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National University of Pharmacy

MANAGEMENT AND MARKETING IN PHARMACY

Textbook for Foreign Students
of Higher Pharmaceutical Schools

In two parts

Part II
Marketing in Pharmacy

Edited by Professor Z. Mnushko

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Authors: Mnushko Zoia M., Pestun Iryna V., Timanyuk Iryna V., Sofronova Iryna V.,
Aliekperova Nataliia V.

Reviewed by:

Grochoviy T. – Head of Department of Pharmaceutical Science of I. Ya. Gorbachevsky Ter-nopil State Medical University, Doctor of Pharmacy, Professor;

Kabachna A. – Professor of Department of Management and Economics in Family Medicine of Kharkiv Medical Academy of Postgraduate Education, Doctor of Pharmacy, Professor;

Toryanyk L. – Associate Professor of Foreign Languages Department of National University of Pharmacy, PhD in Pedagogy, Associate Professor.

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The textbook presents the basic theoretical principles of marketing and characteristics of pharmaceutical marketing, including marketing studies of medicines as a commodity, their development and market promotion, product and assortment policy of pharmaceutical companies and pharmacy, pricing, wholesale and retail sales and use of the complex of marketing communications at the pharmaceutical market. The nature and specificity of the international marketing in pharmacy is described.

The textbook is recommended for foreign students of higher pharmaceutical schools.

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INTRODUCTION

Development of market relations and competition in the pharmaceutical market predetermines the necessity of scientific and practical use of the main provisions of marketing and its characteristics in the area of drug supply of the population. Marketing as a philosophy of pharmacies and pharmaceutical companies contributes to a successful response to changes in the environment, the demands and needs of consumers, provides management decisions based on market research and analysis capabilities of the organization. Knowledge and use of marketing provides success to the company in the competition, penetration into new markets, conquest of customers, and ultimately – achievement of the objectives aimed at making profit. Marketing has a wide application of borders, from the moment of planning and the product development to after-sales service and the study of the consumer's reaction to it. Marketing is important when entering international markets, increasing exports.

At the same time the areas and use of marketing are expanding. Today, it is not only the production and sale of products but also services, science, education, activities of state bodies of regulation and control, etc. In connection with this marketing knowledge is important not only for professionals in marketing, but also for representatives of many other specialists, including pharmacy.

Along with the theoretical bases of marketing the material in this textbook contains features of pharmaceutical marketing that reflect the commodity specificity of drugs and the use of the marketing mix in pharmacy.

In accordance with the curriculum of “Management and marketing in pharmacy” course, discusses the general characteristics of the market, socio-economic characteristics of the area of drug supply of the population, the concept of social and ethical marketing are considered. Among the components of marketing management attention is paid to the study of industry trends and market research of the consumer's motivation, determination of the need and demand for drugs. The significance of marketing information is shown; principles of forming marketing information systems are given. The chapters of the textbook reveal the nature and directions of the practical application of the marketing mix: product, its organization distribution, pricing, marketing communications. Along with the classical concepts, the characteristics of common tasks, methods, and marketing

events of companies there is also the information concerning the status and trends in development of each direction, the results of scientific marketing research, generalized the experience and achievements of foreign pharmaceutical firms. Particular attention is given to creation and introduction of new medicines to the market, formation of the assortment of medicines in pharmaceutical companies, features of pricing and a complex of marketing communications at the pharmaceutical market. The application of the system Good Manufacturing Practices, Good Distribution Practice, Pharmaceutical (Pharmacy) Practice, the WHO ethical criteria for drug promotion, legal and regulatory provisions of the Ministry of Health of Ukraine concerning registration, certification, implementation, promotion of drugs. Taking into account the importance of effectiveness of marketing activities for an enterprise as a whole, the directions of the marketing control of the final process of marketing management are presented.

Taking into account the development of international relations of Ukraine, the policy of integration into the European system, a separate chapter of the textbook is devoted to the international marketing. The features and environment of the international marketing, information on the activities of foreign pharmaceutical companies, the strategy of the international marketing, pricing policies, commodity distribution and international marketing communications are described.

At the end of each chapter of the textbook there are questions for out-of-class work of students and tests for self-control tests.

When writing the textbook along with the educational literature the publications in scientific journals and other mass media are used. The examples of the scientific and methodological developments, the activities of individual pharmaceutical companies, trade names of medicines are given, but it is not the evidence of their preferences, or advertising.

The textbook is intended for students of pharmaceutical universities and faculties, as well as for leaders, managers and specialists in the pharmaceutical sector.

CHAPTER 1

FUNDAMENTAL RULES IN MARKETING

The chapter is devoted the general questions of market characteristic, including pharmaceutical, and to marketing as market theory of management by activity of the enterprises. Definition, kinds, elements, principles are resulted, functions and the marketing environment is described.

1.1. VALUE OF MARKETING

Markets may be viewed as gaps that separate parties interested in an exchange. Consequently, the process of the market actualization requires that various activities (called marketing activities) remove the gaps between parties interested in an exchange. Some of these points require careful examination.

Understanding of demand and supply through the eyes of the customer is a process called marketing.

Marketing is a process that starts with identifying and understanding the needs and wants of the customer (demand) and then fulfilling those needs and wants (supply). An effective marketing plan offers a solution to fulfil the needs and wants of society (individuals and organizations), while achieving the goals of the organization. In addition, marketing can create new needs or reformat existing needs. Both customers (demand) and organizations (supply) have objectives. Customers' goals are to satisfy their needs and wants. Organizations' goals are to supply a good or service that provides value or is useful to customers and to provide employment for employees and profit to shareholders. In the case of nonprofits organizations, marketing success may be measured by the public's response rather than by profitability.

By marketing the enterprise can receive answers on questions: What is necessary to sell? Who can sell? Why is necessary to sell? Where and how to sell? When is necessary to sell? How to operate goods movement?

Value of marketing for consumers is defined by several positions:

- marketing allows people to become more informed;
- optimization of working hours of the retail enterprises, promotion of the goods, expenses on advertising, commodity assortment and other areas of marketing improves coordination of resources;
- marketing considerably influences sights of people and a way of life;
- marketing promotes improvement of life quality. For example, marketing experts stimulate firms to produce more safe goods; develop the reference to the public concerning questions of energy's economy, treatment of illnesses, abusing alcohol, help a recognition and distribution of the new goods, ideas and services.

Pharmaceutical marketing, as a subspecialty of marketing, can be defined as a process, by which market for pharmaceutical care is actualized. It encompasses all the activities carried out by various individuals or organizations to actualize markets for pharmaceutical care. Let us examine this definition closely. Marketing plays a key role influencing or directing activities from the manufacturer to the patient. It should be noted that the patient stands at the peak of the marketing pyramid. It is his characteristics that determine which goods will be sold or, more correctly, which goods will be produced.

1.2 THE CHARACTERISTIC OF THE MARKET

The market forms a direct connection of manufacture with consumption, subordinates manufacture to requirements of the customer. Marketers constantly study a situation in the market, their task is revealing of requirements of each market and a choice from them with what their enterprise can provide better, than others.

Market is defined as people or organizations wants (needs) to satisfy, money to spend, and the willingness to spend it. A market may be defined as a place where buyers and sellers meet, products or services are offered for sale, and transfers of ownership occur (Fig. 1.1).

A market may also be defined as the demand made by a certain group of potential buyers for a product or service.

