

# A Marketing Mix Model for Pharmaceutical Industry – A Pakistani Perspective

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## **Abstract:**

*This study attempts to create a model, which explain the relationship between different elements of marketing mix with special reference to pharmaceutical industry in Pakistan. All the four P's have been discussed at length to understand the unique characteristics of pharmaceutical marketing mix, and the differences they possess as compared to general marketing. This study forms the basis of developing more detailed text for pharmaceutical marketing.*

## **1. INTRODUCTION**

Marketing is, as in other industries is the driving force in pharmaceutical industry. There is a clear need for developing literature, which can take into account the needs of pharmaceutical marketing, and become a basic guide to business graduates majoring in marketing to understand how things will be when they pursue a career in pharmaceutical marketing. Although, there is good quality international literature available, but it carries the perspective of developed countries, where things are very different from a developing country like Pakistan.

## **2. THE PRODUCT**

*A product is any tangible thing, which can be used to treat a medical ailment diagnosed in a human body.*

As in general marketing terms, a pharmaceutical product can also be thought of at three levels:

- a) Core product
- b) Actual product
- c) Augmented product

In general marketing, the core product is the basic benefit that the consumers seek when they buy a product. In pharmaceutical scenario, this will be the disease treating characteristics of a product, which will be considered the core product.

The actual product in pharmaceutical marketing suggests five characteristics that a product can have; a quality level, features, dosage form, a brand name, and packaging.

Pharmaceutical products can be classified under two main categories: Prescription products and OTC products. The criterion for division is whether a product is marketed to the medical profession or directly to the consumers.

### **2.1 Product Line Decisions**

*A product line in context of pharmaceutical marketing is a group of products, which deal with the same disease category, or is promoted to the same segment of the medical profession.*

A company has to decide on having a certain number of products in one product line. The aim is to have a product line, which offers enough choices for the doctors while keeping the length of product line manageable and profitable.

A company may increase the product line length either by stretching it upwards and/or downwards, or through product line filling.

### **2.2 Product Mix Decisions**

*A product mix or product assortment consists of all the product lines and items that a company has to offer.*

A company may have a range of antibiotics, a number of painkillers, a few cough syrups and some other medicines in different categories. All of these put together will be called a product mix.

A company's product mix has four important dimensions: width, length, depth and consistency. Product mix *width* refers to the different product lines a company carries; e.g. SmithKline & Beecham has a wide product mix comprising antibiotics, painkillers, multivitamins, skin treatments, and antiulcerants. Product mix *length* refers to the number of items a company carries in its product lines. SKB has Fortum, Augmentin, Ampiclox & Ampicillin in its antibiotics category. Product mix *depth* refers to the number of versions each product offers. SKB's antibiotic brand Fortum comes in 250 mg, 500 mg and 1 gram, and similarly the other brands are also available in different strengths. Finally, the *consistency* of the product mix refers to how closely related different product lines are.

### 2.3 New-Product Development

New product development in pharmaceutical industry is a much more complex process as compared to other industries. The cost of development, the R&D capability, registration with the ministry of health, sourcing of raw material, all make this a daunting task for any marketing team. The new product development process in Pakistan's pharmaceutical industry can be outlined as follows:

- Molecule identification.
- Molecule screening.
- Sourcing of raw material.
- Pilot batch manufacturing.
- Marketing strategy development.
- Test marketing/Clinical trial/user trial.
- Commercialization.

### 3. THE PRICE

Price is one of the most interesting and controversial topics in pharmaceutical marketing. The responsibility of allowing a particular price lays with the regulatory bodies, as in case of Pakistan, The Ministry of Health.

