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CHAPTER- 2
PRICING STRATEGIES OF INDIAN DRUG INDUSTRY

2.1 Introduction

Price is the value which is paid by the buyer to the manufacturer against the products and services. It is the value of the product mentioned by the seller to the consumers. Pricing decision is one of the crucial factors that shapes by cost factors, profit margin, possibility of sales at different price levels and the competitor's pricing policy as well as with the number of existing competitors in the market. It is the most critical element of the marketing mix and firms must make strategic preferences about how to price their product to achieve their business goals in the best possible manner by considering the demand and supply relationship. Unlike the elements of the marketing mix that is product and place, which can take months and years to change, or some forms of promotion which can be tedious & time consuming to alter, price can be changed quickly as per the requirement of business whether to react against the rivalry firm or against the fluctuation in demand. Price element has an intense impact on the marketing strategies, and based on the price elasticity of the product, it would affect the demand and sales as well. Hence, before setting up the price of the product, the
manufacturer must investigate the credentials of price mix and these elements are as follows-

- Pricing Policies
- Discounts Offered
- Terms for Credit Sale
- Terms for Delivery
- Adopted Pricing Strategy

Pricing decisions by considering the above mentioned elements, helps the manufacturer for capturing the market. Like promotion, price is also a persuasive communication about the offered product to the prospects. The decision of changing the price should be adequate enough to raise profits for the company and low enough to motivate consumers to buy the product. It should be suitable to face competition and to increase the revenue too.

Marketing companies are focusing on generating high revenue as much as possible. The business firms should change product, place or promotion in some way before reaching to price reductions. Financial objectives, in terms of price should be secured for other issues like how much money company is intending to make from a product, at what amount company is ready to sell the product, and what market share can
be boosted in relation to competitors. The other reasons can be how a business generates revenue in comparison to the cost of production, need to be taken into account while selecting the right pricing strategy for the firm. The business should be aware of its competitive position in the market.

There is no single formula exists in the market to determine the price of the product. The given steps must be followed by the organizations for developing the price of a new product and steps are as follows:

1. Develop Marketing Strategy- Focus on market analysis, segmentations, targeting, and positioning.
3. Estimate the Demand Curve- Estimate the demand for the new product.
4. Calculate Cost- Evaluate the fixed and variable cost associated with the product.
5. Understand the Environmental Factors- To analyse the competitors’ strategy as well as the legal constraints associated with the new product.
6. Set pricing Objectives- Decide the pricing objectives such as profit maximization, price stabilization or revenue maximization.

7. Determining pricing- By using the above mentioned steps, select a pricing method to develop a pricing structure and define discounts as well.

2.2 Economics of Pricing

In an economy, the communication of producers and consumers determines the price of goods and services. The theory of supply and demand explains, how much elasticity is occurring which leads the changes in prices. For example, a buyer could deny to purchase the drugs which are not considered as essential medicine, will show more elastic prices. On the contrary side, those medicines which are considered as an essential one for example, cancer drugs, will be inelastic and shows that the buyers are less sensitive to higher price. Sometimes this phenomena of demand-supply is failed because some customers are not aware about what the other customers are paying for the same medicines, hence they pay the higher amount for the same drug. In monopoly or monoposony competitions, the seller has a significant ability to control over the prices because the consumer has limited options to purchase the product. This discrimination allows the seller to rule the prices that are a bit higher than the prevailing one. In
monopsony economy, government plays the role on behalf of the customers for better prices.\textsuperscript{4}

2.3 Price Discrimination

Beside all the economic theories of price determination, the prices of medicines are influenced by certain factors and consumers need expert advice to make rational choices between experienced and inexperienced medicines to use. This advice depends upon the prescribers, who may not know or even care about the price of the drug. Different literature\textsuperscript{4} shows that price discrimination exists between the different countries. Price differentiation of drugs within and between the countries often results from the following reasons.\textsuperscript{6}

- Intra-Country and Inter-Country differences in the margins charged by the different intermediaries of supply chain like wholesalers, distributors, and pharmacists, as well as taxes and co-payment levied by the states and countries.

