Case 4A

Type: Pricing

Problem Statement:

A pharmaceutical company has recently developed an Anti tobacco pill. Assess whether they should launch the product or not and price the product.

SCRIPT KEY	
Interviewee/Candidate	
Interviewer	

A pharmaceutical company has recently developed an Anti tobacco pill. Assess whether you should launch the product or not.

I would like to understand more about the company first. Where is it based and what type of pharmaceutical company is it?

The company is a leading Generic Drug manufacturer operating pan-India. It has been in operations since 15 years and caters to a wide variety of diseases.

What is the current business model of the company? Is it similar to a usual pharma company's value chain – where the manufacturer sells its products through sales representatives.

Yes. The company operates as a typical pharma company.

Could you please elaborate a bit on the competition in the pharma industry and specifically in the anti tobacco pill.

There are 2-3 major competitors in the industry. 60% of the market is organized. For the Anti tobacco pill, there is no direct competition since it is the first of its kind pill.

Since it's first of its kind, do we also have patents for the same?

Yes, it is a patented pill.

I would also like to understand the product better. Is it a OTC or prescription drug? How should it be consumed? What is the suggested consumption pattern?

It is a prescription drug that is to be taken once a day for 4 months. It needs to be simply taken with water. Our research shows that the success rate is 50%.

Lastly, I would like to clarify the objective of launch. Is the firm looking for capturing market size or profit maximization? What is the time frame?

The firm is interested in maximizing market size and profits, both in a span of 2 years.

I would like to breakdown the problem into assessment of Market size & opportunity, Macro Analysis, Micro/Industry Analysis, Launch strategy.

Interesting. Let's explore the Market Size & Opportunity.

Sure. I would start by breaking down market size into Price and Quantity. Do we have any data on either.

No. We don't have any data. But I would like to understand that how can I price my product.

We can price the products in three ways – Value based, Cost based and based on any substitutes.

Great. Can you walk me through each of these.

Sure. Starting with the cost based, I we would first understand the variable costs and fixed costs. In variable costs, I'll look at costs across the value chain – raw materials, manufacturing, sales and distribution. The long term costs such as R&D for the product will be spread over multiple years and would have to be factored in. Based on the above analysis, we can get per unit cost. After getting a per unit cost, we would decide on a margin to price the product.

Good. What about the substitute based pricing?

Although there are no direct competitors, there might be some de-addiction courses that help in stopping tobacco. We can evaluate the time frame for such courses and fees for the same before pricing our product.

Alright. We feel that exploring value based pricing might be better. Can you walk me through that.

Under this method, I would like to understand the benefits and the costs. Starting from the basic, a person would first save the price of the tobacco packet that they consume. Second, they would benefit from the positive effect on health - they would have lower chances of life threatening diseases such as lung cancer, heart attacks. Also, there would be a lower number of general physician visits because improved immunity. Lastly, they would also save on the price of the mouth fresheners that they buy.

Interesting. How can we work out the numbers here?

So starting with the cost of tobacco, on an average my friends consume 2 tobacco units a day which roughly costs Rs. 10 each. Thus, over an year, they consume tobacco worth 2x30x10x12 i.e. Rs. 7200.
With each tobacco packet, they need 1 mouth freshener of Re 1. Thus cost of mouth freshener for an year would be 2x30x1x12 i.e. Rs. 720.
Total comes out to be around Rs. 8000 a year. We should also include long-term cost savings.

Go ahead.

Smokers have a higher chance of chronic diseases. For such a disease, they might incur expenses nearing 3 lakh.
Considering that the probability of contracting such disease in 10%, we need to factor 30,000 into the calculation. So the total cost per year would be Rs. 38,000.
We would have to divided by the total amount into the Total number of pills. Total number of pills are 1x30x4 i.e. 120.
Thus, the total amount per pill would be around Rs. 300.

Doesn’t this number seem significantly high?

Yes, this is high since this is the maximum that the consumer would be willing to pay considering he takes into account in all the above factors. Since the customers do not think of long term effects at once, they might not be willing to pay this. In case we just want to include the short term savings, we would divide 8000 by 120 i.e. Rs. 66. We can use these figures in addition to figures from the other two methods to price our products.

That looks good, thank you.

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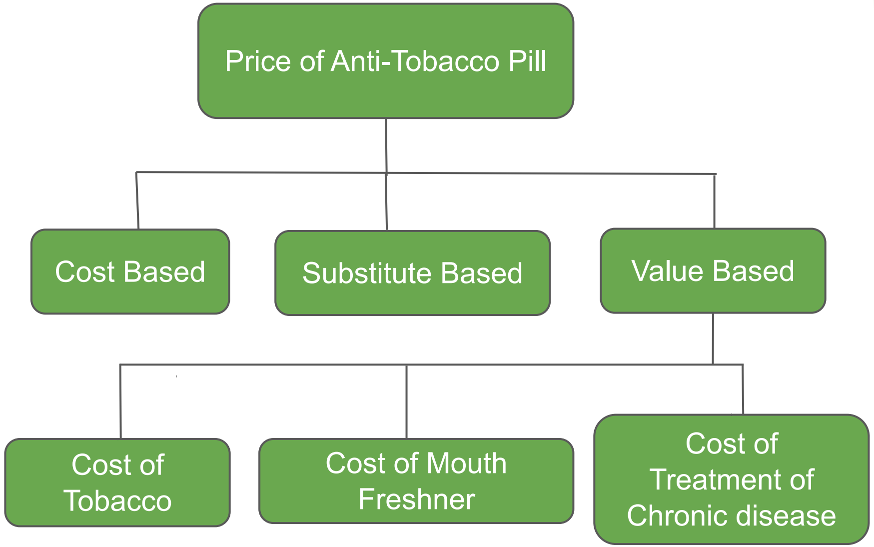
QUALITATIVE INFORMATION

Case background:
Pharmaceutical company which has recently developed an anti-tobacco pill.

Case facts:
- -Generic drug manufacturer based in India.
- -First of its kind pill, prescription drug with 50% success rate.
- -Gain maximum market share and profit in 2 years.



QUANTITATIVE DATA AND ANALYSIS

Cost savings on tobacco per year = (tobacco packets per day x days x price of tobacco packet) =2 x 30 x 12 x 10 = 7200
-Cost of additional mouth freshener per year =2 x 30 x 12 x 1 =720
-Cost of treatment in case of chronic disease = 3 lakh
-Chances of contracting = 10%
-Expected Cost = 30,000
-Total number of pills to be taken = 1 x 30 x 4 = 120
-Price per pill (long-term) =38000/120=Rs.300
-Price per pill (short term)= 8000/120 =Rs. 66

PROBLEMS AND RECOMMENDATIONS

-Identified the pricing approaches through cost based, substitute based and value based methods.
-In value based methods, derived prices by specifically looking at long term and short term considerations of customers.

INTERVIEWEE FEEDBACK

Although this appears to be a market entry and launch strategy case at start, the interviewer is primarily looking to grill on pricing and wanted to drive to value based approach specifically.