. Typically, price objectives are established by the senior management. Pricing goals typically centre on and are connected to aspects like as market share, return on investment, profit, and price stability. The scope of pricing objectives is considerably constrained due to the fact that the prices of medications are predominantly subject to regulation and control. It is, as a result, more important than it has ever been to work toward increasing the efficacy of business operations across the board, including in production and marketing. When it comes to pricing, everyone is concerned about getting a satisfactory return on their investment. How much is a reasonable return? How much is just the right amount? That's a tough question to answer. It depends on a wide range of parameters, such as economies of scale, cost leadership, etc. After deducting all of the company's expenses and costs, the remaining amount is the profit. This is why it is referred to as the bare essentials. There is one factor that is consistent across all price objectives. A fiscally responsible and robust bottom line. The following are some of the most important goals of pricing:

- Profit maximisation is the main goal. Specific short-term and long-term aims. Short-term ambitions should not compromise long-term objectives.
- expansion over an extended period of time.
- Should achieve a predetermined rate of return over a lengthy period of time.
- achieving commercial dominance.
- Should position the company ahead of the competition in terms of innovation.
- To expand the market share
- Maintaining competitive pricing
- To attain a higher level of market penetration.
- To return the investment more quickly.
- Minimizing risks

PRICING DECISIONS

Nearly every pricing decision may be broken down into one of two categories, depending on the circumstances. They are as follows:

1. Establishing the price for the very first time, such as when a new product, a new pack, or a new dosage form is introduced into the market. In the event that the newly developed product is placed into one of the controlled Categories I or II, the choice of pricing is limited to the extent of the MAPE (Maximum Allowable Post Manufacturing Expenses) that has been specified; more specifically, the price must be set at or below the MAPE's uppermost limit. If a leader or ceiling price already exists for that particular product, then the only options available for setting a price for the product are to price it at the same level as the leader or ceiling price, or to price it lower than that in order to be more competitive. If the proposed new product falls into a category that is not subject to price controls, there are a greater variety of pricing options available. The government, on the other hand, has the ability to insert any product into any of the restricted categories whenever it sees fit.
2. The second scenario for determining prices involves the products that are already on the market. Alterations to the prices of certain of the products now available are required as a result of shifting market conditions. For instance, the government may move products that have been unsuccessful in the decontrolled category into the controlled category so that they may be regulated. Another illustration of this would be the likelihood that you may be compelled to drop your pricing if the prices of your primary competitors were to significantly decrease.

PRICING METHODS

Selling is an exercise; failing to price something accurately will result in losses, while pricing something too highly will drive customers away. To determine pricing in a scientific manner. It is essential to have an understanding of the price goals, pricing techniques, pricing procedures, and pricing policies. There are four primary elements that serve as the foundation for approaches to pricing a product (**Figure 19.1**). They are as follows:

1. **Cost based pricing:** Full cost pricing, Cost Plus pricing, Marginal Cost pricing
2. **Demand-based pricing:** Going Rate pricing, Sealed bid pricing
3. **Competition based pricing:** Perceived value pricing, Differential pricing
4. **Market-based pricing:** Penetration pricing, Skimming pricing

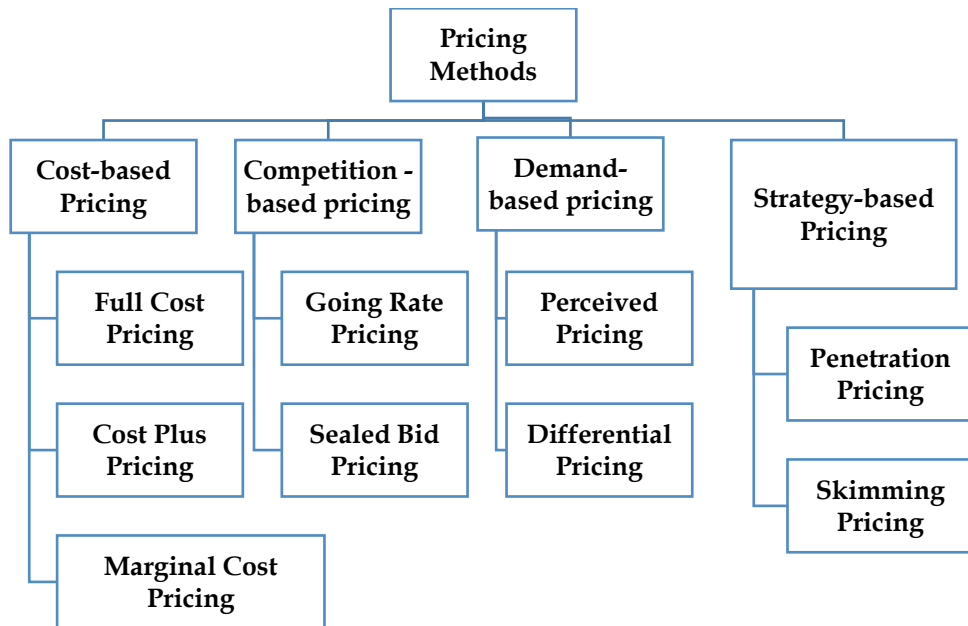


Figure 19.1: Various pricing methods

Cost Based Pricing

Pricing decisions made according to costs are typically made by accountants. According to what the phrase "cost-based pricing" suggests, the entire cost of the product, in addition to an allocation for overhead costs and a predetermined proportion to allow for a sufficient return (profit margin), are the factors that decide the price of the product. The sum total of all of these figures is the price at which they are being sold. It is extremely similar to the price formula that is recommended in DPCO.

In addition, the Drug Pricing and Cost Optimization Organization (DPCO) established the cost norms (conversion and packaging norms) and the MAPE (maximum acceptable post-manufacturing expenditure) for all formulations and bulk pharmaceuticals that fall under Categories I and II.