- Price variations within the country exist in those markets which are less price regulated like the United States, however, in other countries where the private, public, non-profitable sectors procure drugs separately. For example-India, where the public sector has low prices of drugs through tendering, in contrast of the private sector, where the medical insurance providers make patients able
to buy the out of pockets medicines and treatments, although the government is taking sincere efforts to regulate the drug prices through drug price control orders.

- The process of comparing the prices of medicines itself a difficult task, but these interventions can help in reducing the prices. For example margins and taxes charged along the drug supply can add to the final price of medicines. Governments can control these issues by enacting the policies and regulations.

2.4 Objectives of Pricing

In order to determine optimal pricing, firm should identify the prime objectives. Common objectives may include the following-

![Objectives of Pricing](image)

**Figure No. 2.1: Objectives of Pricing**
2.4.1 Profit Maximization

By taking into the account revenue and costs, firms used to maximize the current profits. But the current profit maximization may not be the best strategy for the long run.

2.4.2 Revenue Maximization

Current revenue maximization is to maximize the current revenue and have no relation to profit margins. This strategy helps to gain more profits in the long run by increasing the market share and lowering the costs.

2.4.3 Maximize Quantity

For decreasing the cost in the long run, firms seek to maximize the number of units sold to the customers.

2.4.4 Quality Leadership

In order to attempt the position of quality leader in the market, firms use price as a quality signal of the product.

2.4.5 Partial Cost Recovery

Firms adopt the partial cost recovery method, when the firm has other sources of revenue.
2.4.6 Survival

In some situations like if market is declining or overcapacity, the aim is to select a price that covers the incurred cost and permit the firm to remain in the market. This objective is just for the sake of survival for a time being.

2.4.7 Status Quo

In order to avoid price war and to maintain the stable level of profit, the firm sets the moderate level of price.

For new products, the pricing objective is to maximize the profit margin or to maximize quantity or market share. To meet these objectives price skimming, price penetration, cost plus pricing is often employed.

2.5 Determinants of Pricing

Prices of goods and services are decided by the market participants that is buyer and seller. In the scarcity of resources, market participants decide, how resources will be used on the basis of production and consumption. However, in a competitive market producers need to decide for a given quantity of resources, what and how much amount to produce, while consumers need to choose what
and how much quantity they can afford to buy in a given amount of their income level. The buyer and seller come together in the market, and under certain assumptions their communication decides market prices.

![Diagram of Determinants of Pricing]

**Figure No. 2.2: Determinants of Pricing**

### 2.5.1 Demand

Demand is created by consumers, while supply is decided by producers. It is very critical to understand the relation of these terms, because both the groups not drive by the same forces. Consumer plays a vital role in determining the prices as well as in deciding what product should produce. Consumer wants to maximize their welfare through buying the maximum number of goods and services in the given level of income. What price consumer can afford to buy the particular goods and
services which ultimately persuade the producer what to produce? This concept suggests that what product should be included in the bundle of goods and services and what should not be. These preferences and choices of consumers affect the demand of the product. Complementary and substitute goods also affect the demand of the existing product, as these products affect the number of existing consumers in the market.\(^8\)

### 2.5.1.1 Elasticity of Demand

In the context of demand, if consumers need a product to the extent that a significant price increase has minute effect on the quantity demanded that shows that the demand is in-responsive against prices and it is called as price inelastic. On the contrary situation, minute fluctuation in prices affects the demand severely. Pharmaceutical demand varies from countries to countries. The quantity of the drugs demanded by the consumers typically depends on the income of the consumers. The Study (Vogel.R, 2007) supports the fact that the demand curve of the people of wealthy country is towards the right to the people of the poor country.\(^9\) It is also relatively income inelastic that means individual’s income affects the pharmaceutical purchase less than the other aspects.\(^10\) On the other hand, research (Ringel, 2002) reveals that income factor does not affect the price of the drugs in contrast to the
other factors. For example- if a person needs the head-ache pill, the person will have the same without considering the income.\textsuperscript{11}

