




*Insights Into Pricing:  
An Important Problem Child*

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$$MC = MR$$

**Price such that:  
Marginal Cost = Marginal Revenue**



# *Microeconomics*

## ❖ Practice

- Destination, Not Method
- Method
  - ◆ Get Demand Curve
  - ◆ Get Supply Curve
  - ◆ Solve Equation
- Uncertainty
- Difficulty/Cost

## ❖ Theory

- Only One Objective?


$$\text{Profit} = (\text{Price/Pill} - \text{Cost/Pill}) \times \text{Quantity of Pills}$$

- ❖ **Quantity:** Sales, Marketing
- ❖ **Cost/Pill:** Manufacturing, Finance
- ❖ **Price/Pill:** ?



# *Talking About Pricing*

## ❖ **Confidentiality**

- Competitive Advantage
- Negotiating Advantage

## ❖ **Government**

- Legal (Anti-Trust)
- Politics

## ❖ **Press**



# *Pricing Strategy Objectives*

## ❖ Pricing Objectives According to Stockholders:

- Market Share
- Rapid Penetration
- Appropriate Use
- Profit Margin
- Strategy Does/Does Not Attract Attention
- Cannibalize/Not Cannibalize Other Products
- Wide Use
- Total Profits
- Corporate Reputation
- Avoid Alienating Groups

## ❖ Pricing Objectives According to Government

- Affordability
- Limited Profits
- World-Wide Price Band
- Low Price
- Appropriate Use



# *What Actors Should We Consider?*

- ❖ **Patients**
- ❖ **Doctors**
- ❖ **Competitors**
- ❖ **Pharmacists**
- ❖ **Government as Buyer**
- ❖ **Government as Policy Maker**
- ❖ **Thought Leaders**
- ❖ **Third-Party Payers**
- ❖ **Activist Groups**



# *Who Is The Customer?*

- ❖ **Patient**
- ❖ **Doctor**
- ❖ **Pharmacist**
- ❖ **Third Party Payer**
- ❖ **Government**
- ❖ **HMO**





# *What Are Customers' Objectives?*

- ❖ **Why Treat Medical Condition?**
- ❖ **Why Use a Pharmaceutical?**
- ❖ **Why Buy Our Product?**



# Why Buy?

## ❖ Consumers:

- Fun
- Fear
- Greed
- Status
- Convenience
- Pleasure
- Curiosity
- Saving Money
- Safety and Protection
- Comfort

## ❖ Doctors

- Reduces Hassle
- Sales Representative
- Colleagues Use It
- Medical Elegance



*Customers Must Want It -- Need  
Is Not Enough*



*Ability To Pay  $\geq$  Willingness To Pay*

- ❖ **Some Things Are Beyond The Limits of Our Wealth**
- ❖ **Many Things Are Not**
- ❖ **Indigent Patient Programs**



*Buy If: VALUE ≥ COST*

❖ **Value:**

- Saves Lives (Antibiotics)
- Saves Money (H2 Antagonists)
- Quality of Life (Proscar, Prozac, Imitrex, ACE Inhibitors)


❖ **Cost**

- Drug Costs
- Concomitant Costs
- Time
- Hassle
- Side Effects
- Emotional/Mental



# *Price Based on Saving Money Alone*

- ❖ Admission to Disneyland
- ❖ Lexus Automobile
- ❖ Hair Cut
- ❖ Daily Newspaper



## *Value-Of-Life*

- ❖ **1/10 Million Risk From Asbestos in Schools**
- ❖ **Only Save 7-8 Lives Over 13 Years By Banning Asbestos**
- ❖ **\$200-300 Million Annual Cost of Ban**
- ❖ **More People Die From Toothpick Accidents**



# *Same Price In All Countries?*

- ❖ **Inflation**
- ❖ **Currency Exchange Rates**
- ❖ **Price Controls**
- ❖ **Price Decreases**
- ❖ **Different:**
  - **Alternative Therapies**
  - **Value of Life**
  - **Ability to Pay**
  - **Willingness to Pay**





# *Analytic Hierarchy Process*

- ❖ **Mission Statement**
- ❖ **Time Frame**
- ❖ **Objectives**
- ❖ **Criteria**
- ❖ **Actors**
- ❖ **Actors' Objectives**
- ❖ **Alternatives**



# *Pricing Is A Strategy!*

- ❖ **Not Just a Catalog Price**
- ❖ **Mesh With Marketing Strategy**
- ❖ **Different Customers, Payers**
- ❖ **Be Creative:**
  - Insurance
  - One Time Cost
  - Guarantee
  - Annuity
  - Capitation
  - No Price Increases
  - Indigent Patient Program
  - Avoid Price per Pill



# *How Is The Environment Changing?*

- ❖ **Small Price Increases**
- ❖ **Increased Customer Group Discounts**
- ❖ **Government Price Scrutiny**



*Profits = Price/Patient x No. Of Patients -  
Cost/Pill x Quantity of Pills*

- ❖ **Capitation**
- ❖ **Share Customers' Risk**
- ❖ **Increase Market Share**
- ❖ **Increase Profits**
- ❖ **Incentives:**
  - Sales Force?
  - Generics?
  - Appropriate Use?
  - Sell Less Quantity of Pills



## *Other Insights*

- ❖ **How Big A Hit To Payers?**
- ❖ **Market Share Curse in Price Sensitive Market**
- ❖ **Sales Force - “Price is Too High”**
- ❖ **Doctors:**
  - Don't Know Prices
  - Politically Correct Responses



# *Price is Transfer Point*

- ❖ **Transfer of Physical, Material Wealth**
  - \$ For Product
  - By the Owners of the Wealth
- ❖ **Both Parties Gain**
  - “Gain Cannot be Made Without Some Other Person’s Loss.”
    - ◆ Publilius Syrus
  - Positive-Sum System
- ❖ **“Society” Gains Also Unless Significant Externality**
- ❖ **Others May Be Priced Out of the Market**