Federal State Budgetary Educational Institution of Higher Education "Volgograd State Medical University" of the Ministry of Health of the Russian Federation

Department of Management and Economics of Pharmacy, Medical and Pharmaceutical Merchandising

Price policy. Formation of loyalty of consumers of pharmaceutical products

Discipline: pharmaceutical marketing
4th year, 7th semester

LECTURE PLAN

1. Price as an economic category
2. Price functions in the marketing system
3. Principles and characteristics of price classification
4. Statistics prices. World prices. Characteristics of certain types of prices.
5. Pricing. Pricing factors
6. Peculiarities of pricing for medicines.
7. Basic pricing methods.
8. Pricing policy of pharmaceutical market entities.
9. Pricing strategies. Development of enterprise pricing strategies.
10. Tactics for implementing pricing strategy.
11. Models for organizing the pricing process in pharmacy chains.
12. Programs for creating and maintaining consumer loyalty.

Price as an economic category

Price **is a monetary expression of the cost (value) of a product or service .** In a marketing system, price is the amount of money charged for a particular product.

Price category is one of the most complex economic concepts.

Price - as an element of a market economy, reflects the main problems of the development of the economy and society as a whole (production and sale of goods, formation of their value, distribution and use of gross domestic product and national income).

Currently, there are **two theories of price:** ***cost and value* (utility theory).**

The first is based on the theory of value , the founders of which were W. Petty , A. Smith , D. Ricardo and developed by K. Marx and F. Engels.

In accordance with it, the price is based on the cost of the product, determined by the labor costs for its production.

According to the cost theory, the price is formed on the basis of the costs spent on the production of the product (during its manufacture, i.e. at the enterprise), **i.e. price is the monetary expression of the value of a product.**

Determining prices based on the cost approach has the following disadvantages: all costs are recognized as necessary already at the stage of production of goods; the value of the product for consumers is not taken into account; it is impossible to determine the price of goods and products that are not objects of labor; the categories of cost and labor are abstract in nature and are not applicable to the assessment of a specific product .

In accordance **with the marginal theory, price is a form of expression of the value of goods, manifested in the process of exchange on the market** . **The price is based on the category “utility”,** defined as a measure of preference given by the consumer to a specific product from the range offered on the market.

At the same time, the price does not take into account production costs, and the price base is marginal utility.

Consequently, from the point of view of the cost theory, the process of formation of price and value occurs in the sphere of production , while according to the theory of utility this is carried out in the sphere of circulation, that is, demand is absolutized.

Thus, **price is defined as a monetary expression of the value of a product from the point of view of the cost theory, and as a monetary expression of the value of a product from the point of view of the value theory.**

Similarly, pricing, which is the process of price formation , also exists **in the form of two systems: centralized** , which sets prices by government agencies based on the costs of production, **and market** , where prices are formed based on the interaction of supply and demand.

In modern economic theory, for a more complete expression **of the essence of price,** it is advisable **to combine various approaches and the concept of *"cost"*** be considered as a category that has a dualistic nature and simultaneously performs ***two functions: the function of cost accounting*** and the function manifested in ***the usefulness of commodity* accounting of social needs.**

Cost - the amount of costs for the production of goods - is a need and reality of a market economy : the process of cost formation is carried out on the basis of market prices and requires reimbursement of all costs associated with the production of goods.

The following types of costs are distinguished:

1.*Individual* – the cost of goods at the enterprise.

1.*Public* – value determined by average production conditions and socially necessary costs and formed as a result of equalization of individual values in the process of competition. Social value differs from individual value due to different production conditions and depends on the degree of market monopolization.

Market value is a value determined in the market when the interests of producers (sellers) and consumers collide and shows how production meets social needs. Thus, the market value of a product is influenced by production conditions, the monopoly of producers, compliance with social needs and the relationship between supply and demand.

by **the fact that prices for goods are determined by their owners and are established in the sphere of their sale (on the market) under the influence of supply and demand** . In market conditions, price formation occurs under the influence ***of strategic and tactical factors.***

The tactical factor is associated with the fact that prices for goods are formed under the influence of the market.

Since market changes in supply and demand are high, this is a constantly changing factor.

The tactical factor is used by enterprises with developed marketing services, flexible infrastructure, highly qualified personnel, and access to market information.

The greatest gains in the market are obtained by enterprises that use both factors in their activities.

The price of a product formed on the market is within certain values, the boundaries of which correspond to *the lower and upper limits* of the price.

The lower limit of the price is its value corresponding to the current profitability of the enterprise . Selling products at a price less than its lower limit will lead to a decrease in the level of production efficiency: the enterprise will not receive a profit (in these conditions, a reduction in price to a value less than the cost of production will lead to a loss for the enterprise).

The upper price limit is the maximum possible price that the company will have under the most favorable market conditions.

The system of lower and upper price limits essentially connects two ***methods of price formation: cost and market.***

to make various types of discounts **without compromising its functioning .**

Government bodies can intervene in pricing, but this occurs only for a certain type of goods (products of special importance, monopolistic enterprises, etc.).

Thus, market prices are set by agreement of the parties involved in the exchange of goods. Such prices are called negotiated or free.

Market value is the basis of market price . The final level of the market price depends on the market conditions, in turn, the market conditions are influenced by all the factors that determine the dynamics of supply and demand .

Based on the foregoing, in modern economic theory, **price is considered as the result of the functional interaction of price-forming factors acting in aggregate and inextricable unity.**

Thus, **the price of a specific product is the monetary expression of a complex of pricing factors operating at a given time.**

Price functions in the marketing system

The economic essence of price is manifested in the functions that it performs.

Price functions reflect its role and purpose in the economic mechanism, as well as relationships with other economic categories and phenomena.

Thus, ***the functions of price*** **mean its role in the economic life of the country and in relationships with various economic categories and phenomena .**

Main price features:

1. *Accounting (accounting and analytical).*

Performing this function, **price takes into account and measures the costs of social labor in a product and is determined by the monetary expression of its value.** While assessing the profit margin, the price shows the efficiency of production.

The measuring function is manifested in the fact that measurements are made, the cost or assessment of resources, goods, and services is identified and recorded. Production volumes, labor productivity, relationships between industries, market volume, solvency, population demand, purchasing power of the market, money for analysis and decision-making are measured.

The accounting function is of an applied nature. This is due to the fact that price determines decisions for manufacturers regarding the selection of suppliers, product range, production technology, type of packaging and other production issues.

2. *Stimulating*

This function is manifested in the fact that prices develop or restrain the production and consumption of various goods .

Price *stimulates* the production of a particular product, or encourages production restrictions.

The incentive function of price resolves the contradictions between market requirements and taking into account the real cost of goods. The stimulating function is manifested in the impact of prices on the production and consumption of goods.

Thus, the price stimulates the manufacturer through the level of profit contained in it, namely, a high level of profit leads to an increase in the volume of production of goods.

The relationship between price and consumer properties of a product stimulates changes in consumption volumes **.** The influence of price on production is carried out through the amount of profit contained in it, on consumption - through a numerous system of benefits and discounts.

The high price of a product contributes to the development and expansion of its production (due to the high profit of the manufacturer), but restrains its demand; a low price, on the contrary, reduces output but increases consumption.

3 . *Distributive (redistributive).*

This function is due to the fact that prices for many goods and services differ significantly from their cost due to the fact that they include indirect taxes, can be preferential, are differentiated for enterprises of different forms of ownership, consumers of different social groups, etc. It manifests itself in the fact that prices participate in the redistribution of newly created value between industries and sectors of the economy, regions of the country, forms of ownership, consumption and accumulation funds, and social ones.

Of particular importance is the implementation of the redistribution function of price in the case of retail prices: in this case, through the retail trade system, favorable conditions can be created for the consumption of goods and services related to health care, education, enlightenment, raising children, etc., as well as for increasing living standards level of individual segments of the population

With the help of price, *the distribution or redistribution* of gross social product (GSP), gross national income (GNI) occurs , since the distribution of these resources is initially carried out in monetary form through price.

The distribution function is a tool for the rational distribution of limited resources.

Prices bear the main burden of ensuring the redistribution of capital from one area to another, from one type of production to another .

The redistribution function of price can manifest itself in two forms:

- through the withdrawal of part of the price of a product (in the form of various taxes) in favor of the state with the subsequent use of the accumulated amount of money for macroeconomic and social needs (for example, maintaining the army, free education and medical care, etc.);

- through regulation of prices for various goods with subsequent support for some producers at the expense of others or consumers at the expense of producers (for example, fixing prices for socially significant goods **).**

Price functions are closely interrelated and interact.

The stimulating function enhances the function of balancing supply and demand, as it promotes the production of goods that are in demand.

The distribution function interacts with the price function as a means of rational allocation of production , promoting the distribution of resources.

The incentive and redistribution functions are interrelated, since both involve differentiation of net income in price.

Ultimately, all price functions are aimed at uniting the interests of the producer and consumer, providing them with conditions for realizing their interests.

The mechanism for performing price functions is complex and ambiguous. Price can perform all its inherent functions, but their hierarchy and content are determined by specific forms of management methods.

If the incentive function encourages the manufacturer with this income, encouraging him to improve the quality of products , increase the volume of production, etc., then **the redistribution function, associated with the influence of government bodies on the level and structure of prices, expresses the interests of the state**

4. *Regulatory* (balance between supply and demand).

The function of *balancing* supply and demand among cost categories is performed only by price. Behind supply and demand are the proportional relationships between sectors in the national economy. This function balances supply and demand through the monetary payment ability of the producer and consumer. The role of this price function is dominant in market relations.

5. *Price as a means of rational placement of production* .

This price function is manifested in the fact that business entities whose activities provide them with high profits tend to invest capital in sectors of the economy, types of production and regions that allow them to receive even higher profits [165]. Function of price as a criterion *rational placement of production* manifests itself in the fact that with the help of the price mechanism, in order to obtain higher profits, capital is transferred from one sector of the economy to another or from one sphere of activity to another (for example, from the production sphere to the trade sphere). Such a movement can be carried out by the company independently under the influence of the laws of competition and demand.

6. *The information* function is that price acts as the main carrier of information for both producers (sellers) and consumers (buyers).

Data on prices and news about their changes are a signal for action or inaction of subjects of a market economy - enterprises, the population.

Principles and characteristics of price classification

Principles and characteristics of price classification:

Prices are classified according to various *criteria and, depending on which classification principle is taken as a basis,* are divided into types and varieties.

Depending on *the sign* prices are divided into the following categories:

1. According to *their functional* meaning, prices are divided into:

- ***actual prices*** (monetary expression of the value of goods that have a material embodiment);

- ***tariffs*** – monetary expression of the value of services in the production sector (prices of transport, communications, utilities services);

- ***payments*** - monetary expression of the value of services in the non-productive sphere (mainly prices of household services);

- ***fines*** – prices that determine the amount of punishment for any violations.

Tariffs and payments may include fees - **additional payments that accompany payment for basic services.**

2 . Prices are differentiated based on *the time factor* :

- *constant* – unchanged for quite a long time (prices whose validity period is not defined);

- *active* – changing frequently and depending on demand;

- *seasonal* – having fluctuations during certain periods of time);

- *stepwise* - decreasing sequentially at predetermined points in time on a predetermined scale.

3. According to the *regulation criterion* , prices are divided into:

- *installed;*

- adjustable
_ *washed ;*

- *free.*

Prices are set and regulated by federal authorities, line ministries and departments, and local authorities.

