

Role of Pricing Strategies in the Pakistan Pharmaceutical Industry

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ABSTRACT

Pricing is considered the most critical as well as important factors in the pharmaceutical industry of Pakistan. There are different dynamics of strategic pricing in the pharmaceutical as the industry faces different challenges while manufacturing high-quality drugs at lower prices by applying the various sales practices. Although Pakistan is progressing well with several health-related targets being achieved ahead of time, manufacturing drugs on economies of scale remains problematic since the role of Drug Regulatory Authority Pakistan (DRAP) has not been so effective in Pakistan. This research aims to evaluate the pricing strategy of Pakistan's Pharmaceutical sector while discussing the role of DRAP. In this thesis, both qualitative and quantitative research approach has been adopted. The findings have been synthesized along with key recommendations. The study demonstrated that the drug prices strategies have significant effecting on Pakistan Pharmaceutical industry due to ineffective role of DRAP.

Keywords: *Strategic Pricing, Sales Practices, Pharma Industry, Pakistan's economy, Role of DRAP, Challenges & Opportunities*

1. INTRODUCTION

Pricing is one of the most critical and debatable points in the pharmaceutical industry of Pakistan. The duty of permitting a specific value lies with the administrative bodies, as on the off chance that of Pakistan, The Ministry of Health. The target of administrative bodies is two dimensional; 1) they need to guarantee the security of patients' privileges and arrange quality healthcare of

masses, and 2) they need to permit organizations to make practical benefit, so they keep producing the drugs required for the individuals. The way toward pricing at the organization level experiences the same strides as it goes if there should arise an occurrence of some other item. However, the matter turns out to be entirely unexpected when an application is held up with the administrative bodies for permitting a cost as well. Pricing plays a significant role in manufacturing lifesaving drugs in Pakistan (Khosro, I., Ahmed, R., R., & Ahmed, J., 2014).

This research paper aims to understand the significant impact of pricing strategies and to identify the issues pharmaceutical companies face due to the drug pricing regime proposed by Drug Regulatory Authority Pakistan (DRAP).

1.1 Research Aim

This research aims to evaluate the pricing strategy of Pakistan's Pharmaceutical sector while discussing the role of the Drug Regulatory Authority of Pakistan.

1.2 Research Objectives

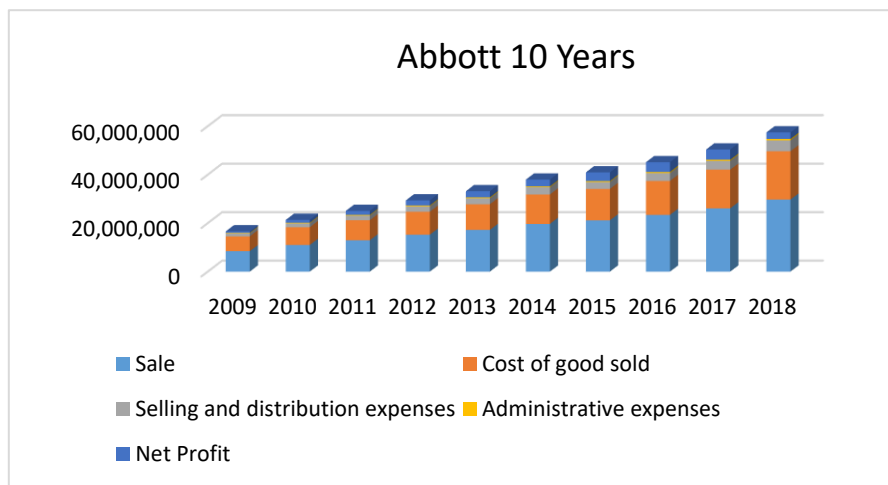
1. To analyze the overall performance of Pakistan Pharmaceutical Industry related to Pricing Strategy
2. To cover the Pricing consideration and approaches. An attempt shall be made to come up with possible pricing approaches and strategies for pharmaceutical products.
3. To find out Role of DRAP in Pakistan Pharmaceutical Industry of Pakistan.

2. LITERATURE REVIEW

Pakistan's Pharmaceutical Industry is an organized professional industry having more than 800 companies registered under Ministry of Health (MOH); 500 companies have manufacturing units of which 28 are operated by multinationals present in the country; the manufacturing companies

are able to meet local market demand 80% of finished good. Pakistan imports 90% of active ingredient for making medicine. Local pharmaceutical companies get high market share as compared to international companies. There are 40,000 brands registered as per PPMA over 1400 molecules. The Ministry of Health regulate not only prices but also allow importation of products (Khoso, I., Ahmed, R., R., & Ahmed, J., 2014).

