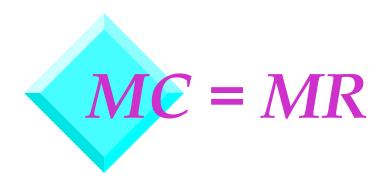
Insights Into Pricing: An Important Problem Child

Charles L. Hooper Objective Insights, Inc.

IBC: Pharmaceutical Pricing
Philadelphia, PA
June 27, 1994





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?



Profit = (Price/Pill - Cost/Pill) x 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

- Wide Use

Rapid Penetration

- Total Profits

Appropriate Use

- Corporate Reputation

- Profit Margin

- Avoid Alienating Groups

Strategy Does/Does Not Attract Attention

- Cannibalize/Not Cannibalize Other Products

Pricing Objectives According to Government

- Affordability

- Low Price

Limited Profits

- Appropriate Use

World-Wide Price Band



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?





Consumers:

- Fun - Pleasure

- Fear - Curiosity

Greed - Saving Money

StatusSafety and Protection

ConvenienceComfort

Doctors

Reduces Hassle - Medical Elegance

- Sales Representative

- Colleagues Use It



Customers Must Want It -- Need Is Not Enough

Ability To Pay ≥ Willingness To Pay

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





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





- * 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

