

Lesson 6

Topic: Product price, pricing strategies.

Features of pricing for medicines.

Questions for discussion in the classroom

1. Price, definition, price functions
2. Features of medicines as a commodity.
3. Types of prices, price structure.
4. Approaches to price formation,
5. Pricing, factors influencing the price
6. Pricing objectives
7. Pricing strategies.
8. Stages of the pricing strategy.
9. Price change according to the market situation

1.Price, definition, price functions

PRICE is the monetary expression of the value of goods, works or services, the amount of money that the buyer is willing to pay the seller for the goods on the basis of mutual agreement.

Price functions.

The economic essence of the price in macroeconomics is manifested in the functions performed by it. As an economic category in the conditions of market relations , price performs several functions:

- *account*

- *stimulating*

-*distribution*

-*regulating*

- ***The accounting function*** of the price, or the function of accounting and measuring the costs of public labor. Price is a monetary expression of value, it measures how much labor, raw materials, materials, components and other components are spent on the manufacture of goods,
- ***Stimulating function*** of the price. In economic life, prices can contribute to or hinder an increase or decrease in the output and consumption of certain goods. For manufacturers, the prices at which they themselves directly sell their products are especially important.

- ***The distributive function*** of the price is associated with the possibility of price deviation from the cost under the influence of many market factors. With the help of prices, the distribution and redistribution of national (net) income is carried out between: sectors of the economy, various forms of ownership, regions of the country, the accumulation fund and the consumption fund, various social groups of the population.

- ***The function of balancing supply and demand***. The price serves as a flexible tool to achieve a match between supply and demand. When there are imbalances in the development of the economy, a mismatch between supply and demand, the balance between them is achieved by increasing (reducing) the production of goods, or by increasing (decreasing) the price. Simultaneous application of these two methods is also possible.

- ***The function of price as a criterion for the rational allocation of production*** is manifested in the fact that with the help of a pricing mechanism, capital is transferred from one sector of the economy to another and within individual sectors to where the profit margin is higher. Such a transfer of capital is carried out by firms independently under the influence of the laws of competition and demand.

All price functions are interconnected and interact with each other.

In microeconomics, the price is:

- *intermediary and meter in the exchange of goods for money;*
- *an important indicator of the market conjuncture;*
- *a tool for profit formation and performance management;*
- *a way of competition.*

2. Features of medicines as a commodity.

Medicines, as a commodity, have several features that influence the choice of methods of price formation in market conditions.

1. Like any other product, medicines have an economic essence, i.e. certain forces and means have been spent on the manufacture of this product, certain costs are associated with the promotion of the product on the market, its transportation, storage, sale. In addition, medicines have a social essence, are associated with the preservation of human health, the quality of his life. A number of State programs in the field of healthcare and drug provision take into account this feature, provide social protection of the population and the availability of medical care.

2. Indicators of the economic efficiency of the use of medicines are associated not only with the income from the sale of these types of products, but also with the preservation of the health of the population of the country, saving labor and financial resources.

3. The demand for medicines is regulated not so much by the desire of consumers to purchase any goods, but is caused by the need for health reasons and depends on morbidity. In addition, the patient makes the choice of medications not only at his discretion (over-the-counter medications) but also as prescribed by a doctor (prescription drugs). This makes the structure of

consumption and demand formation dependent on the conditions and rules for the release of medicines

4. The elasticity of demand for medicines from the price differs significantly from other types of products. As a rule, the demand for medicines does not depend much on the price, or practically does not depend on it. In addition, currently the range of medicines is very wide and in each pharmacy there are simultaneously interchangeable drugs of different price segments.

3. Types of prices. Price structure

In the practice of pharmacy organizations, the following types of prices are most often used:

Manufacturer's selling price

Wholesale price

Retail price

Price of the State register (registered price)

Free price.

Fixed, "floating", textured and others.

Price elements (structure) :

The manufacturer's price (selling price) includes:

- production costs (production costs, cost price),
- management costs,
- commercial costs for the promotion of goods,
- the amount of VAT tax,
- company profit;

The price of the intermediary of the wholesaler (wholesale) consists of the manufacturer's price and the wholesale premium to the price.

The wholesaler's trade premium is formed from the manufacturer's price and includes:

- ❖ the cost of product promotion (handling costs),
- ❖ the amount of VAT,
- ❖ profit of the wholesale company.

The retail price of the pharmacy consists of the manufacturer's price, wholesale and retail allowances.

The retail trade margin is formed from the manufacturer's price.

- The size of the retail trade margin assumes covering the costs of promoting goods (pharmacy handling costs),
- the amount of VAT tax (if the pharmacy is a VAT payer),

- □ pharmacy profit

4. Approaches to price formation.

In the practice of retail pharmacy organizations, several approaches to price formation are used.

1. The price is regulated by the state and is formed in accordance with the requirements of regulatory documents. To do this, at the state level, the following are being created: a list of VED drugs, a decree of the Government of the Russian Federation on the procedure for registering cents for this group of drugs, a resolution of regional executive authorities on setting the maximum size of trade allowances to the actual selling prices of manufacturers for medicines included in the list of VED drugs.
2. An approach based on the actual costs of production and promotion of goods on the market. With this approach, the price is determined by the calculation method, the specified costs are taken into account.
3. An approach based on market demand for this type of product, its compliance with fashion, value for the consumer, exceptional quality or design characteristics, etc. In this case, the price is formed as a free market, not related to the specific costs of production and promotion of goods on the market.