#### 3.1 Cost Structure in Pharmaceutical Products

- Cost of active ingredient: Usually the highest cost component. In most of the cases, it ranges between 10-30% of total cost of product.
- Cost of other ingredients: A minor element, usually not higher than 3% of total cost.
- Cost of packaging material: Varies according to a material being used. In absolute terms, cost of packaging material ranges between Rs. 510 per pack of 10 tablets/capsules, per 60 ml bottle of liquid, per 5 ml injection & per 50 grams tube of ointments.
- Cost of manufacturing: Depends on volume being manufactured in a factory.

Besides that, a company may amortize its R&D cost over a period of time, which becomes an additional cost component.

#### 3.2 Pricing Structure in Pharmaceutical Products

Assuming a retail price of Rs. 100/-, following will be the price structure:

Retail Price:	100.00
Less: Retailer's margin@15% <sup>1</sup>	15.00

<sup>1</sup> In case of imported products, the retailer's margin may be brought down to 10%.

Trade Price:	85.00
Less: Distributor's margin@10% <sup>2</sup>	8.50
Ex-Factory Price:	76.50

#### 3.3 General Pricing Approaches

In view of the peculiar characteristics of pharmaceutical industry, we will try to discuss the different approaches actually applicable and practiced in the industry.

#### 3.4 Cost-Plus Pricing

This type of pricing is usually done for old molecules where market is very crowded, and a higher price cannot fetch the required market share. The objective of company in such scenario is to either get some additional volume for their manufacturing facility, or to complement their existing product range.

#### 3.5 Break-Even Pricing

Normally adopted for products being manufactured for government tenders and institutional business. The concern is not profit, but again either to get volumes, or to get into large hospital pharmacies so that the positive impact may come from out-of-hospital practice of the doctors who have to prescribe their brand in hospital because of inclusion in pharmacy.

#### 3.6 Value Based Pricing

This approach for pricing is most commonly used by Multinational companies, en-cashing their good rapport with the doctors, especially in case of new molecules. There are countless examples where the cost of product has no relevance whatsoever and company has priced a product as per the perceived value for the doctors in their opinion.

However, things are becoming difficult now, and companies must be very careful while adopting this approach. They have to not only be careful about the wrong judgment of perceived value that they may make, and also the possibility of launch of same molecule by a local company with good reputation and quality.

#### 3.7 Competition Based Pricing

This is what most marketing oriented companies attempt to do these days. They take into account not only the perceived value, but also the value being offered by competition, and then arrive at a reasonable price giving them good margin as well as keeping them competitive in the long run.

<sup>2</sup> Distributor's margin varies from company to company, but industry average is around 10%.

### 3.8 Special Topics in Pharmaceutical Pricing

There is another pricing strategy practiced in pharmaceutical market, which can be termed as Economy Pricing. The concept is close to cost plus pricing, but the perspective is different:

#### i) *Economy Pricing*

There are some companies, which focus only on offering brands of established molecules at the lowest possible price. They may even pick up a molecule where there is just one leading brand, and price theirs' at 75% lower price.

#### ii) *Price Determination by Regulatory Authorities*

It would be interesting to assess how the Ministry of Health decides upon the price. What they do is that they ask for the cost structure from the first applicant of any molecule, which is in 99% of cases a multinational company, which provides a highly inflated cost due to the element of transfer pricing. On the basis of this cost structure, the price is determined. The next applicant gets approximately 25-40% lower price, and this then becomes the reference price for all following applicants. Since the price allowed to MNC was inflated, all local companies get sufficient margins even at 40% lower price than the leader.

It is just mind-boggling to see such approach, as it can be very simple for government officials to verify costing from neutral source and find out a reasonable price. However, as of today, this is status of pricing by regulatory authorities in Pakistan.

## 4. THE PLACE (Distribution)

The distribution system in context of pharmaceutical marketing is a set of interdependent organizations involved in the process of handling the transportation of medicines from company's warehouse to the market, or to institutions' pharmacies, where it will be sold to the end user.

