



ESTABLISHMENT OF PRICES FOR MEDICINES ON THE PHARMACEUTICAL MARKET OF THE REPUBLIC OF MOLDOVA

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Abstract Nowadays, the pharmaceutical industry is in the verge of a crisis, because it shows a drastic loss of revenue when it is not possible to increase the prices for some vital products. Expenses included in prices show that companies do not focus on the settlement of the arising problems in the process of production, but try to keep their market share, at all costs. The following methods have been used during the study: documentary method, which is based on accessing and studying bibliographic sources, economic analysis, synthesis, comparison, analogy method and others. The research identified three types of prices: the selling price of the manufacturer (producer); the wholesale price of the intermediary; retail price at which the medicine is released in the end to the consumers. Producer's price is fixed by the producer to sell the finished product to the intermediate economic entities. Wholesale price is offered for the sale of products by distributors of medicines to the economic operators in the retail trade. Retail price means the price at which goods are sold in the retail distribution networks to the end-users. The shorter the path of the medicine from the producing entity to the final consumer is, the lower and more accessible is the price.

Key words:

price, price structure,
regulation,
medicines,
pharmaceutical
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The pharmaceutical market occupies a special place in the economy of any country, being one of the most important regulators of the population quality of life. The uniqueness of this market lies in the fact that a person's need to buy medicines is determined by the natural need to preserve vital functions and increase life expectancy. The peculiarity of the functioning of the pharmaceutical market lies in the ability to maintain the interconnection between the economic and social sphere of the society.

Being unique, the pharmaceutical market has a dual nature which, on the one hand, offers the production of cheap medicines designed for expanding the consumer market and, on the other hand, cheap medicines do not always have the necessary therapeutic properties. It should also be noted that in the last decade of the 20th century the trend of updating and adjusting the prices on the market has been outlined. This was caused by the rapid increase of prices, as a result of the rapid increase of research-innovation costs and the emergence of new production factors.

Nowadays, the pharmaceutical industry, which for many years has been one of the most profitable

sectors of the world economy, is on the verge of a crisis, argued by the unilateral decrease of revenue when it is not possible to constantly increase prices for certain vital products. Expenditure included in the price demonstrates that economic entities are not focused on resolving problems arising in the production process, but are trying to keep their market share at any cost.

Increase of prices is a consequence of the made expenditures, mostly from an attempt to keep the expiring patents for popular medicines. This trend has led to increased competition in terms of prices. Under these circumstances, price adjustment gains a key role in the operating activities of the pharmaceutical company. However, the classic formula of price calculation by summing the cost price and margin of the producer becomes just a starting point for an effective price adjustment on the pharmaceutical market.

Analyzing the specialized literature, we find that the price as an economic category on any type of market consists of the following elements [2; 5; 4, pp. 594-614]:

- ✓ cost of treatment;
- ✓ severity and prevalence of a particular disease;
- ✓ potential of consumers to pay for the medicine;

- ✓ presence of competitors - producers of original products;
- ✓ matching special requirements to the highest quality of the pharmaceutical product and the way it is preserved.

Analysis of the medicine treatment system allows us to identify the evolutionary direction of price

setting in the pharmaceutical industry, starting with the obtaining of raw materials, cultivation of medicinal plants, materials, fuel, components, tools, machines, equipment, etc. (see Figure 1).

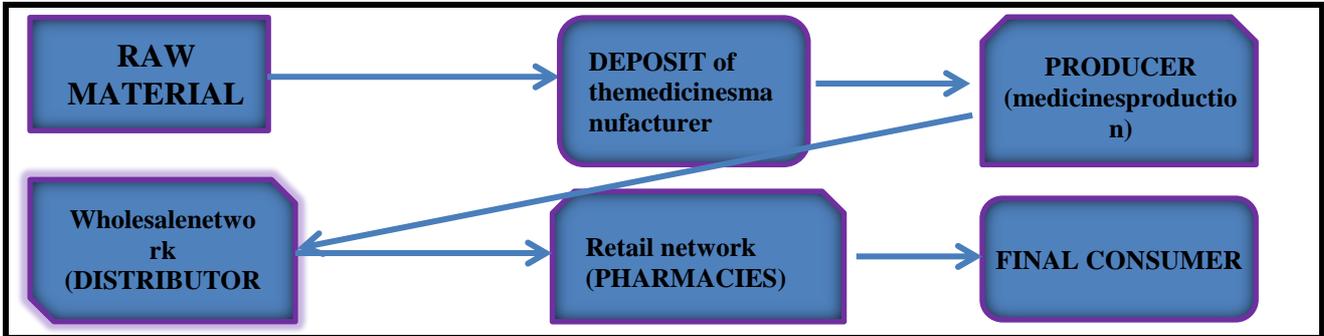


Figure 1. Evolutionary direction of price setting in the pharmaceutical industry

Source: developed by authors

The next stage involves the promotion of finished products, i.e. the medicine, from the manufacturing organization to the final consumer, and refers to the physical movement of goods, from the producer to the point of sale or consumption.