Abbott Laboratories can be taken as an example. Since 1948, Abbott in Pakistan has shown dedication to manufacturing the highest-quality products and finding lasting solutions to unique local health challenges. The company does have more than 1,400 employees at their home office and manufacturing facilities in Karachi (Abbott, 2020). Table 1 and 2 show the company is remarkably performing well; financial statistic shows that sales is increasing over the period, and growing continuously with 12% growing rate, performing well in both domestic and export sales, and improving its revenue due to consistency in R&D and effective pricing strategies.



(Refer Table 1 & 2 for above chart in Appendix)

2.1 Pricing Strategies

Although the industry is growing rapidly and contributing the country economy significantly in the last couple of years, yet it is facing many challenging with regulatory and pricing challenges.

As prices are controlled by regulatory, therefore pharmaceutical companies cannot manipulate prices of their products. Price basically is the amount of money that consumer pay to get benefits of having product. There are many internal and external factors affecting price setting (Ahmed, R. R., 2014).

2.1.1 General Approaches for Pricing:

In particular view of pharmaceutical industry, general approaches for setting price are listed below:

i) Cost-Plus Pricing: In section 4.1 price structure is given in the form of basis type of product. Market Retail Price and trade price included after adding profit margin to cost to get ex-factory price. Here, company required additional volume of manufacturing to complete their current product variety (Gilbert, J., Henske, P., & Singh, A., 2003).

ii) Break-Even Pricing: This approach used for product that is manufactured for government tenders and recognized business, here profit is not the concern but to gain volume or large hospital pharmacies. This approach is not used for research based product (Gonul, F.F, Carter, F. Petrova, E., & Sirmivasan, K.,, 2001).

iii) Value Based Pricing: This approach for pricing is widely used by multinational company, where price set on the perceived value set in the mind of doctors. But companies need to be careful while judging perceived value and competitor might sell same quality product on low price with good reputation. After China and India appeared as major producers of bulk drugs, MNCs facing pressure due to low-priced brands of same molecules by local companies (Greene, J., 2000).

2.1.2 Pricing Based on Competition

Price set not only on perceived value but also value offered by competition and reach at reasonable price with having good margin as well as competing in the long run. The risk which is always

present is entry of competitor with low price product and capture large amount of market share. (James, C.D., Peabody, J., Solon, O., Quimbo, S., &Hanson, K., 2009)

2.1.3 Pharmaceutical Pricing special features

For pharmaceutical there are certain other pricing strategy practiced like economy pricing listed below:

i) Economy Pricing: Company focus is only on offering product at lowest price to create molecules, by keeping margins to bare minimum. They even for just one leading brand pickup molecule. Zafa Pharmaceutical is operating in Pakistan on based of such strategy, providing over 150 brands at lower price as compared to any other company. (Ahmed, R.R., &Saeed, A., 2014)

ii) Regulatory Authorities' Price Determination: Ministry of Health price determine by asking cost of any molecule from fist applicant, mostly in case of multinational company, provided highly overestimated cost due to transfer pricing. After analysis of cost structure price set by MOH. After the next applicant get lower price approximately 25-40%, as reference price. As price set at high rate for MNC, local companies get advantage and get satisfactory margins even at 40% lower price as compare to leader. Government official can also set price on the basis of neutral source of costing and easily determine reasonable price. However, in Pakistan as of now MOH use such approach in pricing strategy for pharmaceutical companies (Kola, I., &Landis, J., 2004).

2.2 DRAP Role

In Pakistan, healthcare system is regulated by National Health Services Regulation and Coordination (NHSRC). The medicine price monitor is set under the Drugs Act, 1976 by cost and pricing unit of the DRAP (DRAP, 2005). While fixing the price of medical product, factors like production cost, and retail mark-up are considered. Further for imported product, shipping cost are

also incorporated. Pakistan government sets price of medicine on the basis of SAARC countries or international market price trends. In Pakistan prices of medicine are quite affordable as compared to international market rates as per WHO and Health Action International (HAI) survey except some few branded drugs like, ciprofloxacin, acyclovir and atenolol (Babar, Z., Jamshed, S.Q., Malik, M.S., Lofgren, H., & Gilani, A.H., 2017). But this situation has changed rapidly according to current survey report of WHO; the price of originator brand and basic product lowest rate 3.36 and 2.26 times higher than the international retail price separately. In November 2013, a sudden price increment of 15% affected patients deeply (DAWN, 2014). DRAP is trying hard to control price by taking active measurement but price regulation situation is quite inconsistent in Pakistan (Atif, M., & Babar, M.Q.Z., 2017).