The main levers of direct price regulation are:

- setting an upper price limit (to which the maximum prices correspond);
- determination of the lower price limit (which guarantees a certain amount of tax contributions to the budget);
- establishing restrictions on the amount of intermediary premiums and the number of intermediaries.

Regulated prices can be:

- guaranteed,

- recommended,

- limit.

***Limit and fixed prices* are an extreme version of direct price regulation** (prices at a single-digit level) and are established by decision of the relevant body or a specific market entity.

Free (market) prices are prices free from direct government intervention. They are established and changed by product manufacturers (suppliers) in accordance with supply and demand.

Free prices include: *demand price* (developing in the buyer's market); offer price (indicated in the seller’s official offer without discounts); *price of production* (defined as the sum of production costs and average profit on all capital advanced)

4. By *stages of passage of goods* from the manufacturer to the final consumer prices are grouped as follows:

- ***wholesale manufacturer*** (formed at the stage of production, are intermediate in nature and include only manufacturer costs and profit);

- ***Vacation manufacturer 's*** (formed from wholesale manufacturers by adding indirect taxes to them);

c) *free selling prices* - prices for goods that have gone through one or more stages of wholesale consumption (intermediary selling prices); they include one or more wholesale markups (intermediary markups) and are the main ones for products supplied to final consumption

e;

d) *free retail* – are formed in the retail trade sector and are the result of imposing a retail markup (trade markup) on free selling prices.

Retail prices also include **the auction price** (the price of goods sold at auction).

5. In accordance with the " *free* " *criterion,* **prices** are divided according to the principle of including transport, storage and commercial costs (costs of loading and unloading, rental of warehouses, vehicles, security, cargo escort, etc.).

"Franco" is the point up to which the specified costs are included in the cost of production.

6. According to *the method of setting* ***the price*** are divided into:

- ***firm (constant)*** , which are established at the time of signing the contract and do not change throughout the entire period of delivery under it;

- ***movable ones*** , which can be revised after signing the contract if market prices change during its validity;

- ***sliding*** , which can be revised taking into account changes in production costs during the term of the contract.

7 . *By territory of operation* distinguish:

- *uniform (zone)* prices – established and regulated by federal authorities;

- *regional (zonal)* prices - set and regulated by local authorities.

8. Of the prices for goods *sold on the market for a long time* , the following types are distinguished :

- ***falling*** – a price set in direct proportion to supply and demand and gradually decreasing as the market becomes saturated;

- ***long-term*** - the price of consumer goods that is not subject to changes for a long time due to changes made to products such as a decrease in their weight, volume, length or deterioration in quality;

- ***flexible*** – price that reacts to the supply-demand relationship when they fluctuate over short periods of time;

- ***preferential*** – the price set by the seller (enterprise) occupying a dominant position for a given product in the market.

9. Depending on *the information received*, there are:

- ***published prices*** *are* prices, information about which is published in special information publications, and they reflect the average level of world prices or prices within the country. These include: prices of price lists, catalogues, prospectuses, set for standardized final products by manufacturers and sent to interested consumers in the form of printed publications, where, in addition to prices, the main characteristics of goods and products are indicated and their description is given. The prices indicated in price lists, prospectuses, catalogs, in fact, are the basis for "negotiating" the price when concluding a specific transaction, that is, they are conditional in nature and, as a rule, are 10–15% higher than actual selling prices;

- ***reference prices* are** the prices of goods published in reference publications published by associations of producers, information agencies, consulting or brokerage companies. They reflect the interests of the supplier or seller, and for the buyer they are an indicative price and come in two types:

- ***nominal,*** used as a base for setting prices for similar goods; later in the bidding process, various types of discounts are established on these prices, reaching 10–30%, and in some cases even 50%. When determining the nominal price, manufacturers (sellers) strive to set the maximum value.

- prices of past transactions reflect real prices for the past period (week, month) and are published periodically.

In general, reference prices play the role of a starting point from which **the process of “negotiating” prices begins**

- prices of exchange quotations *are* published in special bulletins of exchanges.

- offer prices are set by manufacturers without agreement with consumers and *sent by* potential buyers upon their requests. When determining the supply price, manufacturing enterprises take into account their costs, delivery conditions, the duration of the product’s stay on the market, that is, production trends, competitors’ prices, production conditions in the buyer’s country.

Statistics prices

Market prices, the process of their formation and changes are the subject of statistical study.

The task of statistics is to record, monitor and determine the directions of price level dynamics to characterize the state of the market - its stability and market conditions, assess inflation expectations, income indexation, assess the purchasing power of the population, and forecast the price level.

To solve this problem, statistical authorities register prices, systematize them and construct time series.

In the process of studying the dynamics of price levels, the following are used:

- ***constant prices –*** constant, not changing for a long time; current prices – for a specific date ;

- *average prices –* prices calculated on the basis of current prices and being a generalized characteristic for:

- *prices in total*
- *type of product group;*

- *prices that vary over time* (monthly average, annual average, etc.);

- *territorial prices of one product;*

- *prices of goods for the totality of enterprises.*

Average prices are calculated using the arithmetic mean and harmonic mean (simple or weighted) formulas.

The choice of calculation method depends on the availability of information and the goals set.

Comparable prices – recalculated taking into account the price index.

Price index is an indicator that compares the prices of the reporting period with the prices of any previous (base) period. The index method plays a leading role in statistical observation, since it allows one to measure changes in the physical volumes of production and sales of products, goods, services, and assess the dynamics of the population’s standard of living.

World prices and foreign trade prices

In the global commodity market, trading operations are carried out on the basis of world prices.

The use of world prices is due to the presence of different prices for similar goods in different countries.

In the theoretical aspect, world prices represent the monetary expression of the international value of goods sold on the world commodity market.

World prices are considered:

- ***real prices of large export or import transactions* made** in the leading (main) markets for a given type of raw materials, products, goods;

prices recognized for a certain period of time by organizations in charge of international trade ;

- ***prices of transactions of a regular nature*** on the global commodity market;

- ***average prices*** for the same type of raw materials, products, goods, calculated based on transactions in markets of different countries.

Characteristics of certain types of prices

Characteristics of the most common types of prices:

***1. Free selling* prices** - prices for goods that have passed from the manufacturer to the final consumer through one or more stages of wholesale consumption.

Their main features:

- these prices exist in a system of two price lists: producer prices and wholesale buyer prices;

- for some types of products they are regulated by government agencies;

- most of them are ex-post prices;

- the costs of transporting goods are included in these prices in the form of a constant rate per unit of product, regardless of the distance of transportation.

2. Free retail prices - prices for consumer goods (food and non-food) purchased by the population, and for services to serve them - are of a mass nature and have the following features:

- prices for essential goods are regulated by local authorities through the establishment of maximum markups;

- prices for a number of goods include excise taxes, which are paid by the end consumer, as well as premiums and discounts (for the quality of the goods, for certain social groups of the population, etc.);

- in the “ free ” system, most of these prices are ex-destination prices;

- retail prices vary widely: the same product at the same time in the same place may have a different price.

Free retail prices for food and non-food products have their own characteristics.

Prices for food **products** have the following characteristic features:

- the price level for goods with a limited shelf life, if necessary, should allow them to be quickly sold through a system of discounts;

- prices for many goods are highly seasonal;

- the price level depends on the factor of the region's food supply.

The main features of retail prices **for non-food products are**

- prices for many categories of goods differ according to social groups of consumers ;

- a custom-made product has a much higher price than a similar mass-produced one.

3. *Tariffs* – prices for services in the production sector (transportation, communications, utilities, consumer services).

Tariff features:

- most of their cost (up to 70%) is labor;

- most tariffs related to servicing the population are established and regulated by government bodies, ministries and departments;

- tariffs are divided into simple (for one service) and complex (for several services); Moreover, the latter are usually cheaper per service;

- tariffs may contain various discounts, markups, benefits, etc.

Tariffs are formed on the basis of tariff-forming factors, i.e. conditions that determine the size of the tariff

Price structure

The price consists of several components. Depending on the type of price, their quantity (price composition) and their ratio (price structure) may vary.

From the point of view *of reproduction* , the price has two parts:

a) cost , which determines the amount of costs for production;

b) income, the amount of which should be sufficient for the development of the enterprise (profit) and contributions to the state (indirect taxes). Of the indirect taxes, the most important are the excise tax (several groups of goods are currently excisable) and the value added tax (VAT), which is imposed on almost all goods and services.

The price system is characterized by such indicators as:

- level,

-structure,

-dynamics.

The price level is the absolute quantitative expression of price in money.

The price structure is the ratio of individual elements (cost, profit, taxes, surcharges) in the price, that is, their share in its total value, taken as 100 percent.

dynamics represent the directions of changes in price levels (increase, decrease, rate of change).

The main elements of the price requested by any business entity involved in the process of production and commodity circulation **are cost and profit.**

Cost as a basis for price

The cost of production is the monetary expression of the enterprise's costs for its production and sale.

The costs that form the cost of manufactured products are called current.

The main elements of current costs include:

1. *Material costs* (raw materials, materials, semi-finished products, fuel, energy, containers, tools).

2. *Labor costs* (employee wages, allowances, additional payments, bonuses, rewards, vacation pay, cost of products issued in the form of payment in kind).

3. *Amounts of accrued depreciation* .

4. *Contributions for social needs* (to the pension fund, social and health insurance funds).

5. *Other expenses*

For goods and services of the same name, for the convenience of forming and calculating prices, ***average types of cost are used*** **:**

- *industry average* , used when calculating prices for products of enterprises with centralized management;

- *zonal (territorial),* used in calculating prices for products of enterprises of territorial (regional, regional, municipal) subordination;

- *administrative and managerial* , used for the products of large associations of enterprises.

Based on the cost of the product, its **manufacturer's *wholesale price*** **Tsopt** (lower price limit) is determined.

This price is calculated from the profitability of products **r** - an indicator characterizing the profitability of the enterprise’s production activities, numerically equal to profit **P** per 1 ruble. costs **C** :

$$r = P/S = (Copt. - S)/S,$$

where:

$$Copt = C(1 + r) .$$

where **r** is the profitability of products (in fractions of a unit).

Net income and its composition.

Net income is a form of income received after selling a product at a set price, i.e. the difference between the upper limit of the price of a product and its cost.

Net income consists of two parts: profit necessary for the normal functioning of the enterprise and its development ***and indirect taxes,*** the transfer of which to the budgets of various levels ensures normal financial relations of the enterprise with government agencies.

The enterprise's net income per unit of production is calculated as the difference between its selling price and cost.

Profit

Profit is the most important component of the price of a product. It is the size of profit that is the criterion that guides the creation of an enterprise.

In a broad sense, **profit is understood as the quantitative excess of the selling price of a product over costs.**

The specifics of price formation in the production of products and in the sphere of commodity circulation will lead to the use of various price elements by manufacturers and subjects of the commodity distribution network.

Thus, the manufacturer, knowing the costs directly associated with the manufacture of a specific type of product, adds to them a certain share of indirect costs, distributed among all types of products (for example, rental of premises, equipment, utility bills, maintenance of management personnel, etc.) and sets the desired the amount of profitability (profit level).

Value added tax **(VAT)**

Value added tax **(VAT)** is levied on the end consumer in the field of goods and services.

The general VAT rate is currently 20%, the preferential rate is 10%.

A preferential VAT rate is levied on children's goods, food (with the exception of excisable alcohol and tobacco products), printed products (newspapers and magazines) and a number of medical goods and services.

