Examples of unethical issues in pricing

Most of the firms rely on competition to reach their goal targets. Usually competition ensures that the customers get best products in the best price deal. Hence to cope up with their competitors companies come together and adjust their prices/enter in a price war, play around with prices in way affecting the customers which leads to unethical issues in pricing.

While talking about unethical issues in pricing we usually talk about Price Fixing, Bid Rigging, Price discrimination, Deceptive Pricing, Predatory Pricing, Price war, etc

In Price Fixing, several companies come together and fix the price of the products and services. Bid rigging is another form of illegal and unethical price fixing and market allocation wherein two or more competitors make their bids and only one party will win the bid. Price discrimination means same good and services are sold at different prices. Predatory pricing is the one in which one of the competitors sells his products and services at very low prices as compared to his other competitors so as to drive them out of the market or to create a barrier of entry for potential entrants. Deceptive pricing means setting the prices in such a way that the customers are misled.

We have presented case studies on Price Fixing, Deceptive Pricing, Price discrimination and Predatory Pricing.

In the price discrimination case we have covered the unfair practices of price discrimination happening in India wherein the drug manufacturers keep very high margins on the sales, doctors also recommend medicines which are very costly even when other low price medicines are available.

Deceptive Pricing case talks about China filing a case against Walmart and Carrefour for misleading the customers in the name of sales, discounts and charging high original prices so that after discounts also they earn a heavy margin.

The price fixing case talks about how Panasonic and Whirlpool were charged for jointly fixing prices of the compressors used in refrigerators and air conditioners.

Predatory pricing cases talks that MCX-SX has filled a case against NSE for adopting predatory pricing in Currency Derivatives segment to shake the dominant position of MCX-SX in that segment. The policy of the predatory pricers is that once the competitors are ruled out completely they would again raise their prices to normal levels.

PRICE DISCRIMINATION IN CASE OF MEDICINES

1 . Introduction

Price discrimination is the practice of charging different customers different prices for the same product or service. So called dynamic pricing or smart pricing are modern terms for variants of the same basic practice. It has often been said that the easiest way to spoil a plane trip is to ask your neighbor how much she paid for her ticket. You may easily find that while you (or your employer) have paid Rs 10, 000, she may be doing the same trip in the same comfort for only Rs 2500. Price discrimination is a phenomenon which affects a wide variety of products & services. Many business firms practice price discrimination for the simple reason that it can help in increasing the company’s profits. But, is price discrimination in case of essential medicinal drugs done in order to maximize profits ethical on the part of the companies as well as the government?

2. Background of the case

Prices of drugs in India were once considered to be one of the highest in the world. Since the 1970s when a series of policy measures, such as, drug price control, process patents for drugs, etc were initiated by the government the prices have come down. Today India has a booming drug industry and has contributed to making medicines at low prices worldwide. But, medicines within India are overpriced and unaffordable. Unlike in developed market, about 85-90 % of Indian pay their healthcare bill from their pockets and most can’t pay for these expensive drugs. Also, it can be seen that there is wide variation in prices across drugs used for treating most diseases. E. g. the drug price regulator in India in its study found that 10 capsules of 100 mg of Swiss drug maker Novartis’ blood cancer drug imatnib cost Rs 10, 288, while Sun Pharma’s competing brand cost Rs 952 for a strip. The study has also established that competition is ineffective. I. e. the entry of more “ players” has not resulted in lowering the prices of medicines or the cost of health services. It is seen that the margins of the companies producing drugs are extremely high often reaching 1000-4000 percent. Another reason for prices not being lowered is that consumption patterns of essential drugs are not affected by prices. (I. e. market failure). The doctors have certain favorites and recommend the same to patients. The patients are ill informed and buy what doctors recommend. The pharmacists and companies influence the doctors and so doctors may recommend higher priced drugs. Thus we see that the markets are distorted by unfair and unethical marketing practices of drug companies.

3. Possible Solution

3. 1. Price Regulation:

Telephone rates, Insurance premium, Electricity tariff, Bank Interest rates are regulated by government. Medicines are also equally important thus the government must regulate prices of essential medicines too. Price regulation of medicines is the norm all over the world, except in USA, which unfortunately India is trying to emulate. Even the free market countries of the EU and UK have price or volume control for drug companies. Twelve out of 16 West European countries control prices of medicines directly.

4. Doctors in USA Boycott medicines by Abbott for price rise of AIDS drugs

In December 2003 Abbott increased the price of a drug called ‘ Norvir’ which is used as a key component in many drugs used for the treatment of AIDS. Abbott raised the price for 100 milligrams of Norvir to $8. 57 from $1. 71.

Across the world 10 million people are estimated to require access to ARVs (AntiRetroViral drugs required for delaying the development of HIV into AIDS), with roughly 3 million actually receiving the drugs. Thus access to ARVs is a matter of life and death. In light of this an increase in the price by Abbott was seen as unethical and hence a group of 200 doctors among the 6000 treating AIDS in USA decided to boycott the medicines by Abbott and use alternatives. Also, the AIDS activists asked for an inquiry in the rise in price by the federal sources.

An investigation was carried out into the hike of prices. Abbott argued that the hike in price was long overdue since Norvir's is used in enhancing other AIDS medicines. Also, that even after the price hike Norvir was the lowest priced AIDS drug in its category. Besides, public assistance programs like Medicaid could buy Norvir at the previous price of $8. 75 per 100mg. As a result the shares of Abbott dropped by 26 cents on the New York Stock Exchange.