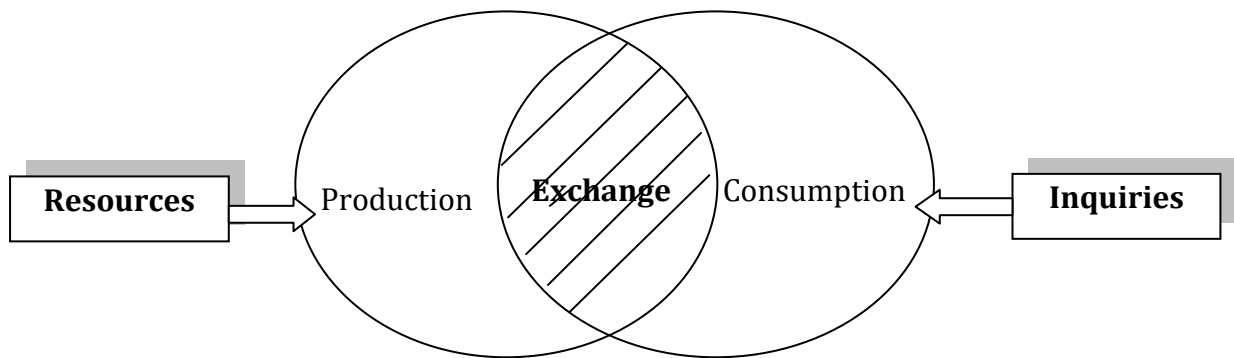


Figure 1.1 – Market definition

Thus, in the market demand for any given four definitions there are the following terms:

1. The aggregate of forces or conditions, within which buyers and sellers make decisions that result in the transfer of goods and services.
2. The aggregate demand of the potential buyers of a commodity or service.
3. The place or area, in which buyers and sellers function.
4. To perform business activities that direct the flow of goods and services from a producer to a consumer or user.

Classification of markets is possible to different attributes:

- from positions of the economic space or depending on scale: the local, regional, national, foreign, international, world markets;
- a commodity market, wholesale market, retail market;
- by the way of the goods consumption: the consumer goods market, the industrial purposes goods and services.

Kinds of the market are as follows: the consumer's market and the seller's market.

At the seller's market the commodity assortment is limited, the competition is absent, and the buyer is in full dependence on the seller. At the consumer's market the market is sated with different goods and services. Commodity producers and sellers compete among themselves struggling for the buyer. The buyer himself decides when to buy it and it determines what goods to make.

Distinguish three *spheres of the market*: the goods and services (the commodity market), bank stocks (the financial market), a labour (labour market).

In marketing practice are considered usually markets of consumer goods, of industrial appointment's products and services market.

Market basic elements are demand, the supply and the price. Their interconnection forms a market mechanism.

Market mechanism functions:

- information of market operators;
- the functions which connected with efficiency of the market, – efficiency of resources expenditure;
- maintenance of efficiency in distribution of economic resources;
- achievement of market balance.

The market situation is characterized by a parity between need, a supply and demand. *Need* – subjective sensation of a lack something necessary, depending on cultural level and the person of the individual. *Demand* is some need for certain volume of goods which the consumer wishes and has possibility to get. In other words demand is the need supported with consumer ability.

In market researches allocate an economic conjuncture and a conjuncture of the separate markets. *The economic conjuncture* characterizes a condition of all market process for any period.

Market condition characterizes a situation on the market in the parity between a supply and demand, price level, commodity stocks, volume of orders in branch and other economic indicators. It is a question of a condition and market tendencies in short-term period.

1.3. CHARACTERISTIC, STRUCTURE AND ORGANIZATION OF PHARMACEUTICAL MARKET

The pharmaceutical market represents a part of the market of goods and services, sphere of interaction of subjects and objects which are influenced by a certain factors. Objects of the pharmaceutical market are consumers of medicines and the experts who appoint and give information in buying of medical products. Subjects are medical products, services, the parapharmaceutical goods, ideas, the pharmaceutical information, consumers preferences. Subjects of the pharmaceutical market are: authorities of regulation and control over pharmaceutical activity; the production, wholesale and retail enterprises and establishments; the specialized marketing and analytical companies; educational institutions; research institutes; pharmaceutical associations and other public organizations; hospitals.

Social and economic aspects of the pharmaceutical market. Economic laws of the market have specific features in pharmacy as socially focused sphere. The reasons are such components.

First, granting of the pharmaceutical aid to the population requires personal contacts of the doctor and the pharmacist, on the one side, and the consumer (patient) – with another. The medicinal help is characterized by certain individuality to the patient.

Secondly, in comparison with other services spheres (even in public health services) influence of inadequacy of the information concerning consumer properties of a medicine at their manufacturers, at pharmacists and consumers (patients) is more essential.

Thirdly, the need in vital medical products is necessary to keep health and the human life. Fourthly, in the field of pharmacy (as well as in all system of public health services) it is insufficiently defined connection between expenses of work of pharmaceutical employees and results is indistinctly traced.

Fifthly, use of the special managing mechanism in pharmacies is dictated necessity of economic efficiency and social justice.

Feature of a medicines in comparison with the goods of other markets is important also. Granting of the medicinal help require high professional qualification of the doctor and the pharmacist, and also the financial possibilities of the consumer (patient).

General characteristic of the world pharmaceutical market. The world market of pharmaceutical production is difficult, multilevel, multifunctional formation with stably high rates of manufacture growth, sale and, accordingly, profitability indicators. These reasons are connected with specificity of medical products as commodity category, demand on which increases irrespective of economic and political factors.

Three basic pharmaceutical regions of a planet are the USA, Europe and Japan having about 80 % of the medical products market. Despite some change of priorities, the pharmaceutical market of the USA, as before, remains to the largest in the world. Rates of its annual growth make more than 8 %. In Europe some decrease in growth rates of the pharmaceutical market (on 1-2 % a year), despite high enough level of development of the markets of France, Germany, the Great Britain, Italy and Spain (these countries provide more than 70 % of sales volumes of pharmaceutical production in Europe) is marked.

Second-large pharmaceutical market in the world – the market of Japan which share is about 13 % of a world sales volume, has low growth rates of sales volumes of pharmaceutical production). The basic feature of this market – the increasing distribution of preparations of the American and European manufacture.

Appreciable rates the pharmaceutical markets of China, India, Brazil and Turkey develop. Share of these countries is 17 % of the world pharmaceutical market, and growth rates of sales make more than 11 % in India is one of the world's largest manufacturers of generics, taking the fourth place in the world on volume of made production. Competition growth forces the companies to search for essentially new models of development. Expenses on research are increase. One of the most effective remedies of positions strengthening for the pharmaceutical companies is their integration, creation of strategic alliances and agreements between firms about joint creation of a medicine.

Progress in creation of new medical products proceeds. The new preparations which have appeared last years, have more aim mechanism of action, and, as consequence, are more suitable for treatment. These preparations are appointed for the differentiated groups of patients and preparations of a wide spectrum of action with which they urged to replace are more valuable, than. The wide circulation in pharmaceuticals manufacture is got biotechnology, gene engineering.

Essential feature of the modern pharmaceutical market is the increase in manufacture and sales of the medicinal preparations-generics. According to experts IMS it is predicted, that the market capacity will increase annually on the average 14-17 % while the pharmaceutical market will grow on 6-7 % a year.

1.4 NATURE, EVOLUTION, PRINCIPLES AND FUNCTIONS OF MARKETING

The essence of marketing is an exchange. The existence of a market is the foundation for an exchange and not a substitute for it. Every exchange requires that (1) there are two or more parties (2) interested in satisfying their unfulfilled desires, (3) have something of value to offer to each other, and (4) are capable of communication and delivery.

The process of the market actualization may be initiated by either party interested in an exchange. In the normal economic sense, the party with goods is called a producer and the party with money is called a consumer. That is why markets, as defined from the producer's view, are viewed as people with money (purchasing power) and felt or quiescent need.