The most significant benefit of cost-based pricing is that it can assist in indicating the lowest price levels that should be charged. The following are some of the drawbacks associated with cost-based pricing:

1. Does not take into account the swings in input costs because the cost-based pricing is determined by a specific level of demand and output. Due to the fact

that the DPCO does not take into account the rising cost of inputs, this has been the most significant drawback of the method.

2. Ignores the elements that influence the market, such as demand and the actions of competitors. Because of this, the pharmaceutical industry stopped engaging in voluntary price reductions when the DPCO was passed in 1969. A cost-based strategy was advised to be used for pricing products in accordance with DPCO 1969; however, an additional constraint was introduced in the form of specified conversion and packaging criteria.
3. Has the potential to result in incorrect pricing decisions due to the fact that overhead cost allocation-based pricing might be deceptive.

Demand-Based Pricing

It is the approach to pricing that is used by economists. According to the pricing and elasticity of demand hypothesis developed by economists, the following is true:

1. Demand will decrease as price increases
2. Demand will increase as price decreases

This method of setting prices takes into account the expected impact that varying prices will have in terms of how much demand there is for a particular good or service. According to this strategy, you are responsible for calculating the points at which you will be profitable given a range of possible selling prices and volume projections. Following an analysis of how price affects volume, the next step is to determine the price volume ratio that will yield the greatest profit. In order to get at this conclusion, you need to be able to make predictions with a certain level of accuracy regarding the number of units of a specific product that you may sell at a variety of pricing points. When pricing a product, market demand-based pricing takes into consideration the realities of the market, which is one of the most significant advantages of this pricing method. As a result, this strategy is helpful for profitably pricing products in a market that is price sensitive while also exhibiting demand elasticity.

Given that pharmaceuticals in general and ethical drugs in particular are not responsive to pricing, this strategy may not be the most appropriate one for the pharmaceutical marketer to employ.

Competition Based Pricing

Pricing that is determined by the level of competitive pressure in the market is likely the strategy that is utilised the most in the pharmaceutical sector. The following choices are ones that the marketer has at their disposal:

1. Your pricing can be significantly higher than those of your competitors.
2. You have the ability to set pricing that are comparable to those of your rivals.
3. You are able to set pricing that are lower than those of competitors.

When creating your pricing strategy, it is vital to take into consideration the prices of your competitors and to make an estimate of the costs they incur. Due to the fact that the Drug Price Control Order (DPCO) establishes the criteria for conversion and packaging, the pharmaceutical business in India makes it reasonably simple to calculate the prices charged by rivals. They represent the upper bounds, and it is feasible that some of your competitors have attained higher levels of efficiency while incurring lower costs than the norms that have been imposed. Therefore, it is more vital to know the actual expenses that the competitors are incurring and determine whether or not they have attained cost leadership.

If a producer of a formulation also happens to be one of the largest manufacturers of the bulk medicine utilised in that formulation, for instance, this confers a significant advantage on that company.

- **Price Comparison of pharmaceutical dosage forms:** In the pharmaceutical sector, comparing prices could be done either on a per-unit basis, the cost of therapy on a daily basis, or the entire cost of the treatment. You can find out the rates that rival businesses charge by consulting published sources such as the Indian Pharmaceutical Guide, pricing lists provided by individual businesses, MIMS, IMS, or AWACS Pharma Track reports, amongst other options. It is necessary for you to perform an analysis of the prices at each of the four levels, namely, the consumer (the maximum retail price), the retailer (the price to the retailer), the wholesaler, and the special hospital price, in order to obtain an accurate picture of the profit margins and savings offered by the various businesses that are in the market.

Market-Based Pricing

Price that is determined by the market removes the element of judgement or subjectivity that is often associated with pricing. Naturally, the decisions will have to

be grounded in an examination of the particular facts at hand. This approach to setting prices is judgemental in the sense that it deals with the customers' views of the value satisfaction, or the assortment of benefits that the product may offer. The word "perception" is the most important here, and the perceived value is the most important component. This perceived value may be the result of the following factors:

- A measure of the effectiveness of the product based on feedback from customers and consumers
- Reputation and portrayal of the company in the community
- The level of quality in the provided service

In order to achieve success with market-based pricing, it is essential to conduct an accurate assessment of how the market sees your product. When determining how much value customers assign to your goods, conducting market research is an instrument that is both necessary and helpful. It also helps you avoid falling into the trap of overpricing or underpricing your goods or services.

There is a possibility that you have overpriced your product because you have prioritised your own perception of the product's value over the perception of the target market. A consumer's qualitative evaluation of your product in relation to its competitors, as determined by the consumer's past experiences, is an example of what is meant by the term "perceived value."

Underpricing is when you estimate the value of your product to be lower than it actually is and so sell it for less money than you could.

PRICING STRATEGIES

How does one determine the appropriate price approach for a product? It is a well-known fact that there is no magic formula for devising a singular pricing strategy that is appropriate for all types of goods and all types of industries. Many elements, such as the objectives, the type of product and how its worth is perceived, the market group it belongs to, and the level of competition, all play a role in determining which pricing strategy is the correct or optimum one to use. The following are the three pricing techniques that are most frequently used (**Figure 19.2**):