### 4.1 Functions of Distributions Network

The major functions performed by distribution system in pharmaceutical markets are the following:

- i) *Warehousing*
- ii) *Physical distribution*
- iii) *Financing*
- iv) *Market Feedback*
- v) *Promotional Activities*
- vi) *Follow up on Expiry Issues*

### 4.2 Types of Distribution Channels

In pharmaceutical industry, selling function is invariably handled by the company's own sales team due to highly

technical and specialized nature of job, whereas the distributor is responsible only for the logistics part.

### 4.3 Sales Structure

The selling function can be handled in either of the following two ways with respect to pharmaceutical industry:

- Company's Own Sales Team
- Contractual Sales Team

### 4.4 Distribution

The distribution function in pharmaceutical industry means physical distribution & logistics in essence. The types of distribution setups a company may choose from are the following:

- Company's own distribution
- National Contractual Distribution
- Regional Contractual Distribution

### 4.5 Channel Selection Decisions

A company should consider the following things before finalizing the nature and structure of the distribution setup:

- Company Profile
- Marketing Focus
- Area Coverage
- Nature of Association
- Services Needed from Distribution

## 5. PROMOTION

There is no winning formula for pharmaceutical promotion. All one can do is to understand the purpose of each tool, and then try to create a mix which works well under the given scenario.

### 5.1 In-Clinic Promotional Mix

The most frequently used tools are those, which a salesperson takes into the doctor's clinic for discussing the products. These tools are normally a regular part of a salesperson's arsenal, and are provided by the company on a periodic basis.

- Detailing Aid
- Leave Behind Material
- Samples
- Gift/Giveaways
- Direct Mailers

### 5.2 Out-of-Clinic Promotional Mix

With the ever-increasing shortage of time and attention inside the clinics of the busy medical practitioners, pharmaceutical companies are paying more and more attention to activities performed outside the chambers of the

doctors. Some of these activities have been used since long, and some have just started to gain momentum.

- Clinical Trials/Studies
- Seminars/Symposia/Round Table Discussion
- Sponsorships
- Film Shows
- Advertisements
- Public Relations
- Other Activities
  - i) *Free Medical Camps*
  - ii) *Corporate Marketing*
  - iii) *Hospital/Ward Improvement Programs*
  - iv) *E-Marketing*

### 5.3 Unethical Practices in Pharmaceutical Marketing

One of the sore areas in pharmaceutical marketing, especially promotion is the unethical practice, for which companies and the medical profession are equally responsible.

### 5.4 Practices at Promotional Level

The most commonly adopted unethical methods with medical profession are the following:

- Expensive items are provided to the doctors, and in return the doctor agrees to support the company by prescribing its products.
- Sponsoring doctors to international conferences is another way of bribing them.
- Outstation launch meeting is another face of this menace.
- The worst form of unethical practice is where a doctor willingly accepts a cash reward in return of his prescription.

### 5.5 Practices at Trade Level

Trade oriented policies have become the easiest shortcut for the companies, which dump their stocks with extra discount/bonuses in trade, and expect the chemists to substitute the prescribed product with another branded generic, where he is getting extra benefit up to the tune of 30-40% in certain cases.

In rural areas of Pakistan, it is a common thing to see a cousin or brother of the doctor running a pharmacy adjacent to his clinic. This cartel act in two three ways:

- The chemist informs the doctor about the brand on which he has got special discount and the doctor starts prescribing it at any given opportunity.
- The doctor asks the chemist to stock the product for which the doctor has been able to strike a deal with the company, and the chemist orders extra stock of that brand, which is liquidated on the doctor's prescriptions.
- The doctor asks for additional samples from the representatives visiting him, and gives them to the chemist, who sells them to patients, and the booty is then shared between the both parties.

Over the last few years, there has been a growing awareness amongst the doctors' community, which do not indulge in such practice and feel bad when someone from their community brings bad reputation for doctors. They have started to strongly condemn the companies who come up to them, with such offers and also try to influence other doctors to avoid supporting those companies.