VAT is charged on added value (price increase) at each stage of production and sales of products

Pricing.
Pricing factors

Currently, pricing is considered as a science that studies the processes of formation, patterns of movement and use of prices.

The subject of study is the theory of prices (values) and the practice of their establishment.

***Pricing* (in the narrow sense) is the process of pricing.**

Pricing is the process of setting prices.

Methodological basis for pricing

The methodological basis of pricing is made up of the basic economic laws of the market, modern theories of marketing, market pricing, contracts and the legal framework determined by the legislation of the Russian Federation.

There are three main areas in pricing theory:

- costly,

- subjective-marginal,

- neoclassical synthesis.

Cost **takes into account the total costs of the manufacturer (variable and fixed).**

The cost direction is based on the labor theory of value.

The main criterion for price formation is the necessary expenditure of social labor for the production of a given product.

Subjectively, the marginal **direction is based on the value of utility for the consumer.**

The basis of this direction is the theory of utility, which is considered as a measure of consumer preference for a specific product from the proposed product line.

Objectively marginal **(the theory of non-classical synthesis) takes into account the incremental costs of the manufacturer.**

An applied idea of marginal theory is the concept of a limiting production volume, beyond which it becomes unprofitable for an enterprise to increase production volumes, since the increase in costs outstrips the increase in income of the enterprise

Pricing factors

- ***Factors influencing prices.***
- Price formation is significantly influenced by pricing factors. They represent various objective conditions that predetermine the level, structure, proportions and dynamics of prices for goods and services.
- The price is influenced by many factors, which can be divided ***into two groups:***
- ***- internal, controlled by the enterprise;***
- ***- external, independent of him.***

Internal factors are associated with the production of products and the movement of goods to the consumer; they, in turn, are divided **into regulated and unregulated.**

Regulated production factors include: selecting the best suppliers of raw materials and equipment, improving the skills of workers, improving labor organization, improving the quality and competitiveness of products, creating an optimal level of profitability corresponding to a favorable sales volume and maximizing profits, etc.

***Regulated market factors* are** the development of advertising activities, the enterprise receiving profitable and large orders, strengthening its connections with consumers, receiving subsidies and benefits, developing a system of discounts on products, etc.

Unregulated internal factors are mainly related to taxes (both included in the cost of production and paid from net income).

Regulated internal factors are determined mainly by the pricing policy of the enterprise.

External factors

are basically objective and can only be taken into account by the enterprise when setting prices;

Moreover, their influence on prices can manifest itself in a variety of ways.

The general **price level is affected by**

economic situation in the country or in a certain region;

conditions prevailing in the market for a certain product (duration of the enterprise's presence on the market and its market share, type of market, etc.);

duration of the product life cycle;

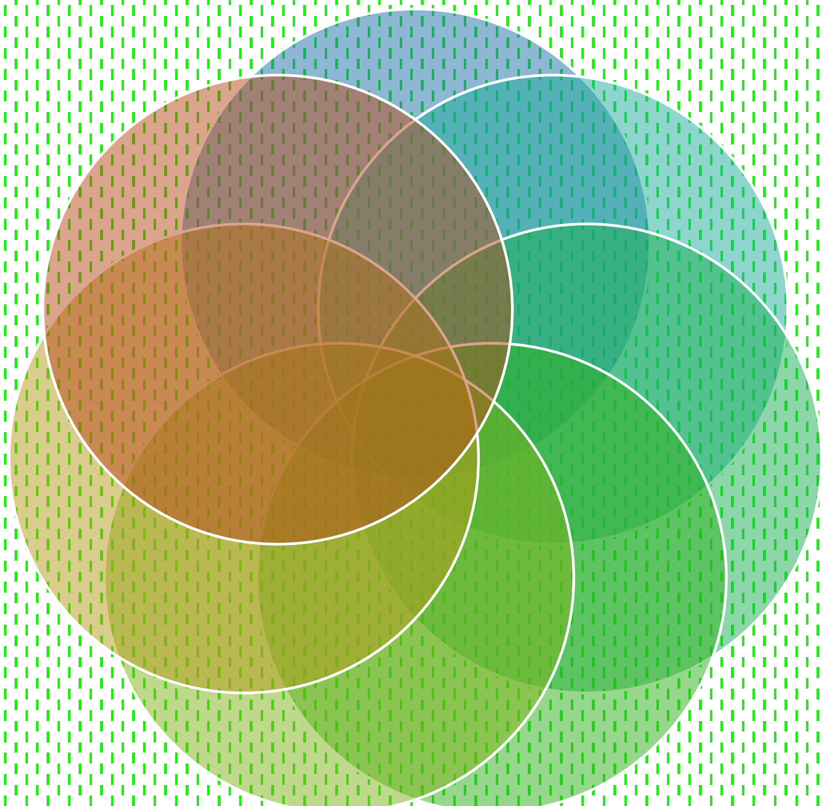
features of competing products;

seasonality of production and sales

factors influencing the price level:

6) costs of production and sales of products

1) supply and demand;



5) behavior of participants in distribution channels and consumers;

2) competition;

4) state regulation of prices;

3) the state of the financial and credit system;

Interaction of price, demand, supply

Demand plays a key role in determining the price of a product.

Demand can be defined as the desire and ability of the consumer to purchase a product at a certain time in a certain place.

The quantity of goods that a buyer is willing to purchase under given conditions in a certain period of time is called ***the volume of demand.***

For a free competitive market, the supply and demand of a product depends mainly on its price.

A certain relationship is established between the market price of a product and the quantity that can be sold at this price: the lower the price of the product, the greater the sales volume.

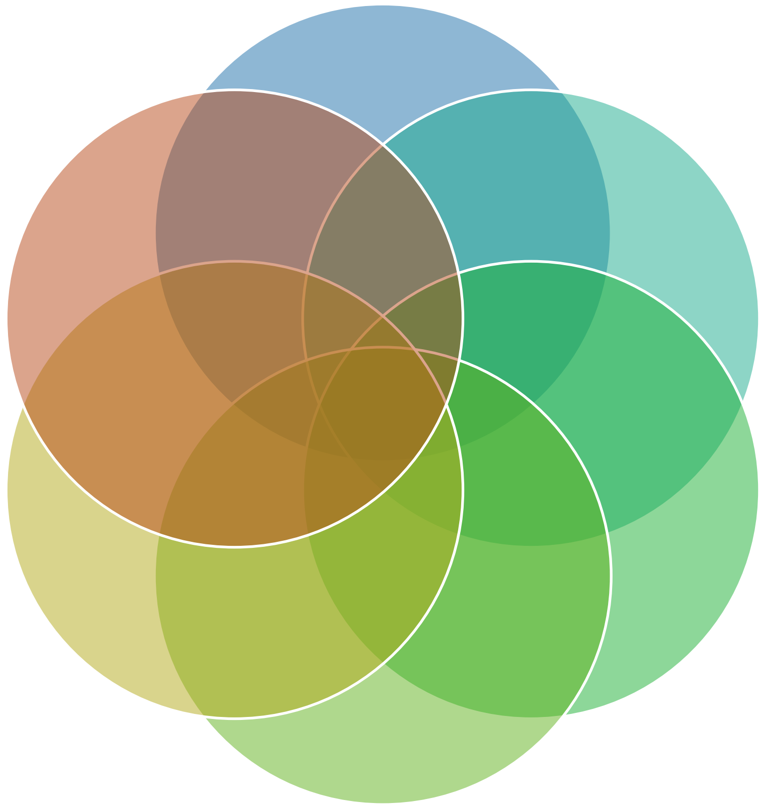
This relationship is presented either in the form of a table (demand scale) or in the form of a graph (demand curve).

A decrease in price, all other things being equal, increases the quantity demanded (the quantity of goods sold).

When the demand and supply of a good depend primarily on price, the equilibrium market price is established, which corresponds to the point of intersection of the demand and supply curves.

However, at a constant price, demand will depend on changes in other factors (non-price), which in this case will be objective.

Among the non-price factors influencing changes in demand, the main ones are the following:



- ***Tastes and preferences of buyers.*** This factor can change demand in any direction.

- ***Prices of related goods .*** Such goods include interchangeable goods - substitute goods (when an increase in the price of one good entails an increase in demand for another good) and complementary goods - complementary goods (when an increase in the price of one good causes a decrease in demand for another good).

- ***Number of consumers*** . As a rule, the demand for any product at any price increases with the number of buyers, and vice versa .

- ***Buyers' income level .*** If an increase in income increases the demand for goods, such goods are called normal (full-value); if it decreases, we are talking about inferior (low-value) goods, to which buyers prefer similar ones of better quality and more convenient.

- ***Consumer expectations*** . Future price increases, increased incomes, and anticipation of shortages of goods increase demand in a given period of time; the expectation of a decrease in income, the emergence of substitute goods , and the organization of sales of goods - on the contrary, reduce current demand.

When setting the market price, supply plays an equally important role.

Offer

***Offer* is** the desire and ability of the seller to sell a product at a certain time in a certain place.

The quantity of goods that the seller is willing to sell under given conditions is called *the quantity supplied.* The amount of supply also depends on many factors, the main ones being *the price of the product and the prices of competing products, the level of production, production costs, taxes and subsidies, the number of sellers, etc.*

Between the price of a product and the quantity that can be offered at this price, a certain relationship is established, as in the previous case, which is presented either in the form of a table (supply scale) or in the form of a graph (supply curve). It means that as the price increases, the volume of supply (the quantity of goods offered) increases: the seller, trying to sell as much goods as possible, strives to make the greatest profit.

At a constant price, supply is influenced by the following main (non-price) factors (in this case, the supply curve shifts to the left or right):

- *Product production costs* . Reducing costs (subsidies for the purchase of raw materials, materials, improving production technology, preferential taxation, etc.) leads to an increase in the volume of products and, as a result, to an increase in supply.

- *Prices for other goods* . Goods that affect supply include competing goods (a decrease in the price of a good increases the supply of a competing good, and vice versa) and goods produced “jointly” (here, an increase in the price of one of the goods increases the supply of another).

Number of sellers. An increase in the number of sellers leads to an increase in supply. The overlay of supply and demand curves for the same product allows us to determine the equilibrium point corresponding to the equality of the volumes of supply and sales (it corresponds to the equilibrium price at which the same quantity of goods is offered and sold)

Elasticity of supply and demand.

Elasticity is a mathematical category that refers to a pair of interrelated quantities and characterizes the amount of change in one variable depending on the change in another. In relation to pricing, they mainly use *price elasticity* , i.e. study changes in various factors under the influence of price changes.

The most important is the price elasticity of demand, which shows the extent to which a change in price affects sales volume. Significant changes in the quantity of goods purchased with small changes in price indicate elastic demand, the opposite picture indicates inelastic demand. This qualitative assessment of the elasticity of demand can be illustrated graphically - the demand curve: the steeper the curve, the less elastic the demand and vice versa.

Elasticity is quantitatively characterized using *the elasticity coefficient.* The coefficient of price elasticity of demand (coefficient of price elasticity of demand) **Es** is equal to the ratio of the relative change in the volume of demand to the relative change in price and shows by what percentage the volume of demand for a product changes when its price changes by 1%:

$$\mathbf{Es} = (\Delta Q / Q) : (\Delta P / P).$$

In this case: $\Delta Q = Q_2 - Q_1$ **and** $\Delta P = P_2 - P_1$,

where Q_1 – sales volume at price P_1;

Q_2 – sales volume at price P_2.