The term marketing has changed and evolved over a period of time, today marketing is based around providing continual benefits to the customer, these benefits will be provided and a transactional exchange will take place. In a business firm, marketing generates the revenues that are managed by the financial people and used by the production people in creating products and services. The challenge of marketing is to generate those revenues by satisfying customers' wants at profit and in a socially responsible manner.

There are a lot of definitions of marketing. The most common definition in the world of business is "Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives".

The Chartered Institute of Marketing define marketing as ‘The management process responsible for identifying, anticipating and satisfying customer requirements profitability’

If we look at those definitions in more detail, marketing is a management responsibility and should not be solely left to junior members of staff. Marketing requires co-ordination, planning, implementation of campaigns and a competent manager(s) with the appropriate skills to ensure success.

Marketing objectives, goals and targets have to be monitored and met, competitor strategies analyzed, anticipated and exceeded. Through effective use of market and marketing research an organization should be able to identify the needs and wants of the customer and try to deliver benefits that will enhance or add to the customers lifestyle, while at the same time ensuring that the satisfaction of these needs results in a healthy turnover for the organization.

Philip Kotler defines marketing as “satisfying needs and wants through an exchange process”.

Within this exchange transaction customers will only exchange what they value (money) if they feel that their needs are being fully satisfied, clearly the greater the benefit provided the higher transactional value an organization can charge. The definitions have some significant implications:

1. It is a managerial, systems definition.
2. The entire system of business activities must be customer-oriented. Customers' wants must be recognized and satisfied effectively.
3. The marketing program starts with the germ of a product idea and does not end until the customer's wants are completely satisfied, which may be some time after the sale is made.
4. The definition implies that to be successful, marketing must maximize profitable sales over the long run. Thus, customers must be satisfied in order for a company to get the repeated business that ordinarily is so vital to success.

The Marketing concept in the company's activity based on three fundamental beliefs:

1. All company planning and operations should be customer-oriented.
2. The goal of the firm should be profitable sales volume and not just volume for the sake of volume alone.
3. All marketing-activities in a firm should be organizationally coordinated.

The marketing concept has arisen in the USA in the end of XIX beginning of XX centuries. The first who has specified that marketing should become the main function of the enterprise, and creation of target group of consumers is specific work of the manager, was S. Makkormik (1809-1884). The mechanic by education, he had introduced in practical activity of the company marketing research, the concept of the target market for the enterprise, the price policy, service. But the first definition of marketing belongs to Americans R. Butler and A. Shou, they have defined marketing as a combination of factors which should be considered at the selling process.

Marketing as the management concept has developed in 60-70 years XX the item though its first displays were observed in the late twenties and directly after the Second World War. It is connected first of all with active development of progress in science and technology in the field of an information infrastructure and a computerization of intrafirm management, and also with occurrence of considerable complications of sale on the majority of the commodity markets (the pharmaceutical market is not an exception).

During evolution of the theory and marketing practice during the different historical periods certain groups of its concepts prevailed. In group of concepts-representatives of passive, incidental marketing existed:

- productional (end XIX-beginning XX century) in which centre of attention there was a manufacture, and a market reference point was demand;
- commodity (the middle 20x of XX century), in the centre of its attention –the goods (service), a market reference point remain demand;
- marketing (middle of 30th of XX century), focused on system of sale and demand.

Up to the end 60th the concept market marketing (administrative, organizational) prevailed, the main things in which was manufacture and the sale focused on demand and consumers wants. From the middle of 70th of XX priority marketing was strategic (active), centre of which attention there was a system «the enterprise – the market», and as a market reference point – wants, needs.

The basic preconditions of marketing occurrence are:

- saturation of the market by the goods and services, formation of the consumer's market;
- development of a commodity producers competition, market infrastructure, including a marketing infrastructure;
- growth of life standard of the population and accordingly increase in demand of goods;

- aspiration of the enterprises to expansion of a commodity market and increase in profits.

Proceeding from definition, in marketing three interconnected spheres are allocated:

- the first – decision-making for choice the consumer, manufacture or realization of the certain product and the market;
- the second – «three whales» marketing: sale, advertising, service;
- the third – internal marketing management in firm (planning, financing, the organization of corresponding goods manufacture).

Any firm that wishes adequately to serve its market would, therefore, strive to direct marketing activities so the right product is sold in the right quantity, at the right place, at the right price, at the right time. As the products, with which we are dealing in this industry, affect patients' health, some of these factors assume even greater importance than that attached to the stimulation of sales.

The marketing mix principles (also known as the 4P's) are used by business as tools to assist them in pursuing their objectives. The marketing mix principles are controllable variables, which have to be carefully managed and must meet the needs of the defined target group. The interaction of these components makes up the marketing mix and results in utilities for the consumer (Fig. 1.2).

The definitions for the Marketing mix components are as follow.

Product is a key element of marketing mix, which basic characteristics are size, colour, packing, design. Getting the product, the consumer gets those blessings or utility with which the product can provide to it. Important for the consumer is also (in more degrees, than characteristics) support or service. Service elements, in particular, for medical products and products of medical appointment, are:

- pharmaceutical service;
- presence of the instruction on medical application;
- pharmaceutical care, recommendations and consultations during purchase;
- maintenance of complex purchases, selling of accompanying preparations or other goods;
- qualification of pharmaceutical personnel;
- speed of orders performance;
- consideration of clients complaints.