2.5.2 Supply

Producers want to maximize their profit. Profits of any organization are determined by the cost of production and revenue of the firm. For profit maximization, the producer has an incentive to use all the resources in the production in a cost effective way. In a perfectly competitive market, firms can only earn the normal returns; hence they can recover all the costs inculcated in production plus the minimum return required for survival of the business. If the firm’s returns are greater than the minimum requirement of the survival, new firms would be encouraged to enter into the market, and the competition will decrease until the normal profits reached. If the returns were less than the minimum level, low profitability would motivate the firms to leave the market, this course of action will raise the profits of the remaining firms until the normal earnings will generate. Other factors, namely: competition, technology also affect the efficiency and the cost of the inputs.


2.5.2.1 Elasticity of Supply

On the supply end, suppliers are used to respond towards the fluctuations in prices of the drugs. Hence the prices of drugs are elastic in nature. According to the market requirement, suppliers make changes in their production, but these changes are not immediate. These market reactions take some time and assume that demand will be maintained in coming future. If market consistently demands for the increased production, then only the supplier reacts positively by expanding their production capabilities like capital and labor.12

2.5.3 Competition Pricing

Patent expiration leads to changes in market structure and reduce both the average price of a drug and market expenditure. Studies prove that the entry of the generic drugs reduces the cost of market expenditure as well as the prices of drugs from 50 to 60%.13

2.5.4 Price Control Authorities

The country’s economic condition, including the uneven distribution of wealth and particularly the overall health issues faced by the Indian population, government’s priority is to ensure the equal distribution of drugs and availability of drugs at reasonable prices. With the above mentioned aim, the central government established the
National Pharmaceuticals Pricing Authority (NPPA) in 1997. The central government release the National List of Essential Medicines (NLEM) from time to time, which is also included in the Drug Price Control Order. The present list having 348 medicines which cannot sell beyond the particular price which is decided by the central government.

2.5.5 Research and Development (R&D)

Research and development plays an important role in the drug pricing. Research and Development incurred a huge amount of cost in the drug pricing. The government is taking the initiatives for enhancing the R&D expenditure in the nation.

Secondary study of this research throws light on the facts that Dr Reddy’s Laboratories top the list of research and development expenditure against its net sales. Top 10 companies of the Indian drug industry used to invest their 4-5% on research and development of their net sales every year. Every government invests amount of billion dollars on R&D only, just to ensure the best health practices in their nations.
2.5.6 International Standards

The literature states that as investment in R&D leads to high cost of drugs. The same concept applies in the investment strategies of international standards. The method to meet the international standards itself takes the heavy cost.\textsuperscript{16} Research proves that Canadian drugs are comparatively costly than the other country’s drugs because Canadian drugs are significantly have the higher place in terms of international standards.

2.5.7 Tax Rates

Tax rates affect the pricing practices of drugs. The tax varies from state to state and nation to nation. These tax rates ultimately affect the prices of the drugs.\textsuperscript{17} For example price of Paracetamol is Rs 5 in Haryana where the tax rate is less than the Karnataka, and then the price of same paracetamol would be higher in Karnataka than the prevailing price in the state of Haryana. All the costs are same like manufacturing cost, energy & fuel cost, R&D cost and Production cost, the only difference which creates the difference in the price that is the tax rate.\textsuperscript{18}

2.5.8 Export/Import

Just like tax rates, export and imports affect the prices in international trade. The international tariff rates and custom duty are
able to fluctuate the drug prices. This determinant affects the international trades only. Domestic trade does not affect by the export import duties.

2.5.9 Customer Paying Capabilities

Consumer paying capability shows the consumers’ ability to buy the product. This factor does not affect all the categories of drugs. This factor affects only the limited sections of drugs that is the section of high priced drugs only. High price drugs like diabetic drugs, drugs for heart diseases, and drugs for central nervous system are severely affected by the consumers paying capability because these are costly and for buying these drugs consumer has to look upon their pockets.