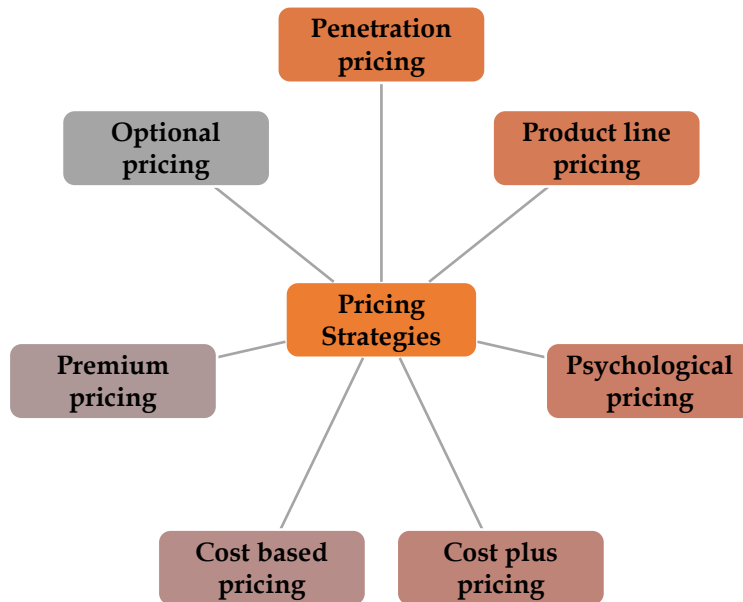


Figure 19.2: Different types of pricing strategies

Skim the Cream Strategy

The goal of the approach known as "skim the cream" is to position oneself at the very peak of the demand curve. It places the price at the highest possible point within the range of permissible prices.

When your price objective is to maximise profits, revenues, or profit margins, you should use the skim pricing method. Employing this method when your product is new to the market and there is no competition yields increased revenue, profit, and profit margins because you are the only one selling the product—customers must purchase from you if they want what you're selling. You must be careful not to price your goods so high that clients are unwilling to purchase it despite the absence of competition.

You can employ the skimming strategy:

- If you want to recover the high R&D costs more quickly, you should focus your efforts on a new product during the introductory and early stage of the product lifecycle. You utilise the skimming technique because, in the event that there is a need, it is much simpler to lower prices than it is to raise prices. When you

employ a skimming technique, you are erring on the side of caution and playing it safe at the same time.

The following are some of the drawbacks associated with the skimming strategy:

- It enhances vulnerability since it draws competitors
- Because of the higher price, there is a possibility that fewer units will be sold, which could mean that the plant's output is not optimal and that its capacities are not being fully utilised.

Penetration Strategy

By setting prices on the more affordable end of the spectrum, a pricing strategy known as "penetration pricing" seeks to achieve a greater and more profound level of market penetration. As a result, the penetration pricing strategy takes an approach that is diametrically opposed to the skimming pricing strategy. This tactic has the potential to generate a profit, but only when applied to substantial sales volumes. The phases of growth and maturity in the product lifecycle are beneficial times to implement a penetration strategy.

In addition, this is a highly competitive strategy given that it anticipates and eliminates the competition. You can also use it as a barrier to prevent anyone from entering. A wider client base can be attracted by offering lower prices as part of a penetration strategy, which can assist boost sales of a product even over the course of a longer period of time.

There are some drawbacks associated with using a penetration tactic. The fact that the payback period is typically longer for a brand-new product is the primary and most significant negative.

The reason for this is a poor margin of profit. Second, there is the possibility that this price plan will not be successful if the product has a relatively short life cycle. Thirdly, if the initial price that is established is very low, it is typically difficult to significantly raise such prices in the future. The psychological drawbacks that can result from such remodelling are notoriously challenging to overcome.

Marginal Cost Pricing Strategy

To put it another way, marginal cost is the additional expense incurred by producing one extra unit. Given that current sales volumes already cover fixed costs, the fact that the cost of producing one more unit implies that the cost of producing the extra unit consists exclusively of variable costs indicates that current sales volumes

already cover fixed costs. It ought to be sufficient even if you make a modest profit on the additional sales, given that this small profit would not have been there if you had not secured the additional business. You are increasing the usage of your capacity, which would have been idle if you had not received an additional order at a tiny profit from that order. Because of this, many businesses base their pricing decisions on the marginal costing approach. This is especially common in highly competitive business environments, such as big institutional tenders, where a lower price is almost always advantageous. The primary application of marginal cost-based pricing, therefore, is not as a tool for pricing but rather to provide an answer to the question of whether or not you should take this order.

This form of pricing strategy is also utilised frequently in situations in which production capacity are large, huge quantities of sales are required in order to maintain a low level of fixed costs, and the demand is price elastic.

Good, Better, Best Pricing

Good, better, best pricing that is, prices that are higher for items that have gotten more attention (for example, in packaging or sorting). The exact same product is sold in three distinct packaging levels, with the price of each level being significantly more expensive than the one before it. For instance, the management of a farm market that specialises in selling fresh apples may opt to arrange a percentage of the apples that are available for sale in a huge container, which the customers must then pick through in order to select the apples that they want to buy for themselves. The price for these apples would be the "good" level "price. Another portion of apples might also be placed in a container for customers to gather from; however, these apples would have been pre-sorted to remove less desirable apples, such as apples with soft patches, before being placed in the container for customers to gather from. These would be set at the "superior" price level "price. It's possible that the "best" apples, which are the ones with higher prices than the others, have been pre-sorted, just like the "better" apples, but they've also been pre-packaged for the convenience of the customers. As can be seen from this illustration, the "better" and "best" levels demand more attention from either the management or the work force; nevertheless, if they are priced appropriately, the additional effort may be worthwhile. When the goals of maximising revenue and maximising quantity are being pursued, this pricing technique ought to be utilised. The highest possible amount of revenue should be achieved by first increasing the quantity produced. Because the product is offered to customers at three different price points, the utilisation of this pricing approach ought to result in the maximisation of the quantity offered.

Loss Leader Pricing

The term "loss leader" refers to products that have their prices artificially lowered in an effort to bring in new customers and encourage existing ones to make additional purchases. Bread is an example of a product that may be used as a loss leader in grocery stores. If you go to their store to buy bread, you will most likely end yourself buying other food items there as well, rather than going to a different supermarket to do so. The purpose of employing a pricing strategy known as a loss leader is to attract customers to a company by offering one of its products at a reduced price in the hope that the client will go on to buy further items from the company that have higher profit margins. It is important to keep in mind that the loss leader pricing approach needs to be combined with either the quantity maximisation or the partial cost recovery pricing objectives. The cheap price that was set for the goods is intended to result in a higher quantity of the product being sold, while still recovering some of the costs associated with its manufacturing.