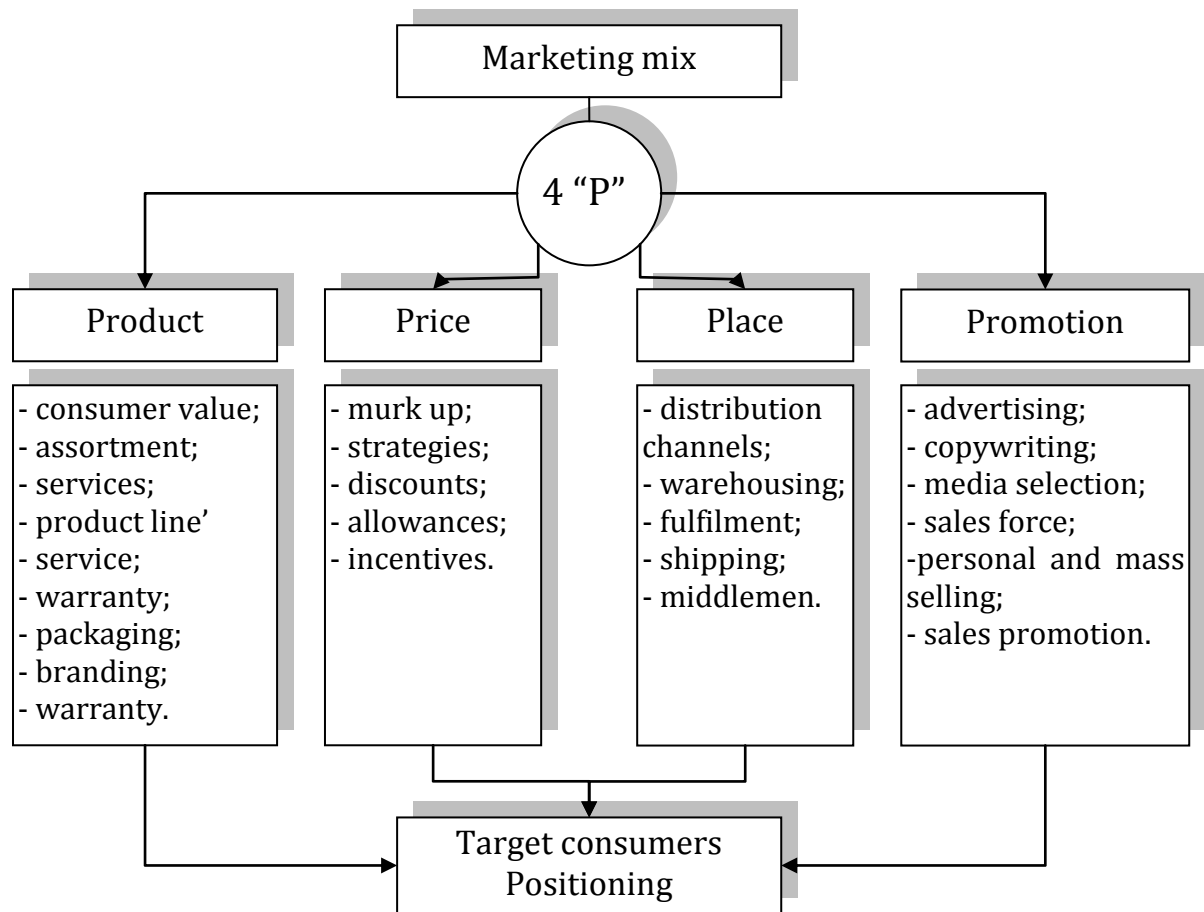


Figure 1.2 – Marketing mix structure

The second element of marketing mix *is the price*. By a certain pricing policy, the enterprise actively influences both a sales volume in the market, and size of received profit.

The primary goal of a *distribution policy (place)* is the choice of the optimum scheme of product's delivery from the manufacturer to the consumer (direct sale, through system of wholesale and-or retail trade, through trading agents, etc.), the organisation of transportation, storage, processing of cargoes, and also after sale service.

Product *promotion* on the market provides an establishment of effective contacts with already available or potential buyers. A main objective of such contacts is creation of favourable impression (image) on consumer about the company and its production. A considerable part of promotion tools of the goods make: advertising, the organisation of exhibitions, fairs, granting of trading discounts, performances in mass media, etc.

Last years the list of marketing mix elements is added by the such: people (people), process (processes), physical evidence (material certifi-

cates or proofs), personal (personnel), partnership (friendly relations with consumers).

The marketing system provides decision of such **problems**:

- complex studying of the market;
- marketing strategy development and orientation of all divisions on satisfaction of consumers wants;
- revealing of potential demand and unsatisfied needs;
- planning of commodity assortment and prices;
- working out of measures on the fullest satisfaction of existing demand;
- forecasting of needs for the enterprise goods;
- distribution planning and realisation;
- planning and organisation of promotion activity for products on the market (advertising, sale stimulation, etc.);
- working out of actions for improvement of management and the manufacture organisation;
- an estimation of competitiveness of the enterprise.

Marketing principles. The manufacturers should take into account some principles:

- to study a condition and changes of a consumer's demand;
- to search for a market niche, to carry out segmentation of the market and to let out production in view of features of separate segments;
- to improve the goods constantly and to improve its quality;
- it is necessary to influence the market using the system of promotion: selling, advertising, service;
- to improve the marketing constantly.

Functions of marketing. Functions of marketing are divided into four groups.

The research function includes the research of market, consumer, product, and forming a structure.

The production function includes organizing the production of new products, working out new technologies, and management of quality and products competitiveness.

The sale market function includes organizing the distribution, service, promotion, carrying out a purposeful commodity and the price policy.

The management and control function includes strategic planning, control of marketing, promotion system, marketing management.

Kinds of marketing. Subjects and problems of the pharmaceutical market. They distinguish the marketing focused on the consumer, the marketing focused on the goods, the marketing focused on the demand (remarketing, demarketing).

The marketing focused on the consumer is used if the activity of the enterprise is aimed to satisfaction of needs of the market.

The marketing focused on the goods is used if the activity of the enterprise is aimed to the creation of new goods or improvement of what is issued.

Depending on sphere of marketing activity allocate: marketing of consumer goods, industrial goods, ideas of public character, places, organisations, trading, marketing of services.

Marketing of the industrial goods (industrial marketing) is focused on technological consumers (the industrial and commercial enterprises), getting goods for industrial use or resale.

Marketing of ideas of public character is a working out, realisation and the control over performance of the programs promoting comprehension or perception by target group of the population of certain public idea, movement or practice.

Marketing of places is an activity on creation, support or change of the relation of consumers (clients) to separate places, location of clients.

Marketing of the organisations is directed on creation, support or change of the relation and behaviour of all persons and organisations in which the given enterprise is interested.

Trading marketing is the intermediary activity providing both effective sale of production of the manufacturer, and effective satisfaction of consumers needs. Such kind of activity is favourable to both parties and profitable for the intermediary.

Marketing of services is characterise that its object (services) has a number of features: nonmaterial, inability to storage, inherence of service from the supplier or the surrounding conditions, difficultly standardised result.

Depending on the period on which the marketing policy of the enterprise is planned and developed, allocate strategic, tactical and operative marketing.

In enterprise work some *kinds of marketing depending on demand are applied*: demarketing, conversion marketing, the creative marketing supporting, counteracting, marketing stimulating, remarketing, synchromarketing.

Demarketing is the kind of marketing directed on reduction of demand for goods or services which cannot be satisfied because of insufficient level of capacities, limitations of commodity resources and raw materials. Basically demarketing is used for the prestigious, most popular goods or in development of the manufacture, especially new goods, models. To demand reduction such means can be applied, as increase of the price on goods, refusal of advertising and sale stimulation.

Conversion (developing) marketing is marketing at negative demand, at such situation in the market when all or majority of segments refuse from given goods. The purpose of this kind is change of negative relation of consumers to the goods on positive.

Creative marketing is used in the latent demand conditions, the problem is transformation of a potential demand in real.

Supporting marketing is directed on support of an existing demand level.

Counteracting marketing is realised for the purpose of maintenance of well-being of the consumer or a society as a whole, when demand for separate goods can be considered as the irrational. Such goods, for example, concern, alcohol drinks, tobacco products, "piracy" production, etc.

Stimulating marketing is the marketing kind, which purpose is stimulation of demand with condition of the indifferent relation of the consumer to goods.

Remarketing is necessary in situation of demand reduction, characterise for all kinds of goods and any period of time depending on a phase of product life cycle. Its purpose is maintenance of market novelty for goods or reorientation of the enterprise on the new markets.

Synchromarketing is focused on conditions, when demand considerably exceeds productive capacities or, on the contrary, volumes of manufacture of given goods more than market needs, problem is search of smoothing ways for fluctuations of demand.

Depending on a territorial principle distinguish such kinds of marketing: internal (within one country), international marketing (sometimes name external economic, foreign trade. Differs global problems caused by work of the enterprise in the foreign markets).

Subjects of the pharmaceutical market are manufacturers of medical products, wholesale intermediaries, retail intermediaries, organizations – consumers (treatment-and-prophylactic institutions), end users, and experts in marketing (Fig. 1.3).