2.5.10 Intellectual Property Rights

Intellectual property rights also played an imperative role in the drug industry. Various disputes always run between the countries with the issues of Intellectual Property Rights. IPR provides the right to sell and distribute the product for a definite time period. These rights create the monopoly in the market. Suppose ‘X’ manufacturer has the patent of the drug ‘A’ then x can take the advantage of patent and could set the high price for drug A.
2.6 Types of Pricing Strategies

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Figure No. 2.3: Types of Pricing Strategies

2.6.1 Cost-Based Pricing

Price is determined by adding a profit element in the cost of making the product. Drug Price Control Order runs this pricing strategy in the Indian Drug Market.

2.6.2 Customer-Based Pricing

Prices are determined by the firm on the belief that what amount of price customer would be ready to pay.

2.6.3 Competitor-Based Pricing

Competitive prices have the main influence on the price set by the rivalry firm.
2.6.1 Cost Based Pricing

Cost based pricing is a price setting technique by adding a fixed amount or percentage to the cost of making or buying the product. This strategy has become an old-fashioned, even though it is widely used. Customers do not bother, what cost is required to make the product, they are interested in what is the value of products which provides to them.

2.6.1.1 Cost-Plus ("mark-up") Pricing

Cost-plus pricing is a method of setting up the prices of drugs by considering the cost of production along with the allowances for promotional activities, manufacturers’ profit margins, other expenses & profit margin in the supply chain.

Drug Price Control Order (DPCO) has given the formula of calculating the maximum retail prices of drugs using cost-plus methods. The formula is:

\[ RP = (MC + CC + PM + PC) \times (1 + MAPE/100) + ED \]

[RP = retail price; MC = material cost; CC = conversion cost; PM = cost of packing material; PC = packing charges; MAPE = maximum allowable post-manufacturing expenses; ED=excise duty]

The main advantage of cost-based pricing is that” Selling prices are relatively easy to calculate” and easy to predict the profit margin of
the firm. It largely depends on the normal competitive practice prevailing in the market.\textsuperscript{21}

### 2.6.2 Customer-Based Pricing

This pricing strategy is a different strategy, in which manufacturer takes the decision on the basis of consumers’ paying capability. It is not only based on what the consumer is willing to pay, but also reflects the value of the product perceived by the consumers. Price is decided to justify the purchase decisions. For optimal pricing, manufacturer need to consider how to segment the market in best possible manner so that the prices would able to reflect the differences in value perceived by different types of consumers. For the same, producer must know about the consumers and what value they perceive. Customer-Based pricing have the following sub-types:

#### 2.6.2.1 Penetration Pricing

Penetration pricing is the pricing technique of setting up relatively low initial entry prices of products, usually lower than the established one to increase the number of customers.\textsuperscript{22} The strategy aims to encourage the customers to switch the products for the new products because of the lower prices. Penetration pricing is usually adopted to increase the market share of a product. This method can be
adopted by the firms once the objective of increased price has been achieved. Some taglines like “special introductory offer” is the classic example of penetration pricing.

The basic aim of penetration pricing is to increase market share or sales volume. In the short term, penetration pricing is likely to result in lower profits. However, there are some significant advantages of penetration pricing like in long-term it gives higher profitability and higher market share, so the pricing strategy can often be justified against others. The best example of penetration pricing is ‘Motorola Mobile Phone’. Motorola has launched the wide range of mobile phones in economic prices as compared to rivalry companies that is Samsung and Sony.

Penetration pricing is usually adopted to support the launch of a new product, and works best when a product enters a market with relatively little product differentiation where the demand is price elastic, so lower pricing method has become the competitive weapon against the rivalry firms.
2.6.2.2 Price Skimming

Price skimming is the method of setting up the higher prices initially and then gradually, lowers the prices. The skimming method involves setting up the high price of product against other competitors. This strategy is often used to launch a new product which faces little or no competition due to unique technological features. These products are bought by “early adopters” who has a mindset to pay higher prices for the latest or the best product in the market. Apple I-Pad and Sony’s Play Station are the typical example of price skimming.