Analysis of the formula shows that at **Ec** > 1 demand is elastic, at **Ec** < 1 – inelastic. It should be noted that in this case the absolute value of the **Ec value is accepted** (in this case the dependence **of Q** on **P** is inverse).

Similar calculations are valid for the price elasticity of supply (the relationship between **Q** and **P** is direct). Knowing the elasticity of demand allows an entrepreneur to control prices: with **Ec** < 1 it is advisable to increase prices, because sales volume will decrease slightly, and revenue will increase with an increase in price; at **Ec** > 1 even a small increase in prices will lead to a sharp decrease in sales volume, i.e. to a decrease in revenue

Competition

Competition can be price or non-price.

With price competition, enterprise sellers, following the demand curve, reduce prices below market prices. At the same time, competitors who do not have the ability to reduce prices cannot stay in the market: they leave it or go bankrupt.

In the case of non-price competition, enterprise sellers try to attract buyers primarily with the unique properties of the product, for example, its technical reliability or high quality.

Among competitive environments, those in which prices are controlled by the market are the most competitive. It is market competition that largely influences the price level, so in this environment it is important for an enterprise to set prices correctly: overestimating them will alienate the consumer and attract him to competitors, understating them will lead to the loss of part of the profit. An environment where prices are controlled by the enterprise is characterized by a lesser degree of competition (the range of goods here is relatively small), therefore, in this case, regardless of the price, the product will sooner or later be sold. There are even fewer goods for which prices are controlled by government agencies, and the competitive environment here is the weakest

The state of the financial and credit system.

The state of the financial and credit system has a significant impact on the level and dynamics of prices. Just as price is unthinkable outside of monetary relations, so money, i.e. finance, can function only on the basis of prices.

The relationship between prices and finance is clearly visible primarily in the distribution function of price. In accordance with this function, those principles and forms of distribution of the social product that are accepted in a given economic system are implemented through prices.

So, for example, on the one hand, prices provide producers with reimbursement of current costs and receipt of part of the profit remaining after paying all types of taxes.

On the other hand, taxes and deductions are sources of replenishment of the state budget and the formation of extra-budgetary funds. This ensures that pricing interacts closely with the entire financial system.

State price regulation

Government bodies, intervening in the pricing policy of business entities, influence them through both direct measures (by regulating certain pricing conditions) and indirect ones (through financial and credit relations, taxation, wages, etc.). Measures of government influence on price levels are divided into direct and indirect.

Direct price regulation is carried out by establishing a certain pricing procedure, which includes:

1) establishment of fixed prices;

2) establishing a maximum price level;

3) establishing maximum markups or coefficients for fixed prices;

4) establishing maximum levels of profitability or trade markups.

The main levers of direct price regulation are **the establishment *of upper and lower price limits* and regulation of intermediary activities** (limiting the number of intermediaries and the size of wholesale markups). If the establishment of an upper price limit (to which maximum prices correspond) limits the amount of profit of the enterprise, expressing the interests of the consumer, then limiting the lower price limit pursues fiscal goals: the impossibility of further reducing the price does not allow reducing the amount of tax budget revenues.

One of the main methods of direct price regulation is administrative price setting.

Indirect price regulation only affects market conditions without directly influencing price setting. This is done using:

- antimonopoly legislation;
- declaration of prices, i.e. motivation for raising prices in local authorities (using calculations);
- establishing tax rates and excise taxes;
- establishing interest on loans;
- establishment of customs duties and tariffs.

In addition to directly setting and regulating prices, the state also exercises control over them.

In the category of regulated prices there can be *guaranteed, recommended, limit, pledge, threshold (protective) prices.*

They also include *maximum prices* (above which enterprises cannot set prices for products) and ***fixed prices,*** established by decision of a certain body or market entity (their changes are also possible by decision of the authority that approved them).

Of the prices set and regulated at a lower level (by business entities when concluding commercial transactions), the following types are distinguished:

- ***fixed (constant) prices established upon signing contracts*** **, agreements, agreements with a clause such as "the price is fixed, cannot be changed"** and does not change during the entire validity period of the document. As a rule, fixed prices are used in transactions with immediate delivery of products and with their supply over both short and long periods.

- ***moving prices*** **, which are revised in the future, if the contract stipulates that the price fixed at its conclusion may differ from the market price by the time the document is executed.** In this case, the agreement contains a clause about increasing or decreasing the price and a source of information from which one can judge its change.

Behavior of distribution channel participants and consumers

The pricing process is influenced by the behavior of all participants in the distribution channels - from the manufacturer to wholesale and retail trade.

They all strive to increase the volume of sales of goods and establish greater control over prices in order to obtain maximum profits.

Prices are also influenced by the behavior of consumers (buyers).

The influence of consumers on sales volume is determined not only by the interaction of price, supply and demand, but also by a subjective reason for them - their unequal reaction to the price of a product. Different categories of buyers have different requirements for the same product: consumers with high incomes pay attention mainly to the quality of the product, those with average incomes look for a product with the optimal combination of price and quality, and those with low incomes prefer cheap products.

In this regard, all buyers, depending on their perception of prices for goods and orientation in purchases, can be divided into four groups:

- thrifty buyers who show great interest in prices, quality and range of goods when choosing a purchase;

- personalized buyers, i.e., as if creating for themselves a certain image of the product they want to buy;

- ethical buyers who, according to a long-established tradition, purchase goods in certain stores, regardless of prices and assortment of goods;

- apathetic buyers who, when choosing a purchase, pay the main attention not to price, but to the convenience and comfort received from purchasing a product.

The presence of a large number of categories of buyers has led to widespread *differentiation of retail prices,* which can be represented by the following main types:

- *"horizontal",* when practically the same product with different modifications of name, labeling, packaging is sold in one place (one market) at different prices;

- " *vertical",* in which the same product is offered to different social groups of the population at prices corresponding to their income in different places (for example, in stores for certain categories of buyers);

- *"temporary",* used when releasing a new, exclusive product onto the market. A temporary type of price differentiation includes the *skimming option.*

Manufacturer's costs for manufacturing products

A very important pricing factor is cost, or the costs of production and sales of products. These costs form the basis of the price of the product and largely determine its level. For example, in industry, the share of cost in the selling price of an enterprise (excluding VAT and excise taxes) is over 80%.

Costs include costs both dependent and independent of the activities of the enterprise, i.e. external to it

Peculiarities of pricing for medicines

Currently, there are 4 possible policy options for regulating drug pricing, which are not mutually exclusive.

1)Ensuring a higher level of awareness of all market participants to create a competitive environment.

1)Introduction of a drug price regulation system - setting prices for individual drugs included in the List of Vital and Essential Drugs, or establishing reference prices for groups of drugs with a similar therapeutic effect.

1)Creation of a unified system for the purchase of drugs and organization of a centralized tender system.

1)Regulation of trade markups, guiding distributors towards the sale of less expensive drugs.

To regulate the market for pharmaceutical products, various methods are used to reduce costs for both the budget and the population:

- direct (direct) price control, including methods of “cost plus”, internal and external comparison, control of the maximum markup level, control of the profit level of the wholesale and retail links in the supply network;

- control of reimbursement of costs for the production of drugs (compensation);

- use of reproduced drugs (generics).

The subject of price regulation in different countries are different levels in the distribution of medicines:

- at the manufacturer level (manufacturer price for finished products, or individual components in the manufacturer price, for example, marketing costs)

- at the level of pharmaceutical wholesale companies (income of wholesale intermediaries)

- at the retail level (trade premiums on drug manufacturer prices)

- at the level of developers of new drugs (prices of new drugs)

In Russia, direct or administrative intervention of the state on current prices means the participation of the state in the formation of levels, structure and movement of prices, and the establishment of certain pricing rules.

Direct regulation is appropriate when the goal is to stabilize current prices or ensure their slight growth.

The following forms of direct price regulation are distinguished:

general price freeze or price freeze for individual goods and services;	- establishment of fixed prices and tariffs;	- establishment of price ceilings;

- establishing a maximum profitability standard;

-establishing a maximum size of trade markups;

- declaration of prices;

- establishment of recommended prices for the most important types of products.

Measures of indirect influence of government regulation are aimed primarily at establishing an optimal balance between supply and demand.

This is done through the use of preferential taxation, preferential lending, subsidies and subsidies from the budget.

Forms of indirect impact on prices include:

- effective use of customs tariffs,
- preferential customs duties,
- government incentives to attract foreign investment to the country,
- creating conditions for the development of entrepreneurship and fair competition

Decree of the Government of Russia from 09.11.2001 to the present time powers to regulate maximum wholesale and retail markups for vital and essential medicines were transferred to the constituent entities of the Russian Federation.

Each region, when developing and approving maximum wholesale and maximum retail markups, takes into account the characteristics of the region, its socio-demographic structure, the existing characteristics of the pharmaceutical market, the competitive environment, the purchasing power of the population, and the economic situation in the region.

This leads to significant differences in the size of the current maximum wholesale and retail markups. The highest premiums are set in the Amur and Sakhalin regions (from 5 to 50% for wholesalers and from 35 to 135% in the retail sector for various groups of drugs included in the list of vital and essential drugs)

Medicines manufactured in a pharmacy have some peculiarities in determining their prices.

In the manufacture of the medicinal product, pharmaceutical substances and excipients included in the State Register are used.

In addition, medications in a pharmacy must be packaged in containers that are also approved for use in medical practice, as a rule, these are bottles and jars of various capacities, transparent or dark glass.

The pharmacy purchases everything necessary for production from wholesalers at purchase prices.

At the same time, the pharmacy incurs costs associated with providing conditions for production, preparation of raw materials and materials, ensuring conditions for their storage, remuneration of pharmaceutical specialists and auxiliary materials.

It is quite difficult to calculate such costs, but several methods have been developed for determining the costs of a pharmacy for the manufacture of drugs in a pharmacy setting.

These methods allow you to calculate the fee (cost of work) for the manufacture of medicines.

This takes into account: the degree of complexity of the dosage form, the requirements for the conditions of its manufacture, the number of ingredients in the prescription, the volume or weight of the medicinal product, the number of doses required, etc.

The manufacturing tariffs calculated for a given pharmacy are subject to approval by the Tariffs and Prices Committee of the constituent entity of the Russian Federation and are used by the pharmacy when calculating the price of individually manufactured drugs.

Basic pricing methods

The pricing method is a set of methods for establishing the price of a new product or changing the existing price of a known one.

Pricing methods are divided into groups:

1.1. Cost - based on the determination of either total costs or direct costs spent on the manufacture of products; in this case, the price is determined by adding a fixed amount to the costs - the profit that the company expects to receive.

- based pricing *methods are the most common.* These include:
- 1) “costs plus profit”;
- 2) target pricing method;
- 3) method of cost of manufacturing goods.

In foreign pricing practice, the cost-plus-profit method is divided into three methods:

- full cost method;

- direct cost method;

- marginal cost method.

full cost method is most common in enterprises with clearly defined product differentiation for calculating prices for traditional goods that have guaranteed sales (for example, the sale of bread), as well as for setting prices for completely new goods that have no price precedents.

This method is most effective when calculating prices for goods of reduced competitiveness.

The essence of the *direct cost method* consists of setting prices by adding a certain premium - profit - to variable costs.

At the same time, fixed costs, like the costs of the enterprise as a whole, are not distributed among individual goods, but are repaid from the difference between the sum of sales prices and the variable costs of production.

