

PRICING

By

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Definition

- Price refers to the monetary value assigned to a product or service. Its meaning encompasses both the cost to produce and the value perceived by customers.
- The price is an important parameter for determination of demand, revenue generation, and profitability.
- It is also important for maximizing profit, achieving market share, sustaining competitive advantage, and reflecting the value offered to customers.

Why Pricing is Important?

Price plays a significant importance in various aspects of business and economics:

- ❖ **Demand and Revenue Generation:** an optimal price is crucial for maximizing revenue.
- ❖ **Profitability:** By appropriately pricing products or services, businesses can ensure that their revenues exceed their costs, leading to sustainable profitability.
- ❖ **Competitive Advantage:** Offering competitive prices relative to similar products or services can attract customers and help businesses differentiate themselves in the market.

Importance of Pricing

- ❖ **Perceived Value:** A higher price may convey a sense of quality or exclusivity, while a lower price might imply affordability or value for money.
- ❖ **Brand Image:** Premium pricing can enhance the perception of luxury or prestige associated with a brand, while discount pricing may position a brand as accessible or budget-friendly.
- ❖ **Market Positioning:** Businesses can use pricing strategies to target specific market segments based on their willingness to pay and perceived value.
- ❖ **Market Dynamics:** Prices can be influenced by various market factors such as supply and demand, competition, and economic conditions. Businesses need to monitor these factors closely to adjust prices effectively and remain competitive.

Objectives

The objectives of pricing encompass a range of strategic goals aimed at maximizing profitability, capturing market share, and delivering value to customers. Following are objectives of pricing-

- I. **Profit maximization**
- II. **Market share can be raised** by offering competitive prices relative to competitors.
- III. **Sustaining Competitive Advantage**
- IV. **Reflecting Value Proposition**
- V. **Revenue Growth:** Dynamic pricing strategies, such as discounts, promotions, and bundling, can stimulate sales and encourage repeat purchases, leading to increased revenue over time.
- VI. **Cost Recovery**
- VII. **Market Positioning**
- VIII. **Customer Segmentation**

Determinants (Factors) of Price

- **Costs:** The cost of producing, marketing, and distributing a product or service forms the foundation for pricing decisions. Businesses need to ensure that prices cover these costs to achieve profitability.
- **Demand:** Understanding consumer demand is essential for setting prices. Factors such as consumer preferences, buying behavior, and elasticity of demand influence how prices affect sales volume.
- **Competitors:** Competitive dynamics in the market significantly impact pricing decisions. Businesses need to consider the prices charged by competitors and position their offerings accordingly to maintain competitiveness.

Determinants (Factors) of Price

- **Value Perception:** The perceived value of a product or service to customers is a key determinant of pricing. Businesses must assess the benefits, features, and brand reputation relative to competitors to justify the price charged.
- **Market Conditions:** Economic factors such as inflation, interest rates, and market fluctuations influence pricing decisions. Businesses need to adapt prices to reflect changes in the broader economic environment.
- **Regulatory Environment:** Government regulations, taxes, tariffs, and industry standards can affect pricing strategies. Compliance with legal requirements and industry norms is essential in pricing decisions.

Determinants (Factors) of Price

- **Product Lifecycle:** Prices may vary at different stages to maximize revenue and market share.
- **Distribution Channels:** Direct sales, retail distribution, e-commerce platforms, and wholesale channels may require different pricing approaches.
- **Brand Positioning:** Premium brands may command higher prices based on perceived quality and exclusivity, while discount brands may compete on price.
- **Marketing Objectives:** Pricing aligns with broader marketing objectives such as market penetration, brand building, customer acquisition, and retention. Pricing strategies should support these objectives to achieve desired outcomes.

Pricing Methods

Cost-plus pricing

Break-even pricing

Value-based pricing

Competition based pricing

Economy pricing

Cost-plus pricing

It is a simple pricing method where the final price of a product is determined by adding a **profit margin** to the **cost of production**.

Imagine a company producing Paracetamol 500 mg tablets

- ❑ Cost of production per strip (10tablets) = ₹5
- ❑ Profit margin = 20%
- ❑ Ex-factory price = ₹5 + (20% of ₹5) = ₹6
- ❑ Distributor, wholesaler and retail markups = Final MRP ₹10

Break-even pricing

It is a strategy where a company sets the price of a product equal to its cost of production, meaning **no profit is made** – the company just recovers its costs.