For these stages of commodity movement, we delimit three types of prices (see Figure 2):

- ✚ manufacturer's (producer's) sales price;
- ✚ wholesale price of the intermediary;
- ✚ retail price at which the medicinal product is reaching the end-users.

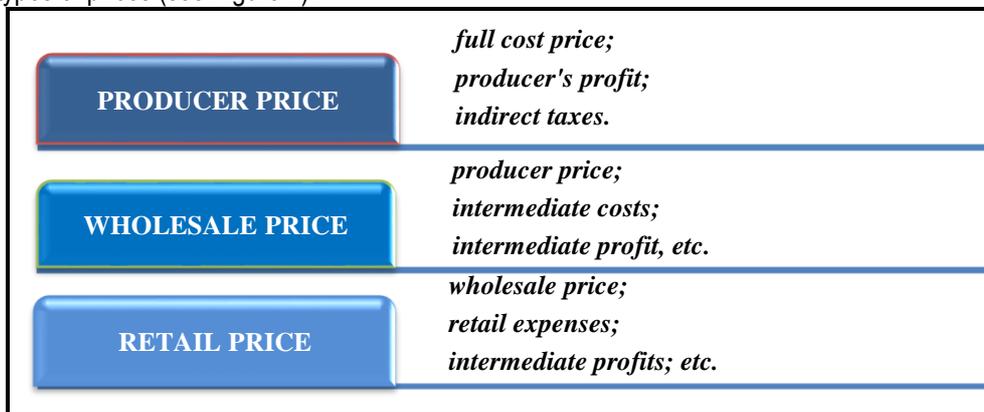


Figure2. Market price structure of medicines

Source: developed by authors

Thus, we will define the producer price as the price set by the producer to sell the finished product to

intermediate economic entities - wholesale distributors or companies dealing with retail trade (see Figure 3).

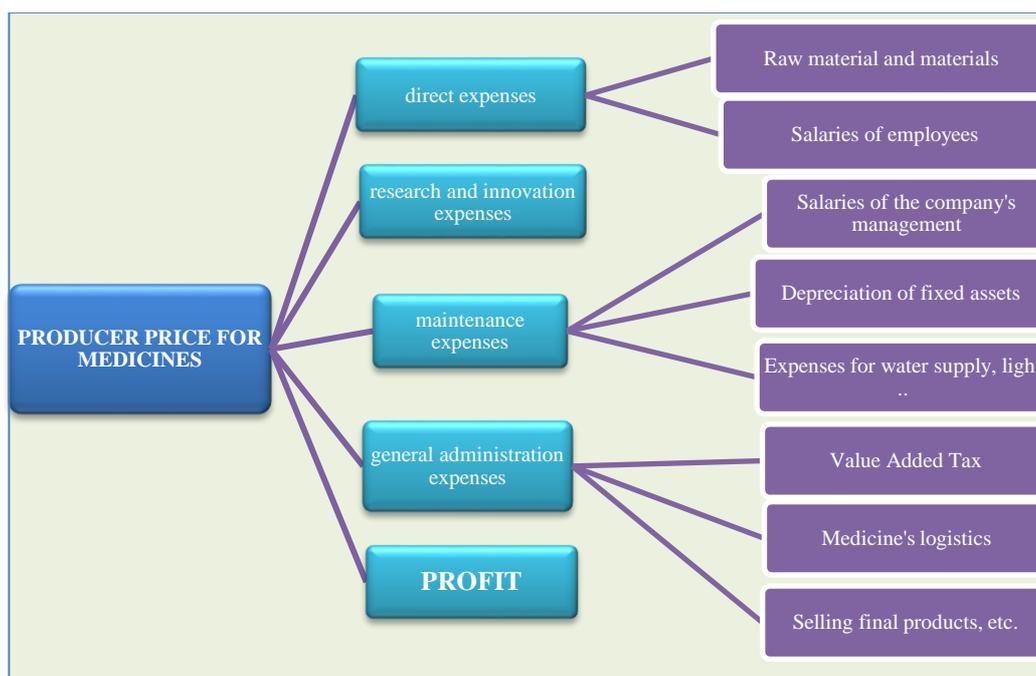


Figure 3. Structure of the producer price for medicines, established by the producer

Source: developed by authors

By selling pharmaceutical products, the producer has to cover its production and sales costs and obtain a profit that will allow it to continue to function efficiently in a competitive environment. Thus, the producer's sales price includes production costs, profit, research-innovation-development costs, advertising, market promotion and value added tax. For original medicines producers, almost a quarter of the cost is borne by costs aims at gaining new knowledge and its practical application to the creation of a new medicine. The total price of the medicine must include all additional fees and commissions, and the cost of the active substance should be not more than 5% [3].