This difference is called added, or marginal, profit.

Calculation of prices based on the ***marginal cost* method** is also based on cost, but is more complex than the methods discussed above.

With marginal pricing, a premium is made only to the extremely high cost of production of each subsequent unit of an already mastered product or service.

This method is justified if the guaranteed sales volume at a slightly higher price is sufficient to cover overhead costs. The argument used here is that of marginal pricing, which is that once sales have reached a level at which all costs, including overheads, can be covered, the price can be reduced; you only need to cover the cost of serving one additional customer.

Any price above this additional cost results in additional profit, especially if the lower price stimulates increased demand for the product or service.

2. *Market* – focusing mainly on the demand for goods in the market. In this case, the enterprise, taking competitors' prices as a basis, sets its own price in accordance with them, taking into account the difference in quality, characteristics of the product, its range, etc. (provided that the product being compared is competitive).

Market pricing methods include:

- current price method;
- "sealed envelope" or tender pricing method;
- a method of calculating price based on the perceived value of a product.

3. Econometric – associated with setting prices for new products based on the prices of previously developed similar products.

Econometric (parametric) methods make it possible to calculate the price of almost any product (there is always a sample more or less close to a new one with a known price), so they are universal. They are also the most common, as enterprises are constantly expanding the production of new types of products.

The main modifications of the parametric price formation method include the following:

unit price method;

scoring method;

aggregate method;

regression analysis method

Methods and approaches to pricing of medicines

Pricing methods used in the pharmaceutical market:

–**regulation of the rate of return** (eng. r ate-of-return regulation , ROR);

–the cost - plus - **profit formula** pricing);

–reference **pricing** _ pricing);

–value - based **pricing** (VBP) ;

–**multi** - indication **pricing** pricing , MIP).

Pricing policy of pharmaceutical market entities

Formation of pricing policy. Price is the only element of the marketing mix that “produces” profit, while the rest determine the company’s costs.

Price is also its most flexible element and, unlike product characteristics and marketing channels, it can be changed quickly. The price of products is, on the one hand, a factor determining the profit of the enterprise, on the other hand, it is a condition for the sale of goods, i.e. ensures the functioning of production.

Therefore, the efficiency of the enterprise's core activity (production) depends mainly on its pricing policy.

The pricing policy of an enterprise is understood as a system of general principles and rules that it adheres to when setting product prices.

The most important modern principles for setting prices for the company’s products include:

- *Scientific validity of prices.* This principle involves taking into account objective economic laws when pricing, which requires careful collection of price market information (price level and structure, supply-demand ratio, assortment and volumes of goods), its analysis and forecasting of macro- and microeconomic indicators.

- *Target price orientation.* By this, the enterprise determines the range of economic and social problems that it will solve when using the chosen approach to pricing.

- *Continuity of the pricing process.* According to this principle, the price of a product at each stage of its production is constantly changing, and the price of a product in each specific market situation is constantly being adjusted.

Pricing strategy is the main component of pricing policy and it refers to the long-term perspective of the enterprise's actions in the field of prices.

A pricing strategy is a set of rules and practices that an enterprise adheres to when setting market prices for its products.

It must correspond to the overall marketing strategy of the enterprise, the main types of which are:

- penetration of the enterprise into the market;

- increasing the market share owned by the enterprise;

- market segmentation;

- development of new products by the enterprise or modification of existing ones (for example, to conquer new markets)

In market conditions, the most common pricing goals in an enterprise are:

- ensuring the survival of the company and preventing its bankruptcy ;
- increasing product sales;
- profit maximization (in a short period of time);
- maintaining a stable position in the market;

- crowding out competitors;

- introduction of new products to the market, etc.

Based on these and other goals, the enterprise develops certain pricing strategies

Examples of enterprise pricing strategies

Goals	Subgoals	Nature of prices	Price level
Security survivability	Maintaining the current state, covering production costs	Short	Extremely low comparable to cost
Increase product sales	Market share expansion	Long term	Short
Maximization arrived	Quick receipt on-personal funds	Short	High

Developing a pricing strategy involves three stages:

I. Collection of background information.

This stage consists of the following stages:

1. *Cost estimation.*

2. *Clarification of the financial goals of the enterprise.*

3. *Identifying potential buyers*

4. *Clarification of the enterprise's marketing strategy.*

5. *Identification of potential competitors.*

II. Strategic analysis. At this stage, the collected information is summarized and evaluated. Strategic analysis includes:

1. *Financial analysis*

2. *Segmental market analysis.*

3. *Competition analysis.*

4. *Assessing the impact of government regulation.*

III. Formation of a pricing strategy. Formation of a pricing strategy involves determining the strategic perspective of the enterprise, i.e. setting the strategy goal.

The strategic vision has three main long-term goals:

Increasing product sales (by expanding a market segment or conquering a new market).

Profit growth.

Maintaining income levels (by maintaining the market).

The most common are the following two types of strategy classifications:

-I . _ *Depending on the price level;*

- II . Depending on the type of market and categories of buyers.

*II. Depending **on the type of market and categories of buyers,** strategies **of differentiated, preferential and discriminatory prices are distinguished.***

1 ***. Strategy of differentiated prices (differentiated pricing).*** It involves the use by sellers of certain scales of possible discounts and premiums to the average price level for various markets (by characteristics, segments, location), categories of buyers (wholesalers, regular partners, persons in whom the company is interested, buyers with different income levels, etc. .), and also depending on the time of purchases, modifications of goods. This strategy is applicable mainly in markets that can be segmented and allows you to stimulate or restrain the sale of various products in different market segments.

3. Discriminatory pricing strategy. **It is also a variant of the differentiated pricing strategy and involves setting maximum prices for goods in a certain market segment.**

It is applied to buyers who do not understand the market situation and do not show interest in purchasing the product.

A discriminatory pricing strategy can also be carried out at the state level: the introduction, for example, of high customs duties that increase the price of imported goods protects domestic producers.

In addition, pricing strategies are often designed *with a specific market situation in mind*. In this aspect, the following strategies stand out:

1. *Stable price strategy.*

2. *Competitive pricing strategy.*

3. *Prestigious pricing strategy.*

4. *Strategy for proactive price changes*. It is connected with the fact that an enterprise that independently forms a pricing policy can, on its own initiative (regardless of the actions of other market participants), change prices either in the direction of decreasing or increasing them.

All of the above pricing strategies “in their pure form” are rarely used in practice; as a rule, various combinations of them are used overpricing strategy

mid-price strategy

good price strategy

predatory strategy

false economy strategy

saving strategy.

It is advisable not to establish a single price for a product, but to create a price system that reflects:

- 1.differences in demand and costs *by geography,*

2. requirements of specific market segments,

3.distribution of purchases over time,

4. order volumes,

5. delivery schedules,

6. guarantees, service agreements.

Therefore, companies should develop *price adaptation strategies* . The most commonly used strategies are:

- pricing based on geography;

- setting prices with discounts and offsets;

- pricing that stimulates sales;

- discriminatory pricing;

- setting prices within the product range.

Pricing strategy implementation tactics

The second main component of the pricing policy is *tactics* - a set of techniques, methods and methods that ensure the enterprise's actions to implement the pricing strategy in specific conditions of place and time.

If the goal of a certain pricing policy can be achieved using different pricing strategies, then the pricing strategy is implemented in turn using specific tactical actions of the enterprise , which depend on many factors and may change due to various circumstances.

Modern pricing assumes the following tactical situations:

1 . ***Tactics for penetrating the market and gaining a foothold in it are*** **associated with a low-price strategy.** Such events are used by enterprises that seek to conquer a new market or expand an existing one.

These include:

- **use of so-called "penetration prices"** (prices reduced compared to average by 15–20%). Such prices are maintained for 1–2 months (during this time, buyers get acquainted with the quality of the product, its range, service, etc.), after which they gradually increase to the average level.

- the “falling leader” tactic is designed for the fact that the buyer, coming to the point of sale (sale) purposefully for one product, purchases others, the prices of which are the same everywhere.

- tactics of “discounted goods” - for repeated visits to the store, the buyer is given the opportunity to purchase a number of goods at 10–15% cheaper. By purchasing such a “preferential” product, he buys others at regular prices.

- tactics of concentrating in one trading enterprise most varieties of everyday goods (food, pharmaceutical, household, stationery, books, toys, animal food, etc.).

2. Quick cost recovery tactics. This tactic also implements **a low-price strategy.** It is used when it is urgently necessary to get rid of excess stocks of goods or to release funds embedded in them in the following cases:

- the shelf life of the products expires;

- an off-season sale is held;

- the pre-holiday sale has ended, but there are surplus goods left;

- the enterprise changes the product range or switches to producing new products if there is a surplus of previously produced products.

3. Tactics of the system of discounts and surcharges .

The system of discounts and surcharges is associated with high, medium, differentiated and low price strategies and is an extremely useful and flexible tool for the marketing policy of any company

The value of the discount system is especially great for companies that adhere to a cost pricing model, since discounts can largely compensate for “non-market” cost prices and create a sufficiently flexible commercial offer for successful implementation in the market.

All types of discounts can be divided *into planned and tactical* .

Planned discounts are formed at the expense of the amount of overhead costs and, as a rule, are disguised . Such discounts include the organization by the manufacturer of advertising of its products indicating a list of retail establishments in which they are sold. Thus, the manufacturer significantly saves its dealers' money on advertising their trading enterprises, which is equivalent to providing them with an additional discount.

Tactical discounts are united by an economic source - profit and a single task - creating additional incentives for buyers by directly reducing the price of their actual purchase

Discounts are also divided into general , set in advance and applicable to all customers, and ***special*** , relating to certain groups of customers.

General discounts apply :

- discounts for the volume of the purchased batch;

- discounts for delivery conditions;

- discounts for payment terms (prepayment, non-cash payment, cash, payment with deferred payment, in installments, after the sale of goods, etc.);

- for “loyalty to the company.”

Special discounts include:

- dealer;
- export;
- off-season;
- discounts for privileged customers;
- hidden discounts.

Along with the discount system, there is also *a system of surcharges* .

***Surcharges* are additional conditions during a purchase that complicate the transaction.**

The surcharge system can be objective and subjective.

The objective system of surcharges is associated with the individual approach of the enterprise to the most mass consumers of its products.

The subjective system of surcharges applies to customers with whom the company does not want to take risks.

Tactics of "psychological" prices . This tactic is also associated with high, medium, low price strategies and consists in the fact that the price is expressed as a number below its rounded value

Tactics of the “unprofitable” leader allows you to implement ***a strategy of high, medium and low prices.*** It consists in transferring part of the price of one product to others, as a result of which the price of the first decreases and the price of others increases. The transfer is calculated in such a way that the original level of profitability is maintained.

This tactic is used mainly for complex deliveries: the price of the main product is reduced due to the fact that the prices of others supplied together with the main product (components, spare parts) increase.

"Race for the leader" tactics applicable in oligopolistic markets and also related to basic pricing strategies. Its essence lies in the fact that the price of a market participant is set based on the price of the leader.

Stepped Pricing Tactics serves mainly to implement a differentiated pricing strategy.

Price discrimination.

Price discrimination is also permissible in cases where a manufacturer supplies different retailers with the same product of different quality levels. But he will have to prove the existence of these qualitative differences and the proportional difference in prices.

Fixing prices.

Sellers must set prices without any prior consultation with competitors. Otherwise, there is a suspicion that they have colluded on prices.

Maintaining retail prices.