Disadvantage of price skimming is that it cannot be long lasting as competitors soon launch competitive products which put pressure on the price, to reduce. Distribution (place) also plays a challenging role for innovative new products. It may be necessary to give higher margins to retailers for convincing them to stock the product, reduce the improved margins that cannot be delivered by this strategy. Another important problem with price skimming is that a firm may slow down the volume growth of demand for the product and this can give the more time to competitors to develop the alternative products. This disadvantage becomes the advantage for competitors to create demand.
2.6.2.3 Loss Leaders

Loss leaders set the price below the cost-price with the aim to attract the consumers. In present time, loss leaders pricing technique has become the popular method of sales promotion of the product. The purpose of making a “loss leader” product is to encourage the customers to make further purchases of other profitable goods while they are in the shop. ‘Departmental Store’ or ‘Retailers’ used to adopt this strategy for increasing the footfall in store.

Pricing is a competitive weapon and a significant part of the marketing mix. If a business reduces its prices than competitors, new customers may be attracted and existing customers may become more loyal. Hence, a loss leader pricing method can help to divert loyal customers. A loss leader is a short-term pricing tactic for any product. One risk of loss leader pricing is that customers can take the opportunity to “bulk-buy”. If the price discount is sufficient enough, then it makes sense for customers to buy as much as they can (assuming the product is not perishable) which leads loss to the manufacturer.

2.6.2.4 Psychological Pricing

Psychological pricing is also known as ‘ODD-EVEN’ pricing. Sometimes, prices are set which seems unusual like Rupees 99, 199,
and so on. For example, retail stores advertise their products like T-shirts of Rupees 99 and 199.\textsuperscript{26} The answer of this unusual pricing is the perceived price barriers that customers may have. They will buy something for rupees of 99, but think that rupee 1 is a too much little amount. Hence, a price that is one rupee lower can make the difference. The main goal of psychological pricing is to make the customer believe that the product is cheaper than it really is. This pricing technique is deliberately attracting the customers who are looking for “value”.\textsuperscript{27}

2.6.3 Competitor-Based Pricing

Competitor based pricing exits in the market when there is strong competition in the market and customers have the wide choice of products to buy. They have the option to buy from the cheapest provider or perhaps from the one which offers the best customer service to them. But customers are rational to differentiate the products in terms of value.\textsuperscript{28}

Most of the firms in a competitive market do not have sufficient power to be able to set prices above their competitors. They tend to use “going-rate” pricing – i.e. setting a price that is in line with the prices charged by direct competitors. In effect such businesses
are “price-takers” – they must accept the going market price as determined by the forces of demand and supply.

An advantage of using competitive pricing is that selling prices should be lined with rivals, so price should not be a competitive disadvantage.

The main problem is that the business needs some other way to attract customers. It has to use non-price methods to compete – e.g. providing a distinct customer service or better availability.

2.6.3.1 Predatory Pricing (illegal)

In the predatory pricing, prices are deliberately set extremely low by a dominant competitor in the market in order to prevent or restrict competition in the market. The price is set might even be free, or lead to losses by the predator so the predatory pricing is illegal under competition law. In the month of June 2014, ‘Amazon’ is charged for setting up the low price of the book. Amazon itself, purchase the book in 15 $ and sell it in 9 $ and having the loss of 6 dollars. Amazon was doing that thing just because to capture the whole market.
2.6.3.2 Economy Pricing

The Economy Pricing method is that method where the costs of marketing and promotion are kept to a minimum that directs the lower prices. Supermarkets often have economy brands for soups, shampoos, etc. Budget airlines are known for keeping their overheads as low as possible and resultant gives lower prices to the consumer as comparable to rivals. ‘AirAsia Airline’ is the best Example of this strategy. The first few seats are sold at a very cheap price (almost a promotional price) and the middle majority is economy seats, with the highest price being paid for the last few seats on a flight which would be a premium pricing strategy.