Multiple Pricing

When a business uses several pricing strategies, it is attempting to get people to purchase the product at a higher price by providing a discount on a higher price. The price that a single item can be purchased for is indicated within the price indication, in addition to the highest possible price. For instance, one apple may cost \$1.69 at a farm market, whereas purchasing two apples may cost \$3.00 total. When the consumer buys a bigger quantity at this price, they are entitled to an evident discount, which in this example amounts to \$0.38. Customers have the impression that they are receiving a deal because two apples costing \$ 1.50 ($\$ 3.00 / 2$) is less than one apple costing \$ 1.69. However, if you did not utilise a technique that involved multiple prices, you would have to pay an additional \$1.50. You will want to enter a price tag if you believe that the majority of your clients will purchase a significant quantity from you. This will allow you to pay your expenses and keep your interest rate stable. If you utilise a multi-priced strategy, a consumer who buys just one item will end up paying more for that item than they would if you did not use the method.

Pricing techniques based on multiplication are effective both for making a profit and for adding value to products and services. If you can convince a consumer to purchase more items from you, you will increase your overall profit margin. This is because you will be able to charge a greater price for a single item and yet meet your desired profit threshold. In point of fact, the buyer is charged more because they only purchased one item. Additionally, bulk rates ought to result in a rise in the value of

things sold, which, with any luck, will lead to reduced product loss or fewer items that remain unsold.

Optional Product Pricing

Pricing choices for optional products are provided to clients in an effort to persuade them to spend a greater total amount on the product by purchasing more options or features. For instance, some buyers might be willing to pay a slightly higher price if it means that they are guaranteed to receive the goods as soon as it is made available to the public. For bespoke operators, this may be an effective method to implement. Take for example that you are a custom operator who offers services in the gathering of fodder. Your most fundamental service option offers farmers the most fundamental harvesting. In addition to the harvesting service, the producer may also choose to purchase additional available alternatives, such as transportation to the storage location, packing, the application of preservatives, or membership in the producer's advisory committee. The value of the service that the producer is receiving can be increased by purchasing any one of these additional choices. It is essential, when utilising this tactic, that the additional charge(s) for the option(s) be reasonable; otherwise, you run the risk of losing customers to a rival that has a price structure that is more suitable for the additional services that are provided. Price products with options is most effective when the goal of pricing is to maximise revenue or to establish a quality leadership position. You will be able to increase your revenue if you are successful in persuading customers to purchase one or more of the options that are presented to them. This is because the customers might not have purchased the option if it were not presented to them, or they might have gone elsewhere to purchase it.

You can create the impression that your product or service is of higher quality by providing clients with the option to purchase additional add-ons in addition to the core offering. They will likely acknowledge your awareness and sensitivity to their requirements by accepting the additional products or services you have made available to them.

Premium Pricing

When you are offering a product that is unique and of a very high level, but you only anticipate selling a small quantity of it, you can employ a pricing strategy known as premium pricing. Because of these attributes, the product must have an exceptionally high value, often known as a premium. The majority of people who buy such things think them to be luxurious and assume that they cost very little or nothing at all. The advantage of adopting this pricing approach is that it enables one to set high

prices in order to generate large profits from a reduced volume of sales. Take this hypothetical scenario as an example: you own a flock of sheep, you shear them yourself, you dye the thread yourself, and you weave it yourself. Your thread is widely regarded as being of the greatest quality in the business. Some of the yarn that is used while weaving items such as scarves, blankets, and jerseys. You come to the conclusion that it is best to rent the price of your thread and knitting due to the fact that they are of the greatest quality and you are aware that it is unlikely that you will produce and sell a significant quantity of your addictive things. Since your clients are already aware of the excellent quality of the cords and brackets that you sell for premium pricing, it is likely that they will be willing to pay that premium price for the high-quality manufactured products that you produce.

The usage of premium prices is one way to achieve price goals related to quality leadership or increasing interest rates. You are able to generate generic profits from the sale of each item because the premium price that you charge accounts for the variety and quality of your goods. Your clients will think of you whenever they have a need for anything of such high quality since your product will reflect the level of commitment to quality that you have.

Product Bundle Pricing

Product bundle pricing is a method that collects a few different things for sale under one price. This is an effective price approach for products that are compatible with one another, that are overcrowded, or that are old. Customers that purchase the product do so because they truly desire it; nevertheless, over time, they may also receive one or more complimentary things. One of the benefits of using this pricing method is that it makes it easier to clear transactions. On the other side, clients who do not desire any additional things may choose not to buy the bundle that is being offered. This technique is comparable to the pricing for the entire range of products, with the exception that the accumulated goods do not correspond to one another. For instance, after the holidays you still have some inventory available for products linked to Christmas. In the event that you decide not to store these products until the following year, you can place a number of different items in a smaller bag, then sell the bag at a price that is lower than its individual contents.

It is possible to use the price of a commodity to generate revenue or to improve value. This is possible because the combination of items may result in the sale of products that otherwise would not have been sold. Because certain customers will be thrilled to have the opportunity to buy a collection of things at a discount, it will be possible to achieve good leadership if you provide this possibility. Aggregation is a

strategy that can be used to achieve partial reimbursement or survival goals. In this strategy, products that cannot be sold in any other way are aggregated together and then discounted. This allows you to recoup a portion of the production costs or generate enough profit to remain in business or avoid releasing the product to the market.