The manufacturer does not have the right to require dealers to sell their goods at a specific retail price. However, the seller may offer dealers the manufacturer's suggested retail price for the item.

The manufacturer does not have the right to refuse to sell goods to a dealer who pursues an independent pricing policy, nor does he have the right to infringe upon such a dealer by delaying the shipment of goods against the agreed upon date or refusing to provide him with discounts on advertising. However, the manufacturer has the right to refuse to sell its product to a dealer for reasons not directly related to the pricing policy of this dealer.

Price increase

Enterprises have the right to raise prices to any level, with the exception of periods of government control over price levels.

From time to time, the government uses its influence to prevent price hikes in major industrial activities during periods of insufficient supply or inflation. Despite the increasing role of non-price factors, price remains an important indicator, especially in markets of monopolistic and oligopolistic competition.

Features of drug pricing strategy and tactics

The sphere of circulation of medicines, which includes the stages of development, as well as the sale of medicines on the pharmaceutical market from manufacturers to patients, is one of the main elements that ensures the security of the nation, but has an inverse relationship with the state of the country’s economy.

For drug pricing strategy and tactics, the following features must be taken into account:

1.Medicines have **economic significance** (subject to the economic laws of supply and demand) and **social significance** (protection of human health, promotion of a healthy lifestyle, nutritional culture).

1.It is characterized by socio-economic efficiency - the growth of national income associated with the production of medicines. The social effect is expressed by saving material, labor, and financial resources.

1.The demand for medicines is generated by both the consumer and the doctor.

1.The generator of demand is not physiological needs, but human pathology.

The elasticity of demand for medicines depending on price is generally absent

Factors influencing the price of medicines

Demand factors	Supply factor	Environmental factor
1. Efficacy and side effects of drugs	Quantity and quality of competing medicines	Health care costs
2. Availability of analogues	Number and nature of competing manufacturers	Availability of health care programs (including government ones)
3. Group of doctors prescribing drugs	Distribution system	The role of the state in financial healthcare support
4. Duration of treatment and number of medications per course of treatment	Dimensions, shape, packing, packaging	Economic growth rate
5. Cost of treatment	Expected product life cycle	Economic stability instability

Factors influencing the price of medicines

Demand factors	**Supply factor**	**Environmental factor**
6. Number and characteristics of buyers (gender, age, income, etc.)	Possibility of reproduction and improvement of quality by different companies	Regulation of export, import
7. Price elasticity	Sources of raw materials	Traditions of medicinal consumption
8.Income elasticity	Taxes	Size and distribution of GNP
9. Duration and product life cycle model	Location of production in relation to the market	Licensing regulation

Factors influencing the price of medicines

Demand factors	**Supply factor**	**Environmental factor**
10. Availability of state programs for the provision of medical and drug care	State regulation and certification of medicines	Political environment
11. Attribution of medicines to the mandatory range, to the list of free and preferential	Classification as vital and essential medicines	

Pricing models and approaches to creating markup levels for medicines

Formation of markups for medicines . In the vast majority of pharmacies, the bulk of the clientele, with varying degrees of thoroughness, analyzes the price level relative to competitors.

Therefore, the formation of an effective markup level should be based on measuring the price level relative to competitors, differentiated by the low-cost and middle segments.

The following method of such measurement is recommended *: (next slide)*

Measurement technique

Selection of drugs in the segment	**The difference between the price of your pharmacy and the average price of competitors**	**Average price of competitors**	**2-4 main competitor**		
			No. 1	No. 2	
Preparation A					
Drug B					
	The arithmetic mean of the differences between the price of your pharmacy and the average price of competitors				

Typically the following sampling parameters are effective

(for each price segment):

- size - 20 leading drugs in sales (in the low-cost segment - leading in sales in packages, in the middle segment - in sales in money);

- in the case of regional restrictions on the markup for some drugs (for example, in Moscow and a number of regions - from the VED list), **the sample should not include these drugs** in order to avoid the distorting influence of these restrictions on the results of the analysis.

The analysis procedure described above is almost the same for both bedroom and walk-in pharmacies - with the exception of the procedure for identifying competitors for price comparison:

- since “bedroom” pharmacies have a high (usually significantly more than half) share of clientele that monitors the prices of local pharmacies in the lower and middle price segments, their main competitors are, as a rule, *local* competitors (sometimes the main competitors of a bedroom pharmacy also include a remote pharmacy, conveniently located on the route of movement of the bulk of local residents).

The main competitors are determined by asking passersby within 0.1 km from the pharmacy about the most frequently visited pharmacies;

- since the clientele of walk-through pharmacies usually consists of approximately 60-90% of “transit” visitors from various areas who are not focused on analyzing prices in pharmacies nearby, for these pharmacies the main competitors are the 3 most popular *walk-throughs among the clientele* competitors, based on the analysis of which it is possible to estimate the “city average” price level.

The main competitors are determined by asking customers about the most frequently visited pharmacies.

Calculations for analyzing the price situation are usually sufficient to carry out in the last month of each quarter (in the absence of a noticeable reduction in the prices of the closest competitors - a noticeable increase in comments from visitors about prices that are too high compared to competitors, etc.).

*It should be noted **that*** **along with an analysis of the competitiveness *of its* prices, in parallel, it is necessary to analyze the competitiveness of purchase prices** : in many cases, in the process of such calculations, the feasibility of their correction is revealed by changing payment terms and/or the composition of suppliers.

For a typical "bedroom" pharmacy **Usually there is a fairly high proportion of the local population that does not belong to the high-income strata and very closely monitors the prices of local pharmacies in the lower and middle price segments.** The price sensitivity of the "poor" part of the population, focused on the cheapest drugs, is especially high.

According to this specificity:

- quite often (especially in the low-cost segment) there is a high elasticity of demand, which makes it possible to significantly increase sales and profits by reducing prices to the level of competitors or lower;

- even if there are objective advantages relative to competitors, increasing price positioning relative to competitors should be done very carefully -

- the initial “step” of such positioning, as a rule, should not exceed 5-10%.

For a typical "walk-through" pharmacy characterized by **a higher solvency of a significant part of the clientele** , which mainly belongs to the economically active part of the population, **and a noticeably smaller proportion of the least solvent clientele,** focused on purchasing the cheapest goods.

According to this specificity:

- usually in the cheap segment there is a large range of low elasticity of demand, which often allows for a significant increase in price relative to competitors.

In some cases, the markup may exceed the city average by 20-30%

- (sometimes more) without a noticeable drop in demand;

- in the middle segment, a small (usually about 10-15%) increase in price relative to competitors may often be advisable, since this segment is characterized by the presence of a fairly large zone of low sensitivity to the price level.

Reducing prices in some cases can also be effective, but mainly for pharmacies with obvious disadvantages relative to direct competitors (inferior in location, format, etc.).

Analysis of price competitiveness and expert assessment of your advantages/disadvantages usually allow you to choose the right direction of your pricing policy .

however, the key is the method of optimizing the markup - the iterative (step-by-step) method of “trial and error”: a continuous process of increasing/decreasing the markup in small “steps” and tracking the results.

For iterative optimization of the markup, the following guidelines are appropriate:

- if the actual price level in a segment differs from the target price of competitors (the average price of competitors taking into account the expected positioning) within ±4-6%, it is quite possible that this only means a measurement error (due to the inevitable selective nature of the measurement).
- Therefore, even if there is an expert feeling that it is advisable to increase/decrease the price for more effective positioning, in order to clarify the situation, this is justified by a small “step” of 5-10% of the price by increasing/decreasing the markup in the segment by the appropriate amount.
- A step of less than 5% in the lower and middle price segments often affects the price so weakly that it is problematic to reliably track the reaction of the clientele in a fairly short period of 1-2 months;

- if there is a more significant (over +6%) difference between the actual price level and the target price of competitors (the average price of competitors taking into account the expected positioning) in the segment, it is advisable to adjust the price in the appropriate direction in “steps” of 10% by increasing/decreasing the markup in the segment by the appropriate amount .
- Larger change “step” sizes are ineffective due to the possibility of losses due to measurement error.
- After each “step” it is necessary to track the results in the corresponding price/product range segment.

An effective optimization criterion for most pharmacies is *profit* :

- as long as the profit grows, we can assume that the direction of the price increase/decrease is correct;

- in case of stabilization/decrease in profit, it is advisable to change the direction of increase/decrease to the opposite.

In some cases, the results of markup correction are visible within a month, but often it takes 2-3 months for a clear consumer reaction to appear.

At the moment, in the absence of reliable databases on pharmacy prices in the vast majority of cities, a fairly simple and effective way to form *a markup on expensive drugs is based on general statistical data* for your city, characterizing the dependence of the markup on the price level.

Such data can be purchased from analytical agencies RMBC or Pharmexpert (in the near future also from DSM).

Based on such data, it is possible, in accordance with the specifics of the local market:

if necessary, select several (most likely no more than 2) price subsegments of the expensive segment;

expertly assess the likely competitive markup level for each of them.

Direction for adjusting the markup in the segment, taking into account the specifics of the pharmacy

At the initial stage, errors in determining the markup are possible due to the specifics of your purchase prices. This problem is solved by iteratively “adjusting” the markup according to the profit maximization criterion, which is in principle similar to that described in the previous section for optimizing the markup in the low-cost and mid-range segment. However, positioning in the expensive segment must be carried out more carefully than in the lower and middle ones: the margin adjustment step should not exceed ±2-3%.

If there is no or it is difficult to purchase data on the dependence of the markup on the price level in your city, you can use the average Russian data published in this book for the first iteration.

The error may be greater at the initial stages, but ultimately it will be largely leveled out due to the iterative approach.

Reduced price strategies for certain drug categories.

For a number of pharmacies (especially pharmacies), special reduced prices for certain categories of drugs are often appropriate.

Reduced price strategy for expensive "essential" drugs that do not have cheap synonyms/close analogues.

The marketing specificity of these drugs is that they are such an important element in the treatment of the corresponding diseases that refusing to purchase them is problematic from the point of view of the success of therapy.

Typical examples of expensive “essential” drugs that do not have cheap synonyms or close analogues: Cipramil , Avelox , Heptral , Zyprexa , Tavanic , Zoladex , Duphaston , etc.

Among consumers of this category of drugs there is a particularly large number of people:

- with limited solvency, forced to buy them;

- seeking to save as much as possible by choosing **-** the cheapest pharmacies (not alternative drugs).

- In the segment of expensive “essential” drugs that do not have cheap synonyms, a pricing strategy of prices lower than the city average is often effective to attract visitors from other areas, and for conveniently located pharmacies - ***from*** all over the city.

Reduced price strategy for regularly consumed drugs.

The marketing specificity of this category of drugs (for chronic patients, contraceptives, etc.) is that if the price is attractive, the clientele can buy them "in reserve."

In itself, this phenomenon is not very attractive for a pharmacy: purchasing in large portions in a "pulsating" mode is no more attractive for a pharmacy than purchases that are more "spread out" over time.

However, in many cases there is an indirect effect: buying in larger quantities reduces the likelihood of such purchases from competitors.

Accordingly, it is also possible to use the effect of demand elasticity in the option of lowering prices: although profitability decreases, profit margins can increase due to increased sales.

Specifics of pricing in “elite” pharmacies. A feature of the clientele of these pharmacies is a much lower sensitivity to prices.