Drug Pricing Policy firstly introduced in 2015 was revised in 2018. According to the policy Maximum Retail Price (MRP), fixed on the basis of external reference pricing. For example, for the same brand of India and Bangladesh, MRP price fixed as per par value after considering the exchange rate parity. Generally, it fixed at 30%, less than originator brand and can be reduced to 20% in some cases of regulatory compliance requirements. This MRP system in Pakistan is quite a disaster due to many reasons. Multinational manufacturers set high price of their product strategically by launching product in countries where they can set price freely with different formula, size, package etc. Drug rates increase due to transfer pricing, pricing simply charged by one member to another member of international organization which is not controlled by regulatory authorities. Ministry of commerce stated that import is made only on competitive price, this order was never followed. The multinational company set price at high by positioning of raw material quality image that is "bioavailability". The concept of low or high quality raw material does not exist in pharmaceuticals. The drugs quality must be confirmed by quality control. Bioavailability

rule simply apply on drug formula but not on raw material. Furthermore, the price of raw material decrease after expiration of patent right, but such decrease has never shown. The companies set price high and earn extra profit (Ahmed, 2019).

3 RESEARCH METHODOLOGY

This research paper is based on both qualitative and quantitative methods of research. Secondary data has been collected through journals, articles, and books. Whereas primary data has been collected through questionnaire paper and interview in Pakistan pharmaceutical industries. Data has been collected from the sample size of 300 people selected, out of which 290 questionnaire were filled out from varies pharmaceutical and non-pharmaceutical industries from different departments. Respondents have different working experience. Data was analyzed on responses of questionnaire on percentage basis.

3.1 Research Hypothesis

Based on examine study below variables have been explore to determine the significance in Pakistan pharmaceutical industry. On the basis of these findings below hypothesis created.

H1a: Strategic pricing have a significant role in the Abbott's performance.

H1b: DRP Policies have a significant role in the Abbott's performance.

4 RESULT

Table 3 Responses on Research Paper's variables in %

Variable/Factor	Very Important	Important	Neutral	Unimportant	Very Unimportant
Strategic Pricing	72.50%	20%	7.50%	0%	0%
DRAP Policies	75%	17.50%	7.50%	0%	0%

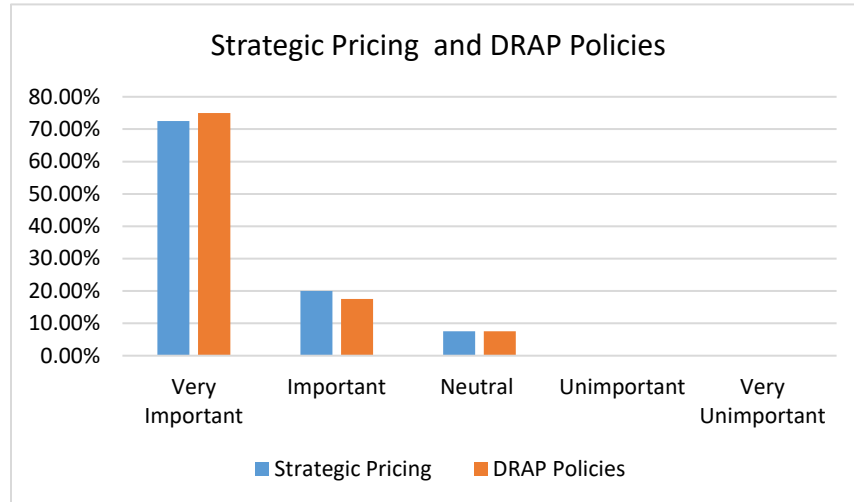


Table 3 illustrates there is a positive relationship between Strategic Pricing, as 72.50% considered this element is very important and for 20%, as well as DRAP Policies marked as 75% very important thus both hypothesis is accepted

H1a: Strategic pricing have a significant role in the Abbott's performance. **(Accepted)**

H1b: DRAP Policies have a significant role in the Abbott's performance. **(Accepted)**

4.1 Interview Summary:

Interview has been conducted from Mr. Hanif Ajari, director strategies development Getz Pharma Pvt Ltd, vice president of Institute of Cost and Management Accountants of Pakistan and having 40 years of working experience.