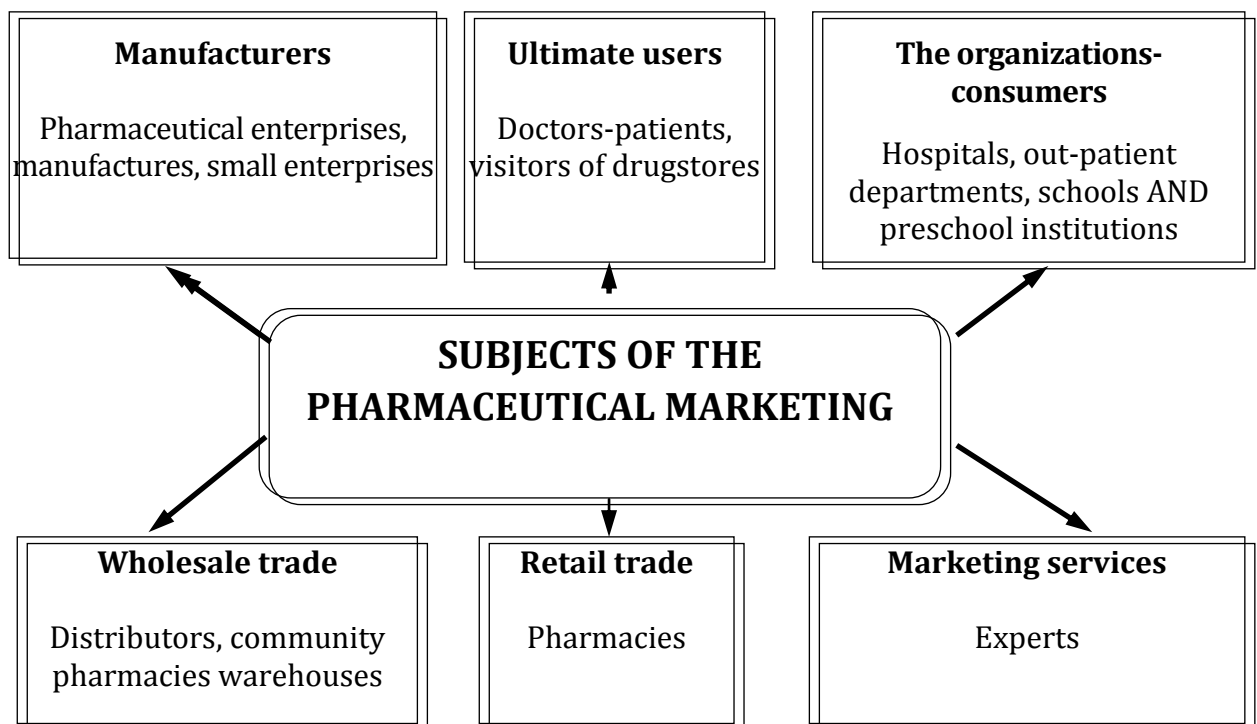


Figure 1.3 – Subjects of the pharmaceutical market

Problems of pharmaceutical marketing are: complex studying of the market; revealing of demand and unsatisfied needs; planning of the commodity assortment and the prices; development of actions on satisfaction of demand; planning and realization of selling; development of actions on management perfection and the organization of manufacture.

The marketing environment of the enterprise. The marketing environment is a set of factors, forces and conditions operating outside the company and influencing on its marketing activity. Allocate micro-and macro environment.

The microenvironment is presented by the subjects, making direct impact on activity of the enterprise (firm). Them concern: consumers, marketing intermediaries (promote advancement, sale and distribution of goods), competitors and contact audiences. The last sometimes name media environment.

Contact audiences are the groups showing interest to company's activity, and capable to affect it: financial contact audiences (banks, the investment companies and shareholders); local contact audiences (local residents); internal contact audiences (labour collective, shareholders, board of directors); mass media; official bodies; public organisations (for example, a society of consumers rights protection); public contact audiences – leaders of public opinion (politicians, sportsmen, large scientists).

Factors of *microenvironment* concern demographic, economic, natural and geographical, scientific and technical, political and cultural.

Marketing research of an environment are pledge of successful marketing, achievement of balance between enterprise's interests and other market subjects, process of adaptation to changing conditions.

For place determining on the market and forecasting of market activity each pharmaceutical enterprise should analyze and estimate own potential and factors which influence on its activity. One of the methods, allowing to carry out comparative research of the internal environment of the enterprise and external conditions is the **SWOT-analysis** (an abbreviation from English words is: strengths, weakness, opportunities, threats).

Enterprise *strengths* include advantages over competitors. *Weaknesses* – lacks of enterprises work, which are subject to elimination for achievement of competitive advantages. Enterprise *opportunities* are formed by the influence of positive tendencies and the environment phenomena, can promote increase in sales volume and profit. *Threats* – negative factors or tendencies of an environment involving decrease of indicators of enterprise' work if corresponding measures are will not taken.

As a result of SWOT-analysis such measures are spent: industrial and commercial opportunities according to firm resources are defined; actions for prevention of threats influence are developed; advantages are compared with market opportunities; strategy on overcoming of weaknesses of firm are developed.

The generalized estimation of strengths and weaknesses, opportunities and threats spend by use of the matrix, resulted in Table 1.1.

Table 1.1 – SWOT-analysis matrix

Components of SWOT-analysis	Opportunities	Threats
	1. 2. ...	1. 2. ...
Strengths	SO-strategies	ST-strategies
1. 2. ...	Increase in opportunities by use of strengths	Use of strengths and elimination of threats
Weakness	WO-strategies	WT-strategies
1. 2. ...	Elimination of weaknesses by use of available opportunities	Minimization of weaknesses for prevention of threats

Questions for out-of-class work

1. *Characterize value of marketing for subjects of market.*
2. *Give the definition of term "market".*
3. *Characterize importance of marketing for the manufacturer.*
4. *What conditions define existence of the markets?*
5. *Subjects of the market.*
6. *What concepts characterise a market situation?*
7. *List market mechanism functions.*
8. *Open concept and value of indicators «an economic conjuncture» and "market conjuncture".*
9. *What are social and economic features of the pharmaceutical market?*
10. *Open modern tendencies of the world pharmaceutical market.*
11. *Give characteristic of the pharmaceutical market of Ukraine.*
12. *Give marketing definition.*
13. *What are features of pharmaceutical marketing?*
14. *What stages of evolutionary development of marketing concept?*
15. *Specify basic elements of marketing mix.*
16. *Name marketing principles.*
17. *List basic functions of marketing.*
18. *Name kinds of marketing in enterprise activity.*
19. *What kinds of marketing allocate depending on application sphere?*
20. *What kinds of marketing use depending on demand?*
21. *What are allocated subjects of pharmaceutical marketing?*
22. *In what problems of pharmaceutical marketing consist?*
23. *Characterise the marketing environment of the enterprise.*
24. *What essence of the SWOT-analysis and what its value?*

Tests

1. *What concept dose correspond to definition: «... a place where buyers and sellers meet, products or services are offered for sale, and transfers of ownership occur»?*

2. *Marketing department by investigating the regional market of antihistaminic preparations established, that the offer exceeds demand. What kind of market dose corresponds to given situation?*

- A. Buyer's market
- B. Seller's market
- C. Regional
- D. National

3. Market basic elements are:

- A. Distribution
- B. Demand
- C. Advertising
- D. Price
- E. Promotion
- F. Supply

4. Finish the list of market mechanism functions:

- A. Connected with market efficiency
- B. Maintenance of efficiency of economic resources distribution
- C. Achievements of the market balance condition
- D. ...

5. What concept dose correspond given definition: «... is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives?

6. What is the main thing in marketing definition?

- A. Goods sale
- B. Decrease in expenses of manufacture
- C. Satisfaction of consumers needs
- D. Improvement of quality life
- E. Establishment of price for goods

7. Allocate basic making (elements) of marketing mix:

- A. Price
- B. Demand
- C. Supply
- D. Goods
- E. Sale
- F. Service
- G. Advertising
- H. Promotion

8. Production and commercial activity of the pharmaceutical enterprise is based on production function of marketing. What of the resulted dose concerns to production function?

- A. Quality management and competitiveness of finished goods
- B. The analysis of the internal environment of the enterprise
- C. Organization of marketing control
- D. Organization of marketing communications

9. What kind of marketing does correspond definition: «the kind of marketing directed on reduction of demand which cannot be satisfied because of insufficient level of capacities, limitations of commodity resources and raw materials»?