Accordingly, they can use pricing models that are much less focused on ensuring price competitiveness (of course, while providing a decent assortment and service), in particular, more integrated price segmentation:

- in the price segment up to -500 rub. often a uniform markup for all products is effective, resulting in a price on average -20% higher than the city average;
- in the price segment -500-5,000 rubles. often a uniform markup for all products is effective, resulting in a price on average 10-20% higher than the city average;
- in the price segment from -5,000 rub. The price sensitivity of even high-income clientele is already beginning to manifest itself, so it is usually advisable to reduce the markup to a level that brings the price above the city average by no more than -10%.

Adjustment of prices for pharmaceutical products

When determining the price of pharmaceutical products and medicines, criteria can be taken into account, the characteristics and influence of which are presented in the table

Criteria for determining the price	Characteristics of the criterion	Impact on price (price adjustment)
Place of product in sales volume	First 50 positions	- 5%
	All subsequent positions	+5%
Nature of illness of visitors (frequency of consumption)	Chronic (permanent)	-5%
	Acute (intermittent)	+5%

Criteria for determining the price	Characteristics of the criterion	Impact on price (price adjustment)
Consignment	Crushed (piece by piece)	+10%
	Do not fragment (complex)	No change (or -5%
Trademark	Branded	No changes (+5-10%)
	Not branded	-10%

Criteria for determining the price	**Characteristics of the criterion**	**Impact on price (price adjustment)**
Price sector (cost)	Low (up to 100 rub.)	+10%
	Medium, high (500 rubles or more)	-5-10%

The reason for changing the price of pharmaceutical goods may be a change in external conditions, such as the emergence of alternative types of medicines, an increase in the frequency of medical prescriptions due to the emergence of new data and the expansion of the scope of use of drugs, an increase in demand for the drug due to a wide advertising campaign, or the actions of competitors.

When analyzing external factors, as a rule, a reduction in prices for goods that will be purchased in any case is not assumed.

The main goal of adjusting prices for pharmacy products is an attempt not only to retain the existing circle of regular customers, but also to attract new customers and make them regular for this pharmacy

Peculiarities of pricing for parapharmaceutical products in the pharmacy range.

Markups in the lower and middle segments obtained as a result of calculations for medicines can usually be used for a significant part of the range of parapharmaceutical products.

These products are perceived by visitors as a typical "pharmacy" assortment, and the mechanisms of price perception in relation to them differ little from the price perception of medicines.

However, certain specifics are typical for related products, which, as a rule, are not the purpose of visiting a pharmacy: they are bought "on the way," in impulse demand, without a thorough price analysis.

Often, in the lower and middle price segments, it is effective to increase the markup of "related" pharmaceutical products by 5-10% above the price of other goods.

At the same time, in a number of cases, a pharmacy faces strong " non-pharmacy " competition for parapharmacy from nearby stores, wholesale markets, etc. In this situation, on the contrary, a lower markup compared to medicines may be appropriate . ensuring price competitiveness with " non-pharmacy " retail.

- As with medicines, it is advisable to use iterative optimization to form a specific markup value.

Models for organizing the pricing process in pharmacy chains

Typically, the pricing model in pharmacy chains can be described as “wholesale price + markup percentage.”

At the same time, models of the pricing process can be different; they can be classified **according to two parameters:** ***the presence of standardization***

and centralization in organizing the process.

1. The degree of controllability of the pricing process in the case of *pricing at the level of a warehouse or office of a pharmacy chain* is maximum.

2. The possibility and speed of changing the price of an individual product or group of products is maximum.

3. Pricing at the warehouse level allows for automatic revaluation of inventory balances without any costs (managerial, organizational, financial, time and others).

4. The product arrives at the pharmacy at the retail price.

5. The pricing process occurs centrally (at the warehouse or office level), but physically (sticking price tags) processes can take place at different hierarchical levels, the first at the warehouse, the second at the pharmacy level .

These pricing models are more common among large pharmacy chains.

A fairly common model for pharmacy chains is ***the organization of a standardized pricing process at the pharmacy level.***

In this case, the office prescribes a pricing matrix at the pharmacy level, which the pharmacy manager cannot influence.

These matrices can be the same for all pharmacies in the network, or categories of pharmacies, or unique for each pharmacy.

Organizationally and physically, pricing is carried out at the pharmacy level. The product arrives at the pharmacy at a wholesale price, then the price is formed and the price tag is printed there.

The degree of controllability of the pricing process in a pharmacy chain when implementing this model is quite high, however, the flexibility and speed of price changes within this model is significantly inferior to centralized standardized pricing.

***centralized manual pricing* model** *is* typically found in transitional networks where management centralizes this function, but process standards are still not well developed.

Prices are set manually by an employee or department for the entire pharmacy chain. The product arrives at the pharmacy already with a retail price.

The model is most typical for networks consisting of 20–40 pharmacies and is characterized by moderate efficiency and average manageability.

The most common model for organizing the pricing process is pricing, which *is carried out by the pharmacy manager* (found in both single pharmacies and large regional chains).

This is actually manual pricing; it is impossible to describe this procedure and automate it in the form in which it exists.

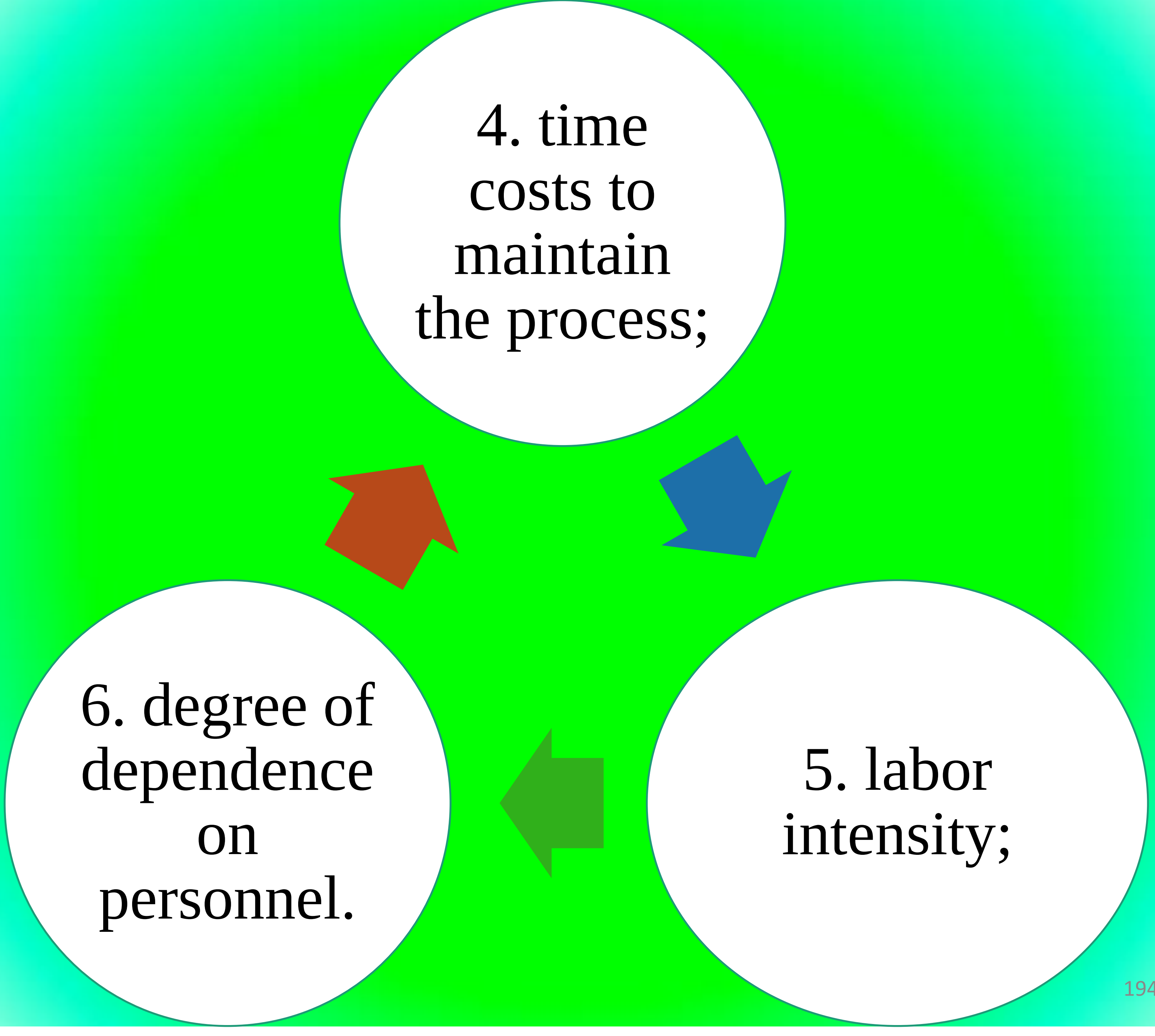
In such a pricing organization model, control of the process on the part of the office is minimal and in many cases this control is completely absent.

The disadvantages and advantages of each model can be assessed according to several parameters:

1.process efficiency;

2.controllability of the process;

3. flexibility and the ability to quickly revise both the model itself and prices for individual groups in pharmacies (in particular, the ability to launch a system for revaluation and revaluation of inventory balances);


4. time costs to maintain the process;
5. labor intensity;
6. degree of dependence on personnel.

A centralized, standardized pricing model in a warehouse or through an office is characterized by high efficiency, controllability and flexibility of the pricing process.

This model has minimal dependence on personnel, and its maintenance does not require large labor and time costs.

On the contrary, **the pharmacy manager's pricing model has the least efficiency, controllability and flexibility, and is characterized by high staff dependence and demands on time and labor resources for its maintenance.**

In pharmacy chains, each of the models is rarely found in its pure form.

***The main requirements for the pricing system* in pharmacy chains** are the following:

- ensuring maximum profitability while maintaining competitiveness;
- active pricing based on internal factors of the pharmacy chain with secondary consideration of market trends;
- adaptability of the system.

Maximizing profitability while remaining competitive means setting the highest possible price for each unit of goods. This price ensures maximum profit at a given time without reducing sales in packages.

With a wide range of goods in a pharmacy (4-5 thousand items), it is impossible to manually determine the ideal price for each product item; it is optimal to determine the most profitable price for a group of goods while maintaining competitiveness.

These calculations must take into account all the costs of the pharmacy chain in order to ensure at least break-even operation, i.e. First of all, internal factors of the pharmacy chain are taken into account with a secondary consideration of market trends.

However, in practice, managers of pharmacy chains often set prices without taking into account financial prerequisites, based on the "market situation", prices in the "pharmacy opposite", etc.

- ***An adaptive pricing system model* is very important and effective for pharmacy chains , **implying the ability to increase or maintain the profit of a pharmacy chain, regardless of the economic situation and significant market fluctuations.

To effectively implement this pricing model, the following organization of the pricing system is advisable in pharmacy chains:

- application of a pricing matrix (by price categories of pharmacies, by economic groups);

- launch of adaptive mechanisms;

- use of algorithms for recalculating the pricing matrix (“adjustment” of pricing within therapeutic groups, application of the principle of exchange trading and competition, demand management).

Programs for the formation and maintenance of consumer loyalty

Why build customer loyalty?

The growing level of competition in the retail sector of the pharmaceutical industry, consumer discernment and exactingness, high segmentation of consumer markets necessitate the search for the most effective forms and methods of customer service, which enable pharmacy organizations to develop competitive development strategies.