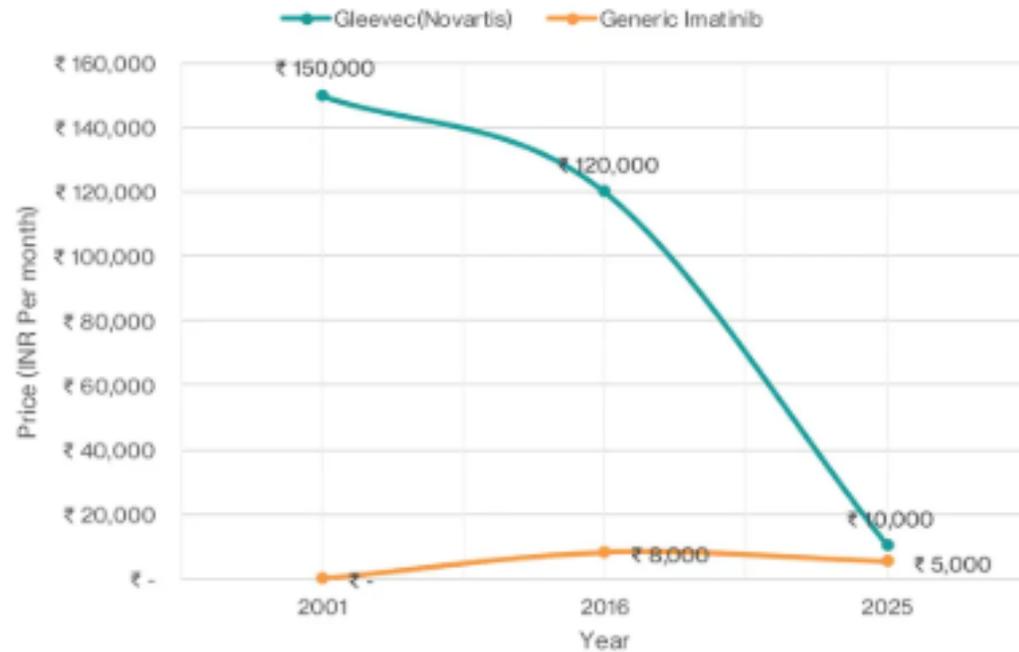
Category	Selling price per unit(₹)	Cost per unit(₹)	Profit per unit (₹)	Market strategy
Government tender	50	50	50	Volume based supply to hospitals
Retail market	100	50	50	High margin retail sales

Table : Break-even pricing vs profit –generating

Value-based pricing

It is a strategy where a company sets the price of a drug based on its **perceived value to doctors and patients**, rather than its production cost.

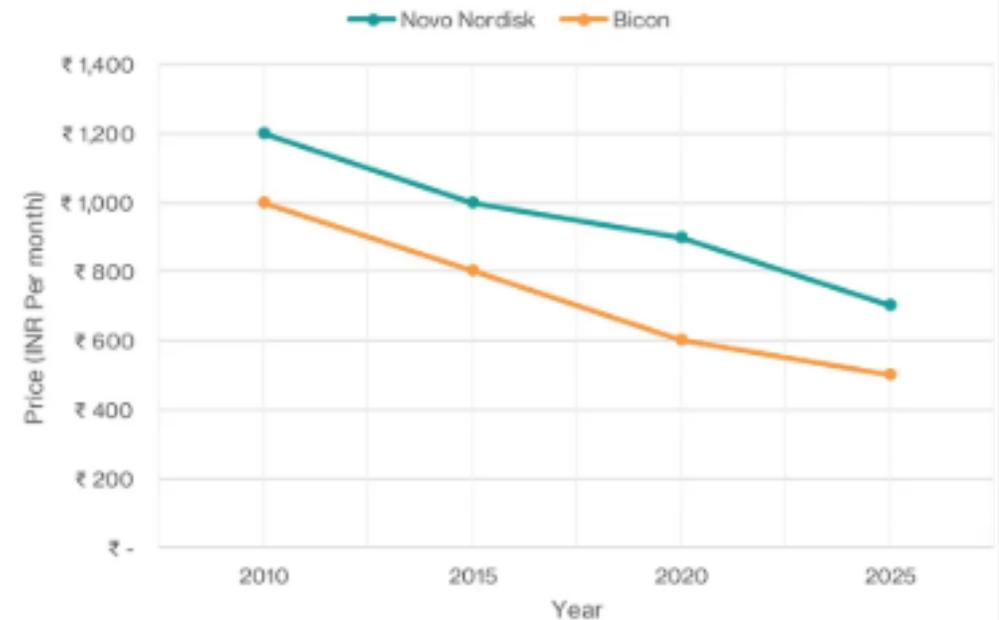
Gleevec vs Generic Imatinib Price Reduction over time