With reference to the Republic of Moldova, we find that through the Law on the State Budget for 1995, for the first time it was stated the establishment of free prices for medicines. At the same time, in this law, it was established that the Ministry of Health would approve a list of medicines for which the commercial excess will not exceed the maximum limit of 20%. Subsequently, on July 2, 1997, the Regulation on the price formation of medicines and other pharmaceutical and para-pharmaceutical products entered into force. As a result, amendments were made to the Fiscal Code and the Law on Pharmaceutical Activity, which changed the amount of commercial excess of up to 40 percent at the domestic producer's delivery price or at the purchaser's price of the producer (distributor) from abroad, as well as the value added tax of 8% on medicines, and 20% for para-pharmaceutical products [7, pp. 573-575].

In order to ensure the economic accessibility and social interests of consumers, as well as the

transparency of the measures regulating the price formation of medicinal products, in 2010 the Government of the Republic of Moldova approved and implemented the procedure of registration of producer prices for medicines and their inclusion in the National Catalogue of producer prices for medicines.

According to the in force normative acts regulating the prices of the pharmaceutical products, the following price concepts are used in the process of their commercialization in the wholesale and retail networks: producer price; purchase price; commercial rebate; delivery price; wholesale price and retail price [3].

Employee wages and costs related to assurance of the production process with raw material represent, as a whole, about one-third of the base payments price. The trademark the economic entity has is measured at about 20%. And, in the end, according to some sources, from 30 to 50% of the price of the medicine are advertising and promotion expenses [6; 1, pp. 185-192]. In particular, these are cases of changes in raw material and materials prices, as well as general cost adjustments. At the same time, the increase in the recorded maximum sales price should not exceed the projected inflation rate for the current year.

Regarding the establishment of producer price of medicines proposed in the Republic of Moldova, the specialists find that "this is to be the average price of the lowest three producer prices for the same medicines in the reference countries with a population up to 25 million citizens - for medicines from member countries of the Commonwealth of Independent States - information on the comparison of the proposed price with the producer price in the Republic of Belarus and Armenia;

in the case of medicines from other countries - information on the proposed price comparison with the producer price authorized in at least 3 of the following countries: Romania, Greece, Bulgaria, Serbia, Croatia, Czech Republic, Slovakia, Lithuania and Hungary. The prices of the declared generic medicines must not exceed 75% of the price of the original approved medicine"[7; page 575].

The *en-gross or wholesale price* is the price proposed for the sale of products by intermediate economic entities, in our case - the distributors of

medicines, to economic agents from the retail sector. Wholesale prices are applied by warehouses to the wholesale marketing of medicines to pharmacies and healthcare institutions. The supply margin and VAT are added to the producer price. In the process of establishing the wholesale price, the size of wholesale excess and market factors is taken into account (see Figure 4).