5. Pricing, factors influencing the price

PRICING – (English price formation) is a complex process of forming prices for goods and services.

The peculiarities of pricing for medicines are related to the peculiarities of medicines as a commodity:

- the economic and social essence of medicines as a commodity;
- socio-economic efficiency of medicines as a commodity;
- the generator of demand for prescription drugs is a doctor;
- price elasticity of demand for medicines, depending on the nature of the disease and the method of payment for medical care;
- pricing of medicines is regulated by the state.

The system of factors influencing the price

The factors influencing the formation of prices are divided into:

- environmental factors: state, economy, market type, traditions;
- demand factors:
 - related to the product:

1. consumer parameters: quality indicators, economic indicators (, The place of the goods in the volume of sales, the stage of the life cycle of the goods, the trademark of the goods);

2. related to consumers: hierarchy of needs, consumer preferences, budget constraints, Segment of the main consumers of this product. Solvency of potential buyers, the degree of influence of intermediate consumers;

• supply factors: suppliers, substitute products, assortment diversity of products of this group, availability of analog products, substitute drugs, costs, competitors.

In addition to these, the effect of other factors of the internal and external environment of the pharmacy organization may also manifest itself.

6. Pricing objectives

Pricing policy is the definition of the objectives and content of the organization's activities in the field of pricing.

When determining the price of a product or service, it must:

- be economically profitable (that is, sufficient to cover expenses and make a profit);
- match purchasing abilities;
- ensure the competitiveness of the organization and the goods and services it offers.

Pricing policy is aimed at achieving three main groups of targets:

- goals focused on turnover;
- profit-related goals;
- competition-oriented goals.

The turnover (TO) received from the sale of goods is equal to the product of the price of goods (P) by the quantity of goods sold (Q):

$$TO = P \times Q.$$

Consequently, the achievement of pricing goals in this case depends on the price elasticity of demand. With elastic demand, the turnover increases when the price decreases and decreases when it increases. If demand is inelastic, then revenue increases when the price increases and, conversely, decreases when it decreases. With a rather rare single price elasticity of demand, the price change does not affect the turnover.

Profit (P) from the main activity of a pharmaceutical trade organization in general can be expressed as the difference between gross income (GI) and the costs of circulation of the enterprise (Cc):

$$\textit{Profit} = \textit{Gross income} - \textit{Costs of circulation of the enterprise}$$

$$P = GI - Cc$$

The costs of circulation determine the minimum price, and demand - the maximum.

Competition-oriented goals may involve maintaining an existing position or positioning relative to competitors.

Pricing policy goals can be both current (short-term) and strategic (long-term).

The main stages of the implementation of the pricing policy:

- setting goals;
- assessment of factors influencing the formation of prices;
- selection and implementation of a pricing strategy;
- control, analysis and adjustment of prices.

7. Pricing strategies.

Each pharmacy, depending on the external and internal working conditions, develops its pricing strategy (selects pricing methods) and pricing tactics (develops a set of practical measures aimed at managing prices to achieve the task of activity).

The pricing strategy involves setting the goal of the organization's work and for different groups of drugs, the strategic goals may differ.

The following types of strategic approaches are most often used:

- survival of the enterprise (in conditions of fierce competition, during crises, and other difficult external conditions);
- skimming (for products with exceptional characteristics that have noticeable advantages over other types of analogues);
- following the leader (when forming the price, the price of the product leading in the market from a group of similar products is taken into account)
- introduction (penetration) into the market – the price of the product when entering the market is set deliberately lower to attract the attention of buyers;
- based on the reputation of the company or the prestige of the trademark;
- based on the psychology of price perception by buyers (many experts believe that psychologically the price should have an odd number, end in 99, not 0, etc.);
- Based on the calculations of "costs plus" or average costs plus profit.

Depending on whether the price of a new product is formed, or already known to the buyer, the choice of pricing method may be different.

The pricing method is a tactical means of implementing a certain strategic direction when setting a price.

There are groups of methods aimed at:

- costs (full cost method, marginal price method);
- usefulness of products (the method of specific indicators, the point method);
- demand;
- competition (tender pricing).

8. Stages of the pricing strategy.

The process of price formation in pharmacy organizations can be performed according to the following (approximate) algorithm, which includes several stages:

1. Selection of the assortment group of products in this pharmacy (for example, using the analysis of ABC groups and XYZ analysis).
2. Finding out the competitive situation in the market, determining the prices of goods from the main competitors.
3. Determination of the portrait of the main consumers of medicines of this group, determination of the value of consumer demand.
4. Analysis of sales dynamics, determination of the coefficient of price elasticity for this group of products.
5. The choice of the pricing method and pricing strategy for this group of products, taking into account the influencing factors.
6. Setting the price and its adjustment, planning discount promotions to attract and retain interested consumers.

9. Price change according to the market situation

During the sale of medicines, it may be necessary to adjust the current or established price. This happens if

- a competing new type of product appears on the market;
- competitors have sharply reduced prices for a similar product;
- a large batch of goods has been purchased, difficulties have arisen in its implementation;
- overstocking occurred due to an incorrectly calculated need;
- consumer preferences have changed;
- approaches to the treatment of this pathology have changed;