2.6.4 Other Types of Pricing Strategies

2.6.4.1 Product Line Pricing

Product line Pricing is a different kind of strategy where a range of products or services depicts the benefits of that product range. This strategy includes the same product or combination of products. For example, the price of single ‘Maggi’ pack is Rupees 10 and price of family pack of 4 & 6 is 38 and 58 respectively.
2.6.4.2 Optional Product Pricing

Optional product pricing strategy is used by companies when customers started to buy products and then companies attempt to increase the price of the product by giving additional benefits. For example, ‘Airlines’ charge additional amount for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other. Again, budget airlines are prime users of this approach when they charge extra for additional luggage or extra legroom.

2.6.4.3 Captive Product Pricing

Captive products are those products which have to be compulsorily used with an accompanying product. Generally, the price of the accompanied product is low. The main product cannot be used without the accompanied product. However, the manufacturer must not increase the price of captive product too high, this action can make the purchase of core product unattractive. ‘Operating System or Softwares’ for the computers are the best example of this strategy.

2.6.4.4 Product Bundle Pricing

Product bundle pricing is used to sell the old products by combining with other products. The aim of this strategy is to increase the sale of an unattractive product with the help of attractive products.
like **ITC Face Wash** come with **ITC Shampoo**, just to increase the sale of face-wash.

Sometimes a product bundle pricing come with the sale of items at auction, where an attractive item included in a lot with a box of less interesting products so that customers must bid for the entire lot.\(^{34}\) It's a good way of moving slow selling products, and it is the other way of promotional pricing.

### 2.6.4.5 Promotional Pricing

Pricing is a vital element to promote a product. There are so many examples of promotional pricing, including approaches such as ‘**Buy One Get One Offer**’, **Money off vouchers and Discount coupons**. Promotional pricing is a debating issue. Many countries do not allow this approach and have laws that govern that product to make sure that the product should be sold at its original higher price before it can be discounted.

### 2.6.4.6 Geographical Pricing

Geographical pricing has the variations in prices with different parts of the world. Shipping cost increase prices of product and in some countries tax rates goes different which makes their products more or
less expensive. Legislative limits also affect the prices of products.\textsuperscript{35} The price of ‘\textbf{Honda Activa}’ is higher in Karnataka State as compared to any other state of north India due to high road tax.

\subsection*{2.6.4.7 Value Pricing}

This pricing strategy is based on the value or advantages of the delivered product or service. It is the only pricing method which captures the value of the product and creates the extraordinary returns for the same.\textsuperscript{36} This method generates huge profits along with better customer relationship unlike the traditional pricing methods. The manufacturer must be able to differentiate the product from the other competitive products and if, the product does not have the differentiation, then the product could not make the price for the value.

\subsection*{2.7 Stages of Pricing}

Price setting method of the product is a crucial issue for every organisation. This course of action has the different systematic stages for deciding the price of product.\textsuperscript{37} Sometimes these stages might be differ according to the product category and stages are as follows:
2.7.1 Stage 1: The Landed Price

This price includes all the fee and charges required to deliver the medicine to the wholesaler. Determinants of this price are Fees, charges, and Profits levied by transporters, insurers and warehouses. The levied tax consists with VAT, Stamp Duty, Service Tax or GST.38

2.7.2 Stage 2: The Wholesale Price

This price is the landed price plus the wholesaler’s costs of storage, transport, insurance and the profit margin of the wholesaler. The wholesaler could be a private (for profit making) operation, or can be a public operation or not for profit, non-governmental organization (NGO). In present times, wholesalers are being replaced by distributors
who have a relationship with supplies and work with lower margins because they do not own the stock of drugs.