Product Line Pricing

Pricing based on a product line is a method that is applied in situations in which a list of items or services can be created to show an increasing value. This pricing method is very comparable to the majority of other pricing schemes. On the other hand, rather than purchasing a big number of a single item, a client may choose to purchase a different item or service at a greater price. This purchase is regarded as a value when compared to the price of each individual product or service. Imagine that in addition to other products, jam, syrup, and cake mixes are offered for sale at your farm market. Because jam and syrup are commonly used toppings for pancakes, these things might be considered complementary to the dish. You can choose to sell any of these products separately, or you can make a gift box that contains all of them together and sell it instead. This gift box will have a price that is significantly lower than the total amount the buyer is able to pay for each item if they buy them separately.

Predatory Pricing

Predatory Pricing is an new Emerging Trend in pharmaceutical industry. Predatory pricing is when prices are set in an illegal way to get rid of competition and create a monopoly. Undercutting is another name for unfair pricing. Most of the time, companies that use predatory pricing keep their prices very low to make them less appealing to their competitors.

But it looks like a new kind of predatory pricing is starting to show up. It's like predatory pricing going the other way. Here, the pricing strategy is to keep prices very high, even to the point where they are socially unacceptable, in order to keep competition away. When you can charge so much for your product, that must make more people want to buy it, right?

That makes sense as a question. But then, the way these modern pharmaceutical predators do business or their "method of operation" doesn't make sense. Their way of doing business is kind of like this:

- **Get a drug with only one source:** Get a drug that is no longer under patent but is still the only one of its kind. This means that there is no competition coming up soon.
- **Make sure it's a gold standard:** Make sure the single-source drug you have or are about to get is a gold standard for the condition it treats. If it is a gold standard treatment, doctors will keep giving it to their patients even if the price goes up. How much of a price increase a drug can handle depends on how effective it is thought to be and how important it is.
- **Choose a drug that doesn't sell as well:** If a market is smaller, competitors are less likely to want to get into it. But make sure that the drug has a small number of dependent patients who are too few to organise against the price increase.
- **Distribution that is closed:** Make sure that when you get a drug that meets all of these requirements, it has a limited distribution system and is not easy to get from other places. When the drug isn't sold through the usual channels, it makes it harder for competitors to get into the market.

Once a drug meets all of the above criteria, the company can use its predatory pricing strategy, which is in the opposite direction. Predatory pricing is when a product or service is priced so low that it makes it hard for competitors to get into the market. The new form of predatory pricing is to make it hard for people to get into their carefully chosen markets and then raise prices a lot to make as much money as possible.

'Me-too' pricing Strategy for 'Me-too' Products

In branded-generic pharmaceutical markets like India, the standard practise has been to fix the pricing so that they are comparable with other similar markets. There are, in any case, a few notable departures from this rule. When there is no discernible way in which one product differs from another, a person may feel more at ease pricing their product according to the level of competitive parity.

ISSUES IN PRICE MANAGEMENT IN PHARMACEUTICAL INDUSTRY

Various factors involved in pharma industry that cause difficulty in price management in pharmaceutical industry. Following are few factors that need to be consider during price management:

Government regulation of pricing in pharma industry

Pricing management in the pharmaceutical industry involves making decisions regarding setting prices for new products, implementing price changes according to the changes in governmental policies (DPCO amendments), monitoring the costs of both the company's own products and those of its major competitors, analysing the prices of competitors, including quantity discounts, free goods and bonus offers, etc.

In the Indian pharma industry, it is usual practise to provide bonus offers or free items on selected medications. These offers typically pertain to seasonal products like cough and cold preparations, antidiarrheals, and other similar remedies. It is typical practise for companies to make introductory bonus offers on new products in order to ensure enough inventories at the retail level before beginning promotion to doctors.

Many businesses who have accumulated an excessive amount of inventory and are in need of a sales surge to dispose it offer Bonus deals. Since a retail chemist can assist in pushing the sales of non-prescription pharmaceuticals, pharmaceutical marketers also utilise bonus incentives regularly as sales promotional strategies to boost their sales of OTC (over the counter) drug brands.

What kind of a bonus should we be offering? How many complimentary copies of a specific publication are included with the purchase of a specific quantity of the product? Instead of providing customers with a percentage discount, the pharmaceutical business has always followed the practise of giving away free units of a product as part of a bonus offer. The reasons are glaringly evident and can even be considered fundamental. One reason is that giving out free units is less expensive for the manufacturer, but the same amount of monetary value can be kept by the store without being diminished. The second benefit would be that the maker would be able to deplete his stock of items at a more rapid pace. Thirdly, the company has the potential to exercise a bigger amount of stock pressure at the retail level.

The quantity of complimentary issues that will be provided as part of a bonus offer for a product is determined by a number of factors, including the following:

- The image that your company and its product present to the public.
- The scope of the competition, as well as their most likely next steps
- The cost of the item that you sell.
- Your product's specific marketing goals and objectives.

- The characteristics of the market in which your product competes, such as the degree to which the demand for it is sensitive to changes in price.

Customers' perception to price changes

It is important to know how your customers are likely to react to price changes. Some of the most important things customers do when prices go up or down are:

1. When you lower the price, they might think you're making the product worse or even getting rid of it, if they think it's a premium product.
2. On the other hand, if you raise the price, they might think you are making the product better. It probably explains why claims like "New and Improved Formula," "Improved Flavor and Taste," and so on seem to never end. Every time a company makes such a label claim, a smart person will notice that the price goes up. Not to say that these claims aren't true or aren't valid, but the main goal of these claims is to make customers less sensitive to price increases.

If a price goes up, a retailer might cut down on the amount of stock he has, delay his payments, or switch to a different brand for OTC products. Most of the time, he might buy more before the price really goes up.

The marketer will be better able to plan and manage pricing strategies if they understand the psychological aspects of pricing.

The psychological effects of pricing

There is more to how price affects demand than just how price affects demand or how price affects quality. There are many things that can be seen but are hard to explain or can't be explained at all. In fact, some of them are the exact opposite of what economists have always said or thought. These are:

Quantum Pricing Effect

It is clear that price increases up to a certain point don't cause a drop in sales, but price increases after that point cause a sharp drop in sales. The point where sales start to drop quickly is called the quantum point. Up to the quantum point, consumers don't show any resistance or sensitivity to price changes. However, after the quantum point, they seem to be very sensitive to even small price changes. Bata, which makes the most shoes in India, is a great example of this pricing effect. Prices at Bata, which are almost a cliché, tend to be on the right side of the quantum point.