11. What orientations of commercial activity of pharmaceutical enterprises answer the modern marketing concept?

- A. Commodity
- B. Production
- C. Sale
- D. Consumer orientation
- E. Orientation to the consumer and society as a whole

CHAPTER 2

MANAGEMENT OF PHARMACEUTICAL MARKETING

In the chapter general directions of marketing management are reviewed, shown value of information support, working out of marketing plan, forming of marketing services of at the enterprises. Taking into account features of the pharmaceutical market the concept of socially and ethical marketing, which is basis of management problems of marketing of the pharmaceutical enterprise.

2.1. PROCESS OF MARKETING MANAGEMENT

Marketing management is the analysis, planning, an implementation the control over actions, aimed on an establishment, fastening and support of favourable exchanges with target buyers for the achievement of certain problems of the organization, such, as profit reception, sales volume growth, increase market share, etc.

The problem of marketing management consists in influence on level, time and character of demand that it helped the organization to achieve purposes.

For management of marketing activity of the enterprise four groups of questions have the greatest value:

1. Information
2. Use of elements (complex) of marketing
3. Organization of marketing activity
4. Control in marketing sphere.

Among questions of the information the enterprise is interested in data:

- about environment, in particular, about consumers, intermediaries, competitors, suppliers and about government regulation;
- about possibilities of influence on the market and creations of consumers preferences;
- about internal restrictions of industrial, financial, personnel and other character;
- about various influence of separate factors at environment change.

In marketing system information has great value as any marketing activity is based on knowledge of the concrete situation which has developed on the market. The majority of marketing research in itself are information (for example, studying of product demand, research of sales markets, requirements of consumers to the product). Besides, performance of marketing actions is need in feedback establishment to correct current influence and working out of the future marketing programs.

Absence of the necessary marketing information can become the reason of serious economic miscalculations. The purpose of use of the marketing information is reduction of uncertainty in the course of acceptance of administrative decisions. It demands gathering, transfer, storage, processing and granting of considerable volumes of the versatile information. In detail process of accumulation of the information in pharmaceutical marketing will be described in separate section.

Use of marketing elements is directed on work with product, perfection of its consumer value, on price policy, creation of sale system, decision-making concerning methods and sale places, use of marketing communications and public relations.

The marketing heads (the marketing vice-president, marketing-director, the deputy director on marketing) are officials of firm who are engaged in the analysis of a marketing situation, implementation of plans and (or) performance of control functions.

In marketing area works: marketer, manager on public relations, the manager on advertising, the manager on supply, the manager on sale and some other.

In marketing management the main role has planning. Usually we believe that planning is studying the past to decide in the present what to do in the future, or deciding what we are going to do later, when and how we are going to do it, and who will do it. If you don't have a plan, you cannot get anything done – because you don't know what to be done or how to do it.

In business management one type of planning that we find very useful is the more formal concept called strategic planning. Strategic planning may be defined as the managerial process of matching an organization's resources with its marketing opportunities over the long run. Note (1) that strategic planning is a total-company concept and (2) that it involves a long-run orientation.

The concept of planning is not new. However, market and economic condition in recent years have led to a better understanding of the need for formal planning. Truly, any success that management has in increasing the profitability of marketing operations depends in large part upon the nature of its marketing planning. Formal planning is one of the most effective management tools available for reducing risks.

Planning may cover long or short periods of time. Long-range planning (for 3, 5, 10, or even 25 years) usually involves top management and special planning staffs. It deals with broad, company-wide issues such as plant, market, or product expansion. Short-term planning typically covers a period of one year or less and is the responsibility of lower- and middle-echelon executives. It involves such issues as planning next year's advertising campaign, making merchandise-buying plans in a store, or setting sales quotas for a sales force.

The planning activities in an organization may be conducted on three or four different levels depending upon the size of the organization and the diversity of its products or services. These planning levels are as follows:

Strategic company planning. This total-company planning takes into consideration an organization's financial requirements, production-capabilities, labour needs, research and development effort, and marketing capabilities.

Strategic business unit planning. In large, diversified organizations, a modification of strategic company-wide planning has emerged in recent years. For more effective planning and operation the total organization is divided into separate divisions called *strategic business units* (SBUs). Each SBU is, in effect, a separate "business," and each SBU conducts its own strategic "business-wide" planning.

Strategic marketing planning. At this level management is engaged in setting goals and strategies for the marketing effort in the organization. In smaller or no diversified organizations, the SBU planning and marketing planning may be combined into one strategic planning activity. Or, in small, single-business organizations, the top three levels of planning (company, SBU, marketing) may be combined into one planning activity.

Strategic marketing planning includes (1) the selection of target markets and (2) the development of the four major ingredients in a company's marketing program – the product, the distribution system, the pricing structure, and the promotional activities (Fig. 2.1).

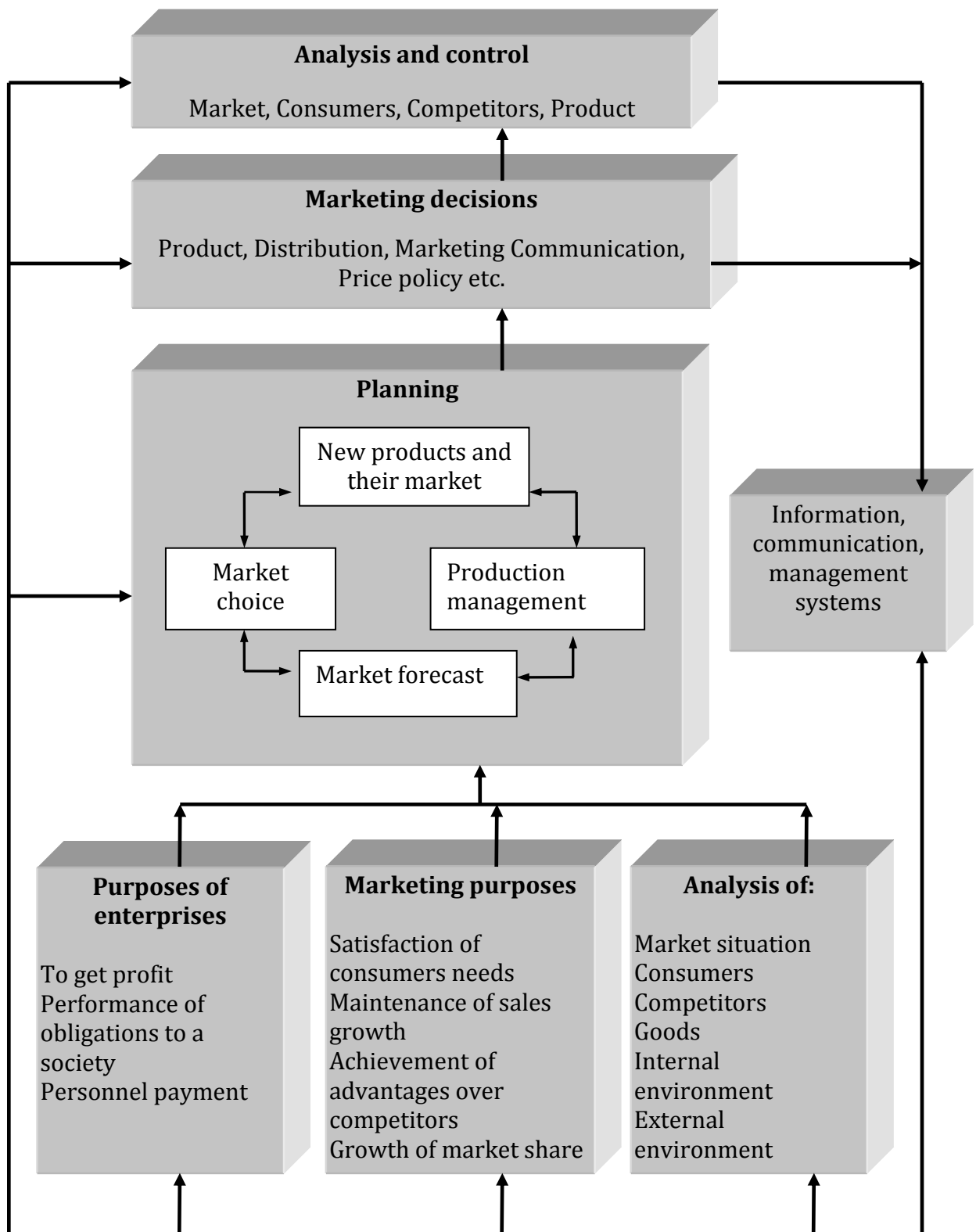


Figure 2.1 – Planning of enterprises' marketing activity

Marketing plan usually consist of such sections:

- description of current marketing situation (description of market, consumers, factors of the marketing environment, products of certain group, a competition, methods of sale and goods promotion);

- a substantiation and the description of the purposes of firm (short-term and long-term);
- data about results of markets forecasting;
- the description of marketing strategy on the markets;
- the description of marketing program actions;
- the budget (calculation of expected profits and expenses);
- the description of control procedures.

2.2. MARKETING MANAGEMENT AND ITS EVOLUTION

Evolution of marketing can be submitted by its concepts or stages.

The first stage is a production orientation. In this first stage the underlying assumption is that marketing effort is not needed to get people to buy a product that is well made and reasonably priced.

The second stage is a sales-orientation. Product had to be sold, called for substantial promotional effort.

The third stage is a marketing-orientation. In the third stage companies embrace the concept of the coordinated marketing management directed toward the double goals of the customer orientation and the profitable volume. Attention is focused on marketing rather than on selling, and the top executive in this area is called a marketing manager.

The modern concept of marketing is Responsibility and Human – Orientation Stage. It is increasingly obvious that marketing executives must act in a socially responsible manner if they wish to succeed, or even survive. External pressures – consumer discontent, a concern for environmental problems, and political-legal forces – influence the marketing programs of countless firms.

Proceeding from the concept of Responsibility and Human – Orientation marketing, marketing management of the pharmaceutical enterprise should provide observance of following principles:

- creation, production and distribution of effective medical products;
- elimination or minimizing of medicines' side effects;
- use in manufacture of medical products of high-quality raw materials;
- formation of medical products assortment, working out of a new medicine according to consumers needs (in this case – doctors, pharmacists, the population);
- development of an optimum prices policy for medical products;
- activity of the pharmaceutical enterprises and pharmacies should provide preventive maintenance and treatment of diseases of the population and, finally, – nation health that is one of prime interests of a society.

2.3. THE ORGANIZATIONAL STRUCTURE OF SERVICES MARKETING

Within the marketing department – especially in medium-sized or large firms – the sales force frequently is specialized in some organizational fashion. This is done in order to implement more effectively the company's strategic planning. One of three forms of organizational specialization of the line authority typically is adopted. The sales force may be organized by a geographical territory, by a product line, or by a customer type. In very large companies sometimes other marketing activities such as advertising or sales promotion also are organizationally specialized in one of these same three categories.

Geographical specialization. Probably the most widely used method of specializing selling activities is to organize a sales force on the basis of geographical territories. Under this type of organization, each sales person is assigned a specific geographical area – called a territory – in which to sell. Several sales people representing contiguous territories typically are placed under a territorial sales executive, who reports directly to the general sales manager. These territorial executives usually are called district or regional sales managers.

A territorial organization usually ensures better implementation of sales strategies in each local market and better control over the sales force. Customers can be serviced quickly and effectively, and local sales reps can respond better to competitors' actions in a given territory.

Product specialization. Another commonly used basis for organizing a sales force is some form of product specialization. To illustrate it a company may divide all of its products into three lines. Then one group of sales reps will sell only the products in line A. All sales people in group A will report to a sales manager for product A, who, in turn, will report to a general sales manager. For example, the pharmaceutical companies sell the goods of different therapeutic groups – febrifugal (1), cardiovascular medicines (2), gastroenteric (3). Thus, there can be a Product-manager in group 1, group 2 and group 3.

Customer specialization. Many companies today have divided their sales departments on the basis of a customer's type. Customers may be grouped either by type of industry or by a channel of distribution. A firm that specializes its sales operations by the channel of distribution may have one sales force selling to wholesalers and another that deals directly with large retailers.

As more companies fully implement the marketing concept, customer-specialization organization is likely to increase. Certainly the basis of the customer specialization is commensurate with the customer-oriented philosophy that underlies the marketing concept. That is, the organizational emphasis is on the customers and markets rather than on products.

Combination of organizational bases (matrix). Many medium-sized and large companies typically combine a territorial sales organization structure with one of either product or the customer specialization (Fig. 2.2).