Competition-based pricing

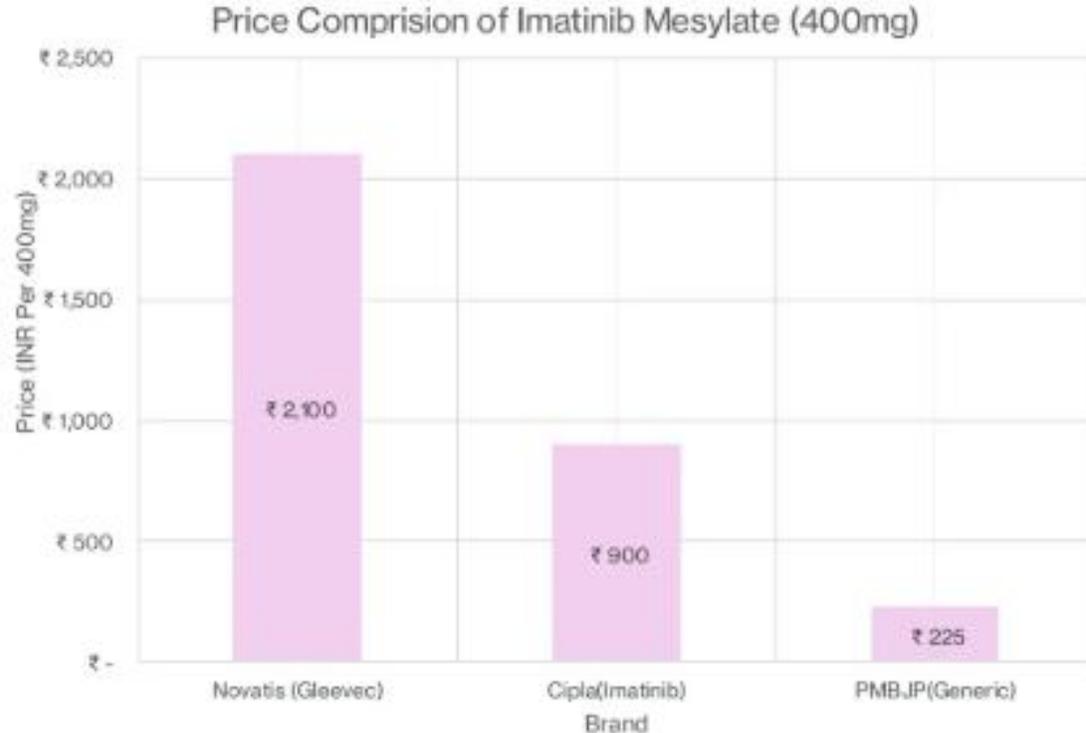
Instead of just focusing on the **cost** or **perceived value**, companies also consider competitor price before setting their own. The goal is to **balance profitability** with **competitiveness**

Novo Nordisk vs Biocon (Insulin)



Economy pricing

- It is similar to cost-plus pricing but with different objectives.
- Profit margins are kept minimal to ensure affordability.
- The company focuses on offering the lowest-priced brands of well-established molecules.



Premium pricing (MNCs like Novartis):-

Highest efficacy and clinical trials.

Generic pricing (Companies like Cipla , Sun pharma etc.):-

Comparable efficacy (bioequivalence approved)

Economy pricing (Pradhan Mantri Bhartiya Janaushadhi Pariyojana):-

Efficacy comparable but quality may vary

Pricing Strategy

□ New product pricing strategies-



- Market-skimming pricing (High price for innovation) : **Novartis Gleevec**
- Market-penetration pricing (Lower price to gain market share) : **Cipla's ARV drugs for HIV**