For example, a new antibiotic capsule that is in the decontrolled category can be priced at Rs. 3.35, Rs. 3.45, Rs. 3.60, and even Rs. 3.75 without affecting sales. But if the price was Rs. 4.10, the number of sales could drop sharply. In this case, the quantum point is Rs. 4

Reversed Price Perception

As the name suggests, consumers' thoughts about price can sometimes go in the opposite direction. In other words, people tend to think that lower prices are better than higher prices. For example, a price of Rs. 3.95 for a 10-gram of pain-relieving ointment tube may seem lower than a price of Rs. 3.45. What is going on? You can talk about this in terms of reference points. Round numbers are used as points of reference to show that Rs. 3.95 is five paise less than Rs. 4 and Rs. 3.45 is 45 paise more than Rs. 3. So, the price that is higher may seem lower and the price that is lower may seem higher because of how they compare to their reference points.

Just Price Standard

The just price standard is another thing that can be seen but that you can't explain well. Consumers seem to come up with their own idea of what a fair price is, which they then use to judge brands. Consumers are fine with prices that fall within this fair price range. If you price your product more than this fair price, you won't sell as many of them.

Prices below this level probably mean that the quality isn't very good.

Price Cost Standard

Consumers who know a lot about a product often think they can figure out how much it cost the manufacturer to make and then figure out what a fair price should be by adding a reasonable profit. It's useful if industrial buyers buy from them more often.

Understanding how pricing affects people's minds will help the marketer understand all the different parts of pricing. These, in turn, will help him come up with plans to make consumers less sensitive to price and find ways to get past the price barrier.

Consumer price desensitisation

Overcoming the price barrier or making the consumer less sensitive to price requires a basic understanding of how consumers act and what causes them to be so

sensitive to price in the first place. Once you know how sensitive people are to price changes, you can figure out what makes them less sensitive.

Remember that price changes affect people more when:

- There is no difference in how well the point of sale works
- After-sale service is not important.
- There is no personal selling.
- There is little or no difference between products.
- Price per unit is high

Because the products are different, the pharmaceutical industry isn't very sensitive to price changes. Also, personal selling is a big difference, and a medical representative who is a better salesperson can often make up for the difference in price by showing the doctor how his product is a better value for the money than others.

In the pharmaceutical industry, the image of the company is also a differentiator, though it is not as important as personal selling. Compared to their Indian counterparts, multinationals seem to have a better reputation for making better quality goods. It could be because multinational companies are putting a lot of R&D effort into their Indian subsidiaries. In the past few years, the Indian sector has also shown that it has a strong presence in this area. Some Indian companies, like Sun Pharma, Cadila, Ranbaxy (now Sun Pharma), Cipla, Torrent, and others, have made a lot of progress that shows this is true.

CASE STUDIES RELATED TO PRICING DECISION

Few case studies explained that are adopted from Bullseyes and Blunders Lessons from 100 Cases in Pharmaceutical Marketing by Subba Rao Chaganti, 2019, PharmaMed Press, A unit of BSP Books Pvt. Ltd.

How Glaxo Won the Market for Anti-Ulcer Drugs Using Skimming Strategy

The British drug company Glaxo (now GSK) made ranitidine and sold it under the brand name Zantac in many countries.

Tagamet, made by SKF (now GSK), was the best-selling anti-ulcer drug with annual sales of more than US\$ 950 million. It was trying to become the first prescription drug to sell more than US\$ 1 billion. All of those hopes were crushed, though, by Glaxo's Zantac, which was the first prescription drug to sell more than \$1 billion.

How did Zantac help Glaxo win? Glaxo got more money for Zantac than SKF did for Tagamet, which was the first H₂ antagonist and the market leader at the time (skimming strategy to recover the high R&D investment faster). Glaxo started a prestige campaign to set Zantac apart from other ulcer drugs and position it as a better product. In the minds of doctors, Zantac was like a "Super Tagamet." When Glaxo released its brand of ranitidine, Zinetec, in India in 1986, they used the same skimming method there as they did everywhere else. The company set the price very high, almost 100% higher than most of its competitors.

The company worked very hard on a marketing plan that was meant to make customers less sensitive to the high price and emphasise that the high price was a sign of quality. These included seminars, lectures by famous gastroenterologists from all over the world for doctors in class I towns and metro-cities, persuasion by a team of highly skilled and well-trained medical representatives, samples, gifts, an attractive premium-looking pack, and a different product in the form of a specially coated tablet (all other formulations were plain tablets). So, Glaxo became the market leader for Zinetec in the first year it was on the market.

Due to the DPCO 1987, the company had to cut the price of Zinetec by a lot, to almost half of what it was at first. The company had almost no choice but to use a penetration strategy, but it made the most of it by making customers think they were getting more for their money.

The price drop didn't hurt the product's reputation for quality, though, because doctors and dealers knew that the price drop wasn't a choice but rather a government order (DPCO 1987).

Glaxo used a skimming strategy for their Zinetec in India. This helped them not only recoup the costs of making it faster, but also pay for the expensive advertising they needed to do to make it the market leader. When the company had to lower the price of Zinetec, Glaxo bravely pursued an aggressive market growth strategy, which led to a large increase in the number of sales. The result was a strong leadership position in the Indian anti-ulcer market with a market share of over 20% and growth of 18%. (1988).

Mankind Pharma Storms into the Indian Pharmaceutical Market with Penetrative Pricing

When everyone in the Indian pharmaceutical industry is complaining about price controls, Mankind Pharma did the opposite and used a penetrative pricing

strategy. Businesses all over the world use penetrative pricing as a way to get customers interested in a new product or service.