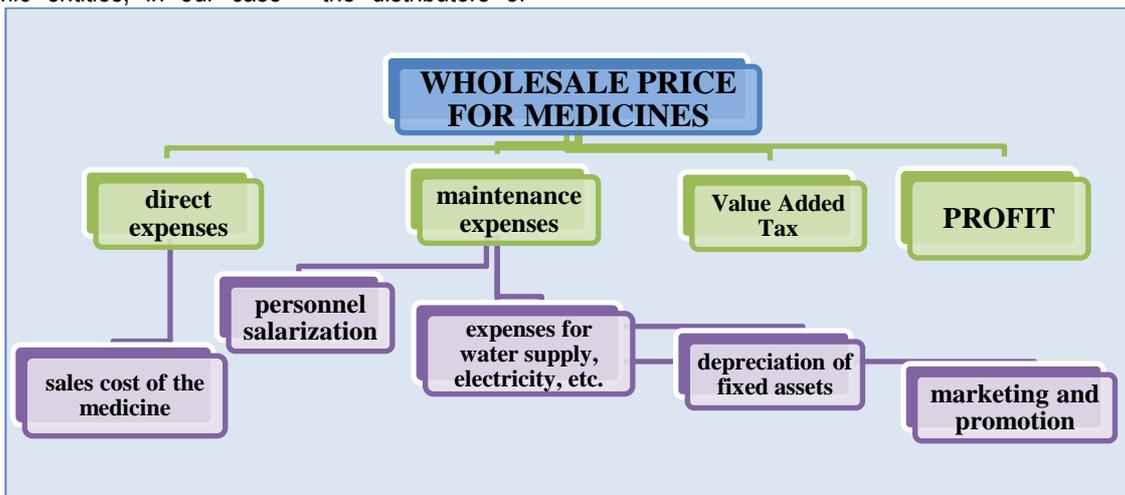


Figure 4. Structure of the wholesale price of medicines

Source: developed by authors

This addition, in fact, is the price of a supply and marketing service, since any price has to compensate the costs of wholesale organizations (rent of space, transport and storage of goods, wages, etc.) and offer them a profit.

Retail price is the price at which the goods are sold to the end-users within the retail network. Retail prices are applied by pharmacies when selling retail medicines to the consumer: population, medical organizations, etc. (see Figure 5).

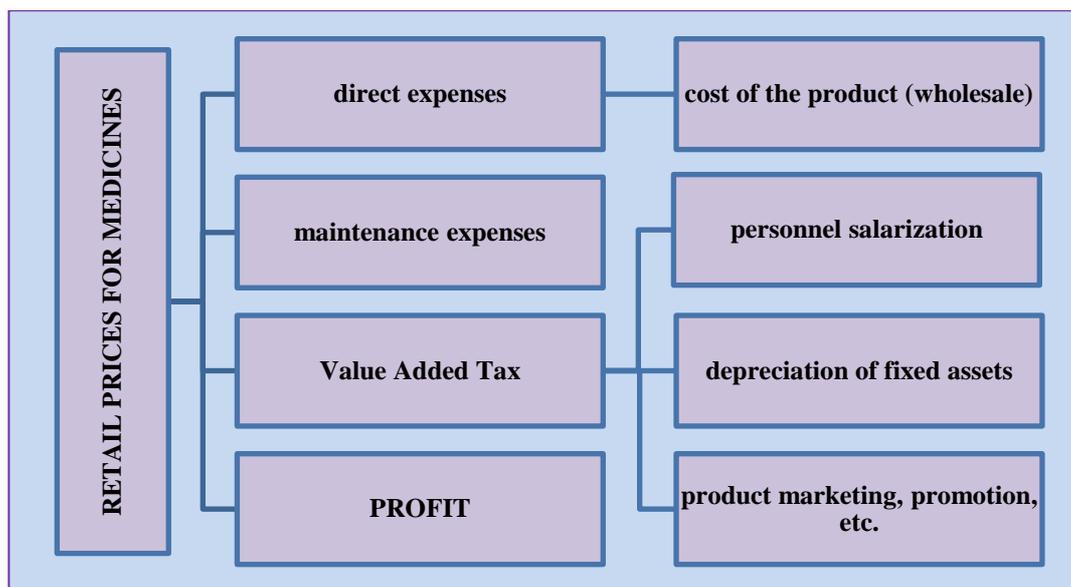


Figure 5. Retail price structure for medicines

Source: developed by authors

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Thus, the retail price is formed by a commercial entity based on:

- ✓ the selling price of the producing enterprise or the importer's price free of value added tax;
- ✓ wholesale excess, if the medicinal product is purchased on the territory of the country from wholesale suppliers;
- ✓ commercial excess, which we define as the surplus added to the purchase price in the process of products merchandising.

Commercial excess is formed on the basis of the costs of the pharmaceutical organizations and the expected profit. The main costs of the pharmaceutical organization, which have a direct impact on the establishment of prices process, are those for:

- ✚ storage, processing, sorting and packaging of goods, advertising, transport;
- ✚ salary of pharmaceutical and auxiliary staff, social contributions, interest on bank loans;
- ✚ depreciation of fixed assets, repair of fixed assets, etc.
- ✚ rental and maintenance of premises, installations, equipment and necessary inventory, for gas, water, sewage, electricity, etc.

Thus, the trajectory of medicines across the distribution network is accompanied by an increase in their price. Consequently, we conclude that the shorter the pathway of the medicine from the producing entity to the final consumer is, the lower and more accessible the price is. In order to maintain the viable pharmaceutical market with quality medicines at affordable prices to consumers, we note the need to create a pharmaceutical cluster with a concentration of local production and wholesale enterprises, which would make it possible to streamline the logistical conjuncture of the local pharmaceutical market.

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