□ Product mix pricing strategies-

- Product line pricing (Different prices for variations) : **Metformin Regular vs. Metformin XR**
- Optional-product pricing (Charging extra for add-ons) : **Flavored pediatric syrups**
- Captive-product pricing (Must be used together) : **Novo Nordisk Insulin Pens & Cartridges.**
- By-product pricing (Pricing by-product to reduce the main product's cost) : **Heparin**
- Product bundle pricing (Combining products for discount) : **Flu Kits
(Paracetamol + Antihistamines)**

Pricing Strategy

□ Price-adjustment strategies-

- Discount and allowance pricing (Bulk purchase discounts) : **Hospital procurement of vaccines**
- Segmented pricing (Different price for different buyers) : **Subsidized Insulin vs. Private Market Insulin**
- Psychological pricing (Influencing customer perception) : **₹999 instead of ₹1000 for health supplements**
- Reference prices (Setting price based on competition) : **Generic vs. Branded Drug Price Comparision**
- Promotional pricing (Short-term discount) : **Buy 1 Get 1 Free on Multivitamins**



Issues in Price Management

❑ Issues in price management in the pharmaceutical industry face several unique challenges, primarily due to the critical nature of its products, regulatory scrutiny, and the complex healthcare market dynamics.

❑ Key issues in Price Management-

- High R&D Costs
- Market Access and Reimbursement Issues
- Patent Expiry and Generic Competition

An Overview of DPCO

DPCO stands for- Drug Price Control Order

What is the purpose of DPCO?

The Drug Price Control Order (DPCO) Act is a regulatory mechanism. The Government of India established it under the Essential Commodities Act 1955. The DPCO Act grants authority to the National Pharmaceutical Pricing Authority (NPPA) in India to oversee and regulate the prices of essential medicines.

Introduction to DPCO

- The Drug Price Control Order (DPCO) is a regulatory framework implemented by the Government of India to control the prices of essential medicines and ensure their availability at affordable rates to the general public.
- The primary objective of the DPCO is to make essential drugs accessible to all segments of society, especially those belonging to economically disadvantaged groups.
- Under the DPCO, the government regulates the prices of essential medicines by fixing their maximum retail prices (MRP) based on a formula that takes into account factors such as the cost of production, market competition, and reasonable profit margins for pharmaceutical companies.
- The National Pharmaceutical Pricing Authority (NPPA) is the regulatory body responsible for implementing and monitoring the DPCO.

Aim & Objectives

- The DPCO applies to both branded and generic medicines, covering a wide range of therapeutic categories.
- Pharmaceutical companies are required to comply with the pricing regulations outlined in the DPCO and obtain approval from the NPPA before launching new drugs or revising prices.
- By controlling drug prices, the DPCO aims to ensure that essential medicines remain affordable and accessible to all sections of society, including those who depend on public healthcare services.
- Additionally, the DPCO promotes competition within the pharmaceutical industry, prevents monopolistic practices, and protects consumers from exorbitant pricing of essential medications.

An Overview of NPPA

“**NPPA**” stands for- National Pharmaceutical Pricing Authority

Headquarters: New Delhi

Introduction:

The National Pharmaceutical Pricing Authority (NPPA) is a regulatory body established by the Government of India under the Ministry of Chemicals and Fertilizers. It plays a critical role in ensuring the availability and affordability of essential medicines to the general public.

Aim & Objectives

- The primary objective of the NPPA is to regulate the prices of pharmaceutical drugs and medical devices in India, particularly essential medicines, to make them accessible to all segments of society.
- The authority operates under various regulatory frameworks, including the Drug Price Control Orders (DPCO), which govern the pricing of essential drugs.
- The NPPA is responsible for implementing and enforcing pricing policies outlined in the DPCO.
- It determines the maximum retail prices (MRP) of essential medicines based on factors such as production costs, market competition, and reasonable profit margins for pharmaceutical companies.

Important Roles of NPPA

- The NPPA monitors and investigates cases of overcharging or unfair pricing practices by pharmaceutical companies.
- It takes action against violations of pricing regulations and ensures compliance with the established pricing norms.
- The NPPA also plays a key role in promoting transparency and accountability in the pharmaceutical sector.
- The NPPA publishes information on drug prices, notifications, and regulatory updates to keep stakeholders informed about pricing policies and changes.

Important Roles of NPPA

- The NPPA serves as a crucial regulatory authority in India's healthcare system, working to balance the interests of consumers, pharmaceutical companies, and public health objectives.
- By regulating drug prices and promoting affordability, the NPPA contributes to improving healthcare access and ensuring the availability of essential medicines for all.