In the pharmaceutical industry, however, it is not common for a company to use this as a pricing strategy for the whole company. In the retail business, Walmart and Costco, two of the biggest grocery stores in the US, used a strategy called "penetrative pricing" to become the leaders. No drug company has ever used a penetrative pricing strategy for all of their products. How does Mankind set its prices? To offer all of their products to patients (consumers) at prices that are 40–60% lower than the prices of the big players in the market.

What happened? Today, Mankind Pharma has the most prescriptions in India, which puts it at the top of the pharmaceutical league table. In the Indian pharmaceutical industry, the company is currently in fifth place in terms of the value of its sales. An unprecedented achievement indeed!

Predatory Pricing in the Pharmaceutical Market

Daraprim (pyrimethamine) was made in the 1950s to treat a parasitic infection called toxoplasmosis. In August 2015, Turing Pharmaceuticals bought the drug from Impax Laboratories in the US. The price for a single pill went from \$13.50 to \$750 right away. That's called predatory pricing, and it made Martin Shekri, the company's CEO, the most hated person in America. For example, a single tablet of Pyrimethamine costs between \$0.06 and \$0.10 in India.

Even though the price increase of Daraprim got a lot of attention because the company's CEO used dishonest tactics that got him sent to prison, there are other companies that used similar predatory pricing strategies, if you can call them that. Yes, it seems like predatory pricing has become a new way to do business. It's all about getting old drugs that haven't been used in a long time, often for rare diseases, and turning them into expensive specialty drugs. It's this pattern that worries me. Here are some examples of unfair pricing:

- A. In 2014, Valeant Pharmaceuticals bought Isupril (isoproterenol) and Nitropress (nitroprusside sodium) from Marathon Pharmaceuticals. Both of these medicines are used to treat problems with the heart. Valeant made Isupril 525 times more expensive and Nitropress 212 times more expensive.
- B. Rodelis Therapeutics bought the drug cycloserine, which is used to treat drug-resistant tuberculosis, and raised the price by 2,100%. Later, when Purdue Research Foundation, which sold the drug to Rodelis, found out about the price

increase and that the company wasn't giving patients services that would help them stay on the drug, it asked Rodelis to return the cycloserine rights.

- C. Horizon Pharmaceuticals bought the pain medicine Vimovo (esomeprazole and naproxen sodium) and raised the price by 527 percent.

The worry here is that predatory marketers like Martin Shekriil are looking for drugs like Daraprim that don't have active generic competitors because the market for such drugs is too small for a generic drug company to see it as profitable. It's not as simple as buying a drug and then raising its price. Instead, the problem is that these drug companies are looking for drugs that can have their prices raised by a lot. It's a bad reason, and that's where the moral flaw is.

NATIONAL PHARMACEUTICAL PRICING AUTHORITY (NPPA)

National Pharmaceutical Pricing Authority (NPPA) was founded by a resolution of the Government of India dated 29 August 1997 as an independent body of experts to control the prices of vital and life-saving medicines. NPPA carries out the National Pharmaceutical Pricing Policy, 2012 and the Drugs (Price Control) Orders issued by the Department of Pharmaceuticals (DoP) in accordance with the Essential Commodities Act, 1955.

Role of NPPA

- Implementing and enforcing the requirements of the Drugs (Prices Control) Order in accordance with the authorised authority.
- To handle any legal disputes stemming from the Authority's judgments.
- Monitor the availability of medications, detect any shortages, and take corrective action as necessary.
- To collect/maintain data on production, exports and imports, market share of specific enterprises, company profitability, etc. for bulk pharmaceuticals and formulations.
- To conduct or support relevant studies about the pricing of drugs and pharmaceuticals.
- Recruit/appoint the officers and other staff members of the Authority in accordance with government-established rules and procedures.
- To provide the Central Government with recommendations for adjustments or revisions to the drug policy.

- To help the Central Government in parliamentary concerns pertaining to the pricing of drugs.

DRUG PRICE CONTROL ORDER-2013

The Drugs (Price Control) Order, abbreviated as DPCO, is a component of the Government of India's New Drug Policy, which is implemented throughout India. It has been implemented in accordance with section 3 of the Essential Commodities Act of 1955. The initial DPCO went into effect on January 6, 1995, and was then periodically revised. The most recent DPCO – 2013 was published on May 15, 2013. Previously, DPCOs were referred to as "Scheduled Pharmaceuticals," where only bulk drugs were included in Schedule-I and the government set pricing for both bulk drugs and formulations incorporating any of these bulk drugs.

DPCO-2013, however, utilises the term "Scheduled formulation" to refer to medications in its Schedule - I of order, as some of the bulk drugs, when utilised as a single ingredient, also serve as formulations. Schedule-I of DPCO-2013 includes a list of Scheduled formulations, which is comprised of the "Essential Medicines" declared by the government via its National List of Essential Medicines (NLEM)-2011. Consequently, NLEM serves as the basis for determining which medications should be subject to price restriction via DPCO. DPCO brought both generic and brand-name formulations under price restriction. According to DPCO-2013, a total of 348 medications are included in Schedule-I.

Objectives of DPCO-2013

- To ensure sufficient production and equitable distribution of medications.
- To ensure that life-saving, and preventative medications are available at an affordable price and of the desired quality.
- To encourage indigenous medical research.
- Promoting the prudent use of medications in the nation so as to stimulate cost-effective production with economical sizes

Features of DPCO-2013

- The new rule will regulate the prices of 348 medications and their 652 formulations.
- The new approach adopts a market-based pricing structure as opposed to the cost-plus method that was previously recommended. The ceiling price would be

determined by taking the simple average of the prices of all medicine brands with at least 1% market share.