### 2.7.3 Stage 3: Retail Price

The retail price is the wholesaler’s price plus all cost associated with transportation cost to the retailer, insurance cost. Same as wholesaler, retailer also can be Profit Making or Public operation, or a non-governmental organization. After delivery to the retailer, storage and stock insurance are required, and this cost is added by the retailer. Even retailer also adds their profit margin.

### 2.7.4 Stage 4: The Dispensed Price

Additional taxes such as VAT or GST added to the retail price, these taxes are controlled by the government. One study states that these VAT or GST leads to very high prices of drugs, even though these are having low wholesale price. Other studies show that significant reductions in price would be possible by removing these taxes.\(^{39}\)

### 2.8 Current Pricing Policy of Indian Drug Industry

The new guidelines for controlling the prices of essential drugs using a weighted average price (WAP) of all brands in this industry, having a market share in excess of 1% contrary to the last policy which
was only compelled to top 3 brands. This policy of averaging the prices of drugs will result in higher than the expected price cuts of the drugs. This policy cover the list of only 348 essential drugs (or 654 derived formulations) as against the earlier proposal that goal of bringing down the combination therapies along with the formulation under the price control. This revision is in favour of Analgesics/pain management, Anti-Infectives, and Cardiovascular therapies. This new policy has forced companies to review their strategies. This policy has led to companies towards the higher promotional and advertising strategies for increasing the sales to compensate the loss that is occurring due to this revision. This revision also pushed the companies for making the combination drugs (which are out of the span of pricing policy).

The domestic branded formulation industry would remain one of the most profitable business segments in the industry. There is the dominance of the branded generic market and high proportion of expenditure on health care being “out-of-pocket’, and prescription driven model would lead profits than the other markets. This policy is having a material impact on the profitability margins for the domestic players. However, the impact on an individual company would depend on multiple factors that include the extent of dependence on the
domestic market, the degree of diversification both at product and therapy level. MNCs are likely to be affected the most, as they focused on the domestic market and premium pricing strategy. Among large Indian companies, Cipla, Cadila Healthcare and Torrent Pharma that are able to generate a share of earnings from India operations might be a relatively higher impact. Alternatively, players like Strides Arcolab, Dr. Reddy’s, Ranbaxy and Glenmark Pharma are not showing the significant impact as their earnings remain more dependent on international markets.
**Table No. 2.1: Impact of New Pricing Policy on Indian Industry (Source: Adopted from ICRA Report)**

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<tbody>
<tr>
<td><strong>Coverage</strong></td>
<td>Based on Market Share Principle</td>
<td>Based on The Essentiality of Drugs - cover all the 348 drugs (in NLEM) along with combination</td>
<td>Based on The Essentiality of Drugs - cover only 348 drugs without combinations</td>
<td>The new pricing policy is likely to result in 10-15% price cuts, thereby impacting the industry to the extent of 3-5% The impact is likely to be higher in companies with premium pricing strategy, especially MNCs and companies with relatively higher product/therapeutic concentration</td>
</tr>
<tr>
<td><strong>Pricing Mechanism</strong></td>
<td>Cost-Based Pricing</td>
<td>Market-Based Pricing - Based on WAP of Top-3 Brands</td>
<td>Market-Based Pricing - Based on WAP of all brands with market share &gt;1%</td>
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<tr>
<td><strong>Price Revisions</strong></td>
<td>Based on change in WPI</td>
<td>Based on change in WPI</td>
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<tr>
<td><strong>Impact on Industry</strong></td>
<td>Covered ~12% of the industry</td>
<td>Almost 75% of the Rs. 60,000 crore market</td>
<td>Span of control likely to be limited to 30% of the market</td>
<td></td>
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<tr>
<td><strong>Scope</strong></td>
<td>Covers both Bulk Drugs &amp; Formulations</td>
<td>Covers only Formulations</td>
<td>Covers on Formulations</td>
<td></td>
</tr>
</tbody>
</table>
References


21. Hillner, B. E., & Smith, T. J. (2009). Efficacy does not necessarily translate to cost effectiveness: a case study in the