The most important area of marketing research in pharmacy organizations is the study of consumer behavior. In market conditions, it is he who retains the right to choose a pharmacy organization.

The study of consumer loyalty when choosing a product, factors influencing purchase decisions, allows pharmacy workers to maximally satisfy the needs of the population and create optimal service conditions.

The determining factor in the implementation of such strategies today for any pharmacy organization is increasing consumer loyalty with the quality of pharmaceutical care.

Determining the degree of satisfaction and reasons for loyalty makes it possible to find out the relationship between quality, price and other variables that can be used to form a group of regular or loyal customers of a pharmacy organization.

If it turns out that the consumer did not receive full satisfaction from the pharmacy organization, the purchased product, or the way its sale was organized, then a properly conducted survey will allow us to find out the causes of these problems, i.e. the results of studying loyalty can suggest ways to improve the pharmacy organization (service) and new marketing programs.

Based on the results obtained, the company can build its marketing strategy, including its pricing policy, accordingly.

Such studies help the pharmacy organization find the right moves both to retain “old friends” among its consumers, and to implement a relatively low-budget policy to attract new ones.

Foreign studies have shown that the introduction of a loyalty program leads to a reduction in customer turnover by 30% and an increase in turnover by 10%, and retaining only 5% of the total number of customers after some time leads to an increase in profits from them from 25 to 85% .

To successfully implement programs for creating and maintaining consumer loyalty, it is initially **necessary to determine those factors that are most significant for a particular group of consumers.** Once a pharmacy organization has identified a set of these factors, it should direct efforts to develop them, focusing mainly on the most significant target group.

In this case, not only does the likelihood of a decrease in consumption level decrease, but also a certain cumulative effect is created, due to which the target group becomes more loyal, seeking to receive additional services.

Before starting to implement loyalty programs, **it is necessary to determine what part of consumers is loyal or disloyal to the pharmacy, how consumer loyalty was achieved and how it should be created and maintained.**

FACTORS AFFECTING CONSUMER CHOICE OF PHARMACY

In order to determine which pharmacy company the consumer will prefer, it is necessary to identify the factors influencing his choice. Four factors are essential:

evaluation criteria

- perceived characteristics of the retail establishment
- comparison process
- acceptability or unacceptability of a trade organization

BASIC REQUIREMENTS FOR THE PHARMACY LOYALTY PROGRAM:

1. Retention of existing customers:

The goal of the loyalty program is to retain attracted customers.

The loyalty program should give the buyer an answer to the question “Why do I buy medications from this pharmacy chain?” This indicator is difficult to measure; it can only be measured indirectly.

2. "Profitability."

The loyalty program should help increase key financial indicators: increase the number of purchases, turnover and, of course (!) gross profit;

If a loyalty program does not bring in additional income, then why launch it at all? If discounts are a consequence of competition, then this all the more increases the need for a balanced approach to the loyalty program as a tool for competition and increasing profitability.

3. Differentiation

Loyalty programs are necessary to increase sales control:

By product groups. Different economic groups (!) of goods provide different levels of discounts/points.

Why economic groups, and not product categories, as is often done?

The fact is that a change in the discount level has a comparable effect on goods of the same economic group, but there is no such correlation in product categories.

According to the definition, goods belonging to the same economic group behave the same and will react similarly to a discount.

For example, increasing the discount on goods in the Markers economic group may lead to an increase in unit sales of goods, but rarely leads to an increase in gross profit.

On the contrary, a discount on goods from the “Priorities” economic group has relatively little effect on increasing unit sales, but can lead to an increase in the profitability of product categories that include priorities.

And the discount on goods from the “For withdrawal” economic group does not significantly affect any indicators at all.

Accordingly, a situation is possible when in one product category in one price segment different drugs are automatically (!) provided with different percentages of discounts/bonuses.

The differentiation of the loyalty program by product groups allows you to direct the buyer to products that are more profitable for the pharmacy chain.

By categories and formats of pharmacies. Program values must be distinct and consistent with the economic model of the pharmacy category/format. This allows you to flexibly set up a loyalty program for pharmacies with different profitability, different competitive environments and especially for different types of customers.

By customers. Allows you to segment customers. Different buyers, different levels of solvency, different levels of discounts/bonuses. Ideally, a significantly larger discount is received not by those buyers who spend more, but by those who would not have made a purchase if there was no discount! A particular example of this approach is that new customers receive a larger discount than those who already regularly buy. Also a logical consequence of this approach is that the discount is not provided to those customers who do not need it (this is quite easy to implement).

So, if a pharmacy provides a 3% discount to all customers, this means that it could provide a 6% discount to a randomly selected 50% of customers, or a 10% discount to 30% of customers.

In this case, you can go further and divide this part of buyers into 3 parts and provide them with different% discounts (see Table - next slide)

4. Provide communication with clients.

Pricing and discount/bonus programs are an excellent way to communicate with the client.

To do this, the pharmacy chain must have contact information for its customers. For example, communication could be as follows:

- simple mailing;
- information about closed sales;
- fine-tuning the discount program for selected categories of buyers and informing buyers about this, etc.

5. Contribute to the search for hidden patterns - data mining. You should not overestimate this point; most likely, little useful (capable of bringing additional profit) can be found here.

6. Ensure the formation of a customer base

The customer base of any business is the “holy of holies” - the most valuable information that can be easily monetized. A retail business has several ways to build a customer base, and one of the most important is to personalize the loyalty program. This is a powerful tool, just for the sake of which one could launch a loyalty program!

MYTHS AND ERRORS WHEN BUILDING A LOYALTY PROGRAM

1. A pharmacy chain doesn't need a loyalty program if it has the lowest prices!

Yes, it's not needed, but only until a competitor appears with an even lower price. It is at this moment that the chain's management realizes that it has no tools to retain customers other than price. But such information as necessary at this moment, such as a customer base, a history of communication with customers, is missing. There are no tools to increase the profitability of regular customers, let alone technologies, or even prerequisites for retaining customers.

This misconception has led to a serious slowdown in the development of many pharmacy chains in various regions of the country.

2. Low prices are better than higher prices with discounts.

This means the following question: which is better:

Product price 90 rubles or	Product price 99 rubles – 10% discount = 90 rubles.

One can argue about which model is better from a marketing point of view. The second model often shows greater attractiveness to customers.

As for the economics of these models, the second model is certainly more efficient. In addition, if the basic requirements for the loyalty program are met, then the second model is also a powerful tool for customer retention, sales management, and maintaining a customer base.

3. All buyers need discounts

Of course not, everyone doesn't need it. But for a pharmacy chain, it is important that the main customers are interested in the loyalty program. This is not a play on words, but a change in the very paradigm of the loyalty program. It is being implemented not "for clients", but "for the pharmacy chain", and in such a way that it is of interest to customers.

4. Motivate the pharmacist from the back margin when broadcasting a discount from the pharmaceutical manufacturer/association, and only then receive compensation.

A common pattern that leads to direct loss.

It should be remembered that the markup ruble is not equal to the back margin ruble

Lack of a mechanism to encourage more goods in a check;

For example, if you need to increase the fillability of a receipt, then you can use an increased percentage of discounts/points for more items in the receipt .

Absence or weak analysis of the results of applying the discount.

Weak control over the abuse of discounts by pharmacy chain employees. It seems that if employees can give out discounts in any way they want, this increases customer loyalty. But to a greater extent, uncontrolled discounts without reference to a specific situation lead to the impossibility of analyzing their effectiveness and abuse by employees.

NOT SO GOOD TYPES OF DISCOUNT PROGRAMS

1. Discount for everyone always

It's hard to think of a worse option. The most toothless marketing strategy. The error in economic logic when using such a program is shown in the table (slide - see above).

2. Discount on pension certificates

Management errors in the program:

The pension certificate is not the property of the pharmacy chain, it is issued by the state, and you will be surprised how many buyers believe that the discount was provided to them... by the state. In addition, this pension certificate can easily be shown at another pharmacy chain with an equally close loyalty program.

Pension discounts do not deter buyers. If you want to provide discounts to pensioners, you should issue them cards from your pharmacy network.

3. Lack of maps and their accounting

Giving discounts without cards is the best way to teach employees how to abuse discounts. Although even without abuse, the losses from such a loyalty program significantly exceed its possible positive effects.

4. "Eternal" promotions, endless "Happy Hours" and "Happy Days".

Any marketing campaigns for buyers must be limited in time. This thesis can be found in any textbook.

The instrument of providing a significantly larger discount at certain hours or days in itself does not pose any particular harm (there is little economic benefit from it for the vast majority of pharmacies either), but if these "lucky" days or hours become permanent, then there is a serious risk that the buyer , who planned to make a purchase at the pharmacy anyway will postpone it until the time of the promotion known to him.

5. The card can be bought cheaply or issued for free

Issuing discount cards to all customers or clients who have made a purchase for a relatively small amount, or selling discount cards for a relatively low cost (for example, 100 - 150 rubles) leads to the fact that non-core or disloyal customers become cardholders. And this, in turn, leads to meaningless discounts and loss of profitability.

The best way to discredit a pharmacy chain's loyalty program is to issue discount cards for free or sell them for cheap (or when making a not very expensive purchase).

6. Flat scale of discounts for all product groups

The pharmacy earns not interest, but rubles. Try to calculate what discount in rubles can be provided for drugs from one product category. You'll find that even equally priced items within the same product group can be given different levels of discount.

7. Progressive discount scale, the more the buyer pays, the greater the discount

Higher spending is not necessarily related to the buyer's price sensitivity, but rather characterizes his commitment to a given pharmacy/pharmacy chain.

In the course of cooperation with pharmacy chains when implementing a Project to increase profitability, it is possible to encounter a situation where the least price-sensitive customers will have the largest discount, and at the same time (!) it is this part of the customers that provides the main turnover on cards.

Thus, providing a larger discount in this case was a waste of money.

8. Discount not segmented by customers

The same discount/bonuses for all customers is a weak marketing tool. The very basis of capitalism is the need for inequality between people. The goal of the loyalty program is to show the most important customers for the pharmacy chain that they are “not like everyone else” and therefore they have a “special” loyalty program.

9. Lack of customer base . There is a loyalty program, but there is no management for it.

The customer base is one of the most important tools for increasing profitability using a loyalty program. Its absence leads to uncontrollability of the program. If the cards are not personalized, then the management of the pharmacy chain does not have information about who uses them and how often, and this does not allow determining the portrait of the main consumer or drawing conclusions about the interest of key customers in a certain discount model.

It is desirable that the customer base belongs only to the pharmacy chain. A great idea to transfer your customer base to some data center leads to the fact that information about your customers can go to competitors, and they can easily make an excellent newsletter to make your regular customers their regular customers.

The customer base should never go beyond the information system of the pharmacy chain!

Relative indicators of the discount program:

- **1. The number of discounted checks from the total number of checks is no more than 45%.**

Why should the optimal value be exactly like this?

According to numerous studies in the retail industry (which includes the chain pharmacy business), the number of loyal customers cannot exceed 30-35%.

We must strive to provide discounts specifically to loyal and “undecided” customers (which include new customers).

On average, at a pharmacy chain that has a discount program, at least 60-70% of customers purchase goods with discounts, using discount cards, pension certificates, etc.

2. The fill rate of a discount card check is no less than 30% higher;

3. The average bill for the discount program is at least 50% higher;

4. The average profit per check under the discount program is at least 20% higher.

Fulfillment of the last three points determines the profitability of the loyalty program.

THANK YOU

BEHIND

ATTENTION!