- The margins of wholesalers and retailers have been reduced to 8% and 16%, respectively.
- Monitoring the Maximum Retail Price of Non-Scheduled formulation.
- Control over the manufacturing of Bulk Drugs.
- Control over the maker of Formulation
- The retail price of pharmaceuticals will increase annually in tandem with the wholesale price index.
 - **Scheduled Formulation:** Scheduled formulation means formulation with the same concentration and dosage form as specified in the schedule. If the Dosage Form and Strength of a Scheduled Drug are altered, the Drug is no longer Scheduled. For example, amoxicillin Capsules 250mg is covered under schedule. Therefore, amoxicillin Tablet 125mg shall not be called a Scheduled Drug
 - **Non-scheduled Formulation:** "Non-Scheduled Formulation" refers to a formulation that contains the molecule but whose dosage and strength are not regulated in the First Schedule; (Non- NLEM Drug / Formulation). For examples are Norfloxacin, Rabeprazole, Aceclofenac.

What is New Drug / New Formulation as per DPCO-2013

- NLEM (National List of Essential Medicines) formulations with identical dosage and potency when paired with another NLEM formulation with identical dosage and potency. For examples, one drug is Paracetamol (500mg) Tablet is Scheduled Formulation and second drug is Diclofenac (50mg) Tablet is also a Scheduled Formulation. Combination of Paracetamol (500mg) and Diclofenac (50mg) Tablet is New Drug/Formulation as per DPCO-2013.
- NLEM Formulations having the same dosage and potency as another Non-NLEM Formulation when mixed. For examples, one drug is Paracetamol (500mg) Tablet is Scheduled Formulation and second drug is Aceclofenac 100mg Tablet is Non - Scheduled Formulation. Combination of Paracetamol (500mg) and Aceclofenac (100mg) Tablet is New Drug/Formulation as per DPCO-2013.

- NLEM Formulations by changing its strength. For examples, one drug is Paracetamol (500mg) Tablet is Scheduled Formulation. Paracetamol with new concentration of 325mg is New Drug/Formulation as per DPCO-2013.
- NLEM Formulations by changing its dosage. For examples, one drug is Diclofenac 50mg Tablet is a Scheduled Drug. Another is Diclofenac 50mg Ointment is a New Drug

NATIONAL LIST OF ESSENTIAL MEDICINES

In recent years, the National List of Essential Medicines (NLEM) of India has gained a great deal of prominence in the eyes of both users and the government. This is primarily due to the government's policy measures to promote access to medications in India. Therefore, it is essential to comprehend the history of preparing the list of essential medicines in India and other international agencies, such as the World Health Organization (WHO), as well as the evolution of these processes and the concepts and principles applied to the preparation and utilisation of such lists. This will assist the user in adopting transparent and justifiable practises wherever they find this list relevant.

According to the World Health Organization, Essential Medicines are those that meet the population's foremost health care needs. The list is compiled based on disease prevalence, medicine efficacy, safety, and comparative cost-effectiveness. These medications are designed to be available in adequate quantities, dosage formats, and strengths with quality assurance.

They should be provided at an affordable price for individuals and communities.

The development of an essential medicines list (EML) is anticipated to improve the quality of medical care, the management of medications, and the utilisation of health care resources in a cost-effective manner. This is especially crucial for India, a country with little resources. The essential medicines list is designed to have a favourable effect on the availability and rational usage of medications.

CALCULATION OF PRICING OF SCHEDULED FORMULATIONS

The ceiling price of a scheduled formulation of defined strengths and doses, as described in the first schedule, shall be determined as follows:

Step 1: First the Average Price to Retailer of the scheduled formulation i.e. P(s) shall be

Average Price to Retailer, P(s) = (Sum of prices to retailer of all the brands and generic versions of the medicine having market share more than or equal to one percent of the

total market turnover) / (Total number of such brands and generic versions of the medicine having market share more than or equal to one percent of total market turnover on the basis of moving annual turnover for that medicine.)

Step 2: Thereafter, the ceiling price of the scheduled formulation i.e. P(c) shall be calculated as below:

$$\text{Ceiling price} = P(s) * \frac{1+M}{100}$$

Where,

P(s) = Average Price to Retailer for the same

strength and dosage of the medicine as calculated in step1 above.

M = % Margin to retailer and its value =16

- **Margin to retailer:** In determining a ceiling price for scheduled formulations and retail prices for new drugs, a retailer margin of sixteen percent of the price to retailer shall be permitted.

Maximum retail price

- **Scheduled formulations:** The maximum retail price of scheduled formulations shall be determined by the manufacturer based on the ceiling price declared by the government, plus local taxes where applicable:

Maximum Retail Price (MRP) = Ceiling price + Local Taxes as applicable

- **New drugs/formulations:** The maximum retail price of a new drug is set by the manufacturer based on the retail price imposed by the government, plus any applicable local taxes:

Maximum Retail Price (MRP) = Retail Price + Local Taxes as applicable

Calculation of retail price of formulation

The retail price of a formulation shall be calculated by the Government in accordance with the following formula namely:

$$R.P. = (M.C. + C.C. + P.M. + P.C.)X \left(1 + \frac{MAPE}{100}\right) + ED$$

Where,

R.P. means Retail Price

M.C. means Material Cost and includes the cost of drugs and other pharmaceutical aids used.

C.C. means Conversion Cost worked out in accordance with established procedures

P.M. means cost of the Packing Material used in the packing of formulation, including process loss.

P.C. means Packing Charges worked out in accordance with established procedures of costing.

MAPE (Maximum Allowable Post-manufacturing Expenses) means all costs incurred by a manufacturer from the stage of ex-factory cost to retailing and includes trade margin and margin for the manufacturer and it shall not exceed one hundred per cent for indigenously manufactured Scheduled formulations;

E.D. means Excise Duty: Provided that in the case of an imported formulation.

Note- In case of an imported formulation, landed cost shall form the basis for fixing its price.

Therefore;

Landed cost = Cost of Import + Customs Duty + Clearing Charges