### 5.6 Steps in Developing Effective Communication Mix

The development of effective communication mix in pharmaceutical marketing is a complex task, which goes through several steps, which are discussed below:

- Identifying the Target Audience
- Determining the Communication Objectives
- Designing a Message
- Choosing Method of Delivery
- Collecting Feedback

### 5.7 Integrated Marketing Communications

Pharmaceutical marketing professionals are fast becoming aware of the latest development in the discipline of marketing, and they have also started to adopt latest theories in communications.

Unlike few years back, when all tools were used in isolation from each other, which messages and format changing as per the requirement of the tool, now we find a synergy in all marketing activities. Marketers are making all efforts to make sure that each next step in the communication process adds some value to the previous one.

Product slogans, logos and positioning statements are taking up fast. Product positioning is now being based on emotional appeals, which is a take-off from simple no-nonsense kind of approach pharmaceutical marketing symbolized for long.

The line between pharmaceutical marketing and general marketing is thinning, but still intact and will remain so, considering the peculiar characteristics of pharmaceutical products, and the dynamics of the industry.

### **5.8 Pharmaceutical Marketing – Future Outlook**

The pharmaceutical industry in Pakistan has gone through a major transformation during the last five years. The share of MNCs has gone down from 65% in 1992, to 55% in 2002. The local pharmaceutical companies, which were previously, consider as low quality and low price options are now rapidly emerging as brand leaders in several categories.

Things went through a total transformation during early 90's, when several local companies started to hire high-profile professionals with multinational exposure, and also entered into licensing and similar arrangements with international companies. The quality of medicines improved remarkably, and the sales & marketing teams became capable of competing with multinational companies.

The future of pharmaceutical marketing paints a very interesting picture. Doctors are giving more importance to product information, and conventional gifts and services are no more an effective tool. The worldwide emergence of DTC or Direct to Consumer marketing is yet to gain ground in Pakistan, but soon we will find companies arranging events and launching PR campaigns to create consumer awareness. One thing is for sure; mediocrity now has no future in pharmaceutical marketing. Things will keep on becoming tough, and only those companies will survive who invest a lot in corporate image building, foster a vision, and develop a winning culture in their organizations.

### **6. A MODEL FOR PHARMACEUTICAL MARKETING MIX**

Now, we have developed a fair understanding of the whole process of pharmaceutical marketing mix development and application, and its time to link the four P's together, and make them interact with each other to achieve the two central objectives of pharmaceutical marketing; the first is to generate prescription, and the second is to make the product reach the patient. We can call the two streams of activities achieving the two objectives as "The Product Chain", and "The Prescription Chain".

#### **6.1 The Product Chain**

The product chain starts with the selection of the molecule(s). The selected molecules are then passed through the screening process applying the different criteria, then the

source of raw material is identified, pilot batch is manufactured, if needed the company arranges for test marketing or clinical/user trial, and finally the product is sent into the market, or commercialized.

The pricing strategy is worked out as a parallel process, and decided before commercialization. The product goes to the distribution house, then either directly to the retailers, or to wholesale from where the product eventually reaches the retailer. Parallel to that, the distributor also supplies the product to the hospitals' pharmacies.

When a patient is suffering from an illness, he either goes to a doctor in a hospital, or in his private clinic. At hospital, when a doctor prescribes a product, the patients may buy it from the hospital's pharmacy, or may choose to buy from a retailer outside the hospital. In case of a private clinic, the patient usually buys either from a retailer in the vicinity, or a shop near his residence. This is how the product chain completes, starting from the hospital, and ending in the patient's hands.

#### **6.2 The Prescription Chain**

The prescription chain starts with the information to the doctor by the company's sales team. The information is communicated through either in-clinic promotional activities, or out-of-clinic promotional efforts. The doctor, if convinced, prescribes the product and the patient goes and buys the product, thus making the both Product Chain & Prescription Chain meet in the end, which was the basic marketing objective.

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