As per his opinion, regarding involvement of Government overly regulate the Pharma industry, and making new regime and cap on pricing, he said although government intervention in policies specially in pricing may burden on companies, but since government took some initiatives which are hoping to help industry, as per new regime, industry and government sat together and also supreme court plays moderator role in such meeting. Current Health Secretary wants to solve the problem towards price so that public will not get effected. In 2011, price frozen period cheapest

drugs impacted and disappeared. Due to this phenomena Secretary working to put all stakeholders on one page to work with mutually coordination towards this problem.

Furthermore, the price of medicine is not controlled anywhere in the world the way Pakistan controls it; the deregulation is necessary and encourage competition; government should regulate the quality part. Price always comes down due to competition and deregulation. Even Supreme Court order to government to devaluate to impact the price, huge taxes rate and strict control of price disturbing business greatly.

5 CONCLUSION:

Different pricing strategies are using in pharmaceutical industry, however control remains regulatory bodies leave minimum room for manufacturer to control the pricing, which is significantly effecting industry business. Further company may cover its additional cost of R&D over a period of time. Gross margin usually 60% and above is reasonable and may rise up to 500-1000% for a new research molecule in pharmaceutical industry. Government should monitor the quality issues, and encourage the competition on prices and deregulation to tackle the pricing problems. As lack of strong DRAP regulatory infrastructure, policies and system created huge gap in pharmaceutical industry and public health care sector. Pharmaceutical manufacturers forced to get their registration of product, license, approval and desired price of product or drug by pressuring the regulators and avoiding cost of compliance, and due to this low standard drugs also accessible in the market. DRAP policies need to be revised under the WHO guidelines to monitor the situation as per international standards.

Study also indicate that Abbot is performing well in both domestic and export sales and it gross margin rate grow due to investment on cost of goods sold, selling and distribution expenses and

administrative expenses enable company to increase its net profit. Abbot is using penetration strategies keeping prices low as per competitors, and win market share enable the company to offer discount in pricing. For promotion of the product, the key area is high profile advertising and personal selling as company know exactly what message is to deliver and how to deliver. Other sales practices may include to enhance the brand equity analysis of market and competitor enable the company to perform well finically.

6 RECOMMANDATION

This study has superior scopes of expansion in future with diverse motives. The scope can be extending to other segment of the pharmaceutical industry, for example surgical markets, medical equipments or comparison of two pharmaceutical sales effective can be measured. Different pricing strategies and criteria can be set for further future investigation by using additional dimension like region and organizational and cultural difference. Finally, for pricing it is recommended to policy maker to encourage competition and deregulate strategies from price to quality.

7 LIMITATION OF STUDY

There are various limitations of the research study that has challenged my research some of them are the following:

1. Financial limitations
2. Availability of the limited confidential data
3. Constant guidance required due to lack of technical knowledge
4. Time management issues due to current pandemic situation prevailed all around the world including Pakistan

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Appendix

Table 1 Abbott Laboratories 10 Years' Financial Data Analysis (2009-2013)

	2009	2010	2011	2012	2013
Sale	8,431,080	10,995,701	12,945,968	15,216,253	17,217,258
Cost of goods sold	6,128,987	7,308,663	8,280,490	9,513,425	10,595,612
Selling and distribution expenses	1,252,810	1,601,101	1,894,390	2,212,421	2,471,404
Administrative expenses	201,943	267,915	295,823	344,494	366,698
Net Profit	609,072	1,176,944	1,644,586	2,090,095	2,528,849

Table 2 Abbott Laboratories 10 Years' Financial Data Analysis (2014-2018)

	2014	2015	2016	2017	2018
Sale	19,692,354	21,170,446	23,387,915	26,088,233	29,719,279
Cost of goods sold	12,142,212	12,943,213	14,020,416	15,999,247	19,944,014
Selling and distribution expenses	2,965,120	2,876,407	3,258,175	3,611,882	4,525,458
Administrative expenses	367,379	383,612	450,297	468,172	562,771
Net Profit	2,816,312	3,586,736	4,021,792	4,205,232	2,694,333