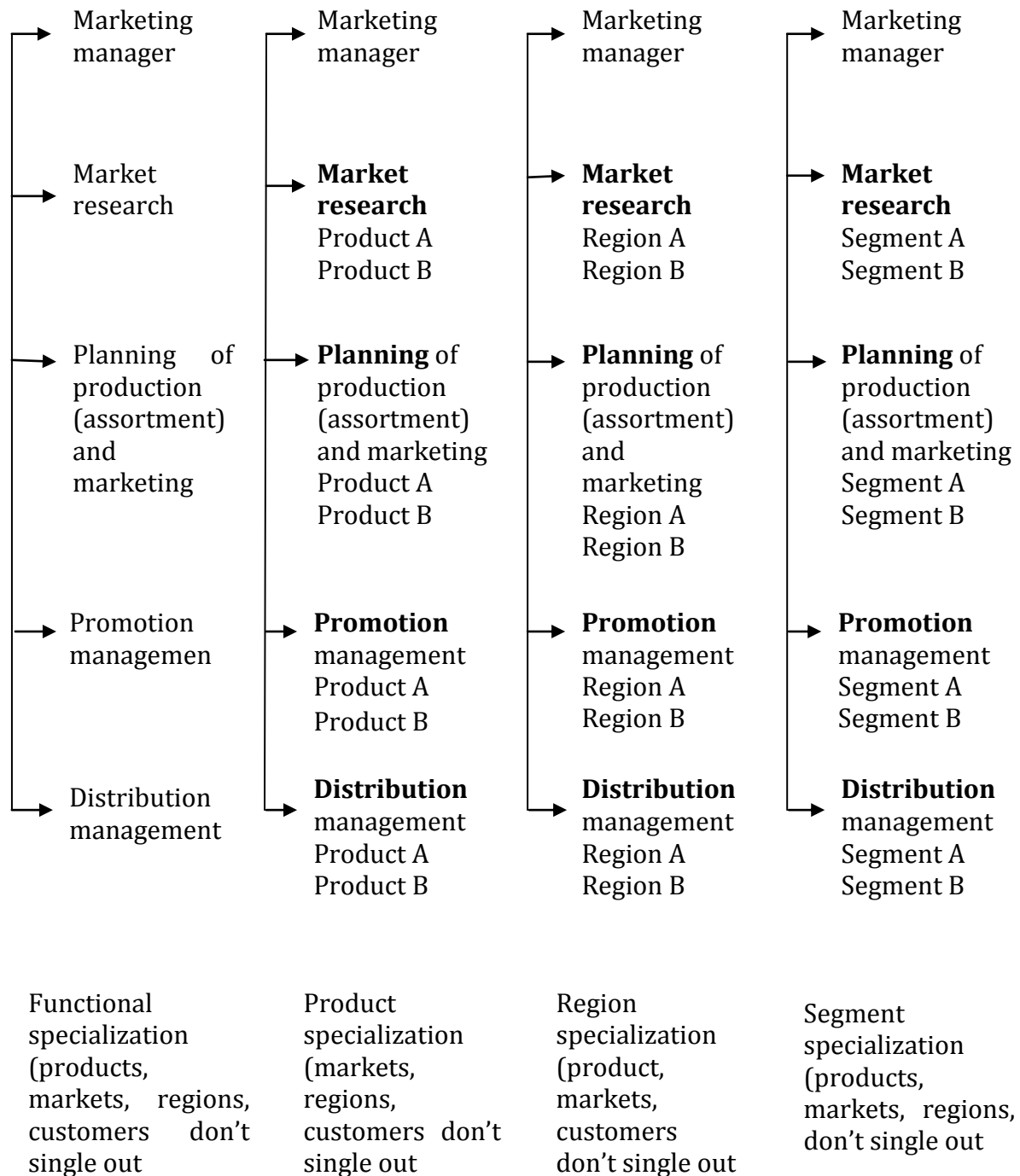


Figure 2.2 – Models of marketing services organization

For greatest conformity of marketing service to concrete features of pharmaceutical enterprises work it is use the combined models of marketing structures, in particular, on goods and region.

Basic stages of the organization of pharmaceutical marketing services are allocated:

- determining of the prime purpose and problems of pharmaceutical marketing service on given enterprise;
- working out of Statute about marketing service at the enterprise;
- a substantiation of organizational structure;
- service creation (groups, department, coordination council, etc.) marketing;
- determining of problems for separate divisions and its functional duties of marketing service workers.

Overall aim of pharmaceutical marketing service is optimization of processes of working out, manufacture and distribution of medical products according to consumers needs.

The main tasks of pharmaceutical marketing service are:

- working out of the marketing program;
- market segmentation;
- gathering of the marketing information on the market, structure, dynamics of demand and factors, its defining;
- forecasting of a market condition, dynamics of its changes;
- the analysis of a competitive situation and introduction of actions for increase of competitiveness of pharmaceutical enterprise' developments for expansion of domestic market and export opportunities;
- formation of product assortment;
- preparation and dispatch to potential customers of information materials about developments of the pharmaceutical enterprise (association) and results of research;
- participation in works of organization of the external economic and scientific, technical communications with foreign partners;
- working out long-term, intermediate term and marketing current plans by each kind of pharmaceutical production;
- formation of demand and stimulation of sale of the pharmaceutical goods;
- working out of advertising campaigns, realization of business ties with press, advertising agencies, radio and TV, etc.;
- participation in formation of public relations, etc.

Proceeding from problems, functions of department of pharmaceutical marketing are defined:

- gathering, studying, an estimation, the analysis and generalization of domestic and foreign information about condition, capacity and tendencies of development of potential sales markets of pharmaceutical production;
- gathering and analysis of the information on activity of the competitors who produces similar production, their intentions on the investigated markets;
- the analysis of a contingent and groups of consumers of medical products and other products of pharmacy assortment;
- preparation and carrying out of expert estimations, interrogation of consumers concerning quality and assortment of the offered pharmaceutical goods; revealing and demand records and needs on production, which release can adjust the given pharmaceutical enterprise;
- organization of preparation of advertisement brochures, booklets, information letters and other advertising materials;
- selection and preparation of product samples of the pharmaceutical enterprise for an specialized fairs and exhibitions;
- determination of requirements to quality and consumer features of the equipment and outlet pharmaceutical production;
- studying and use of domestic and foreign experience in sphere of the analysis of a market situation, marketing, advertising, work with consumers.

Questions for out-of-class work

- 1. What problems of marketing management?*
- 2. What are the features of planning in marketing system?*
- 3. What parts dose marketing plan consist of?*
- 4. List a basic marketing concepts of the enterprises.*
- 5. What are the features of Human responsibility concept of marketing in the field of pharmacy?*
- 6. What kinds of marketing services orientation of the enterprises are exist?*
- 7. What stages of marketing services organisation are allocated?*
- 8. Characterise modern organizational structure of marketing service of the pharmaceutical enterprise.*
- 9. List the main tasks of marketing service of the pharmaceutical enterprise.*
- 10. What functions are carried out by departments of pharmaceutical marketing?*

Tests

1. Studying of a market situation has shown favourable tendencies for the pharmaceutical enterprise. What variant of marketing plan is expedient in this case?

- A. Minimum
- B. Optimum
- C. Intermediate term
- D. Maximum
- E. Long-term

2. The marketing service of the enterprise by analysis of opportunities of the market, has established obvious complication of a market situation for a firm. What, under such circumstances, should be the marketing plan?

- A. Minimum
- B. Short-term
- C. Optimum
- D. Long-term
- E. Maximum

3. A company works in stable market situation. What variant of marketing plan should has firm?

- A. Minimum
- B. Optimum
- C. Intermediate term
- D. Short-term
- E. Maximum

4. What questions groups have the greatest value in marketing management activity?

- A. Information
- B. Uses of marketing elements
- C. Formation of assortment
- D. Organizing of public relation activity («PR»)
- E. Organizing of marketing activity
- F. Control in marketing sphere

5. To provide availability of the medicinal help and high production efficiency, pharmaceutical enterprise makes medical products cheap and procurable to buy medicines. What marketing management concept stands by the company?

- A. Production orientation
- B. Product orientation
- C. Sales orientation
- D. Marketing orientation
- E. Human orientation

6. In condition of high level competition pharmaceutical enterprise try to satisfy of consumers needs and to increase of society's life standard and own profitableness. What concept of marketing management activity was chosen by the given firm?

- A. Production orientation
- B. Product orientation
- C. Sales orientation
- D. Marketing orientation
- E. Human orientation

7. Pharmaceutical enterprise, considering priority value of quality among other market characteristics of goods, has directed the efforts to improvement of quality of medical products let out by it. What concept of marketing management is used by firm?

- A. Production orientation
- B. Product orientation
- C. Sales orientation
- D. Marketing orientation
- E. Human orientation

8. What concept of organization's marketing activity stands by the company consider that consumer will not buy its goods without considerable efforts on promotion and sale?

- A. Production orientation
- B. Product orientation
- C. Sales orientation
- D. Marketing orientation
- E. Human orientation

9. What concept of organization's marketing activity was chosen by the firm according to consumers needs, which necessary to satisfy better, than it is done by competitors?

- A. Production orientation
- B. Product orientation
- C. Sales orientation
- D. Marketing orientation
- E. Human orientation

10. Enterprise going to work on market segments where consumers differ needs in goods, purchasing capacity and behaviour. What model of marketing service organization more rational for the enterprise?

- A. Functional
- B. Product
- C. Regional
- D. Segment
- E. Matrix

11. Pharmaceutical enterprise produces wide assortment of medical products. What model of marketing service organization can be taken for as basis of activity in the given situation?

- A. Functional
- B. Product
- C. Regional
- D. Segment
- E. Matrix

12. Pharmaceutical enterprise produces not wide assortment of medical products and sales on insignificant quantity of markets. What model of marketing service organization is chosen by the enterprise?

- A. Functional
- B. Product
- C. Regional
- D. Segment
- E. Matrix

13. Enterprise makes one-type goods and sales its on many markets. What model of marketing service organization should be chosen in the given situation?

- A. Functional
- B. Product
- C. Regional
- D. Segment
- E. Matrix

14. That does not concern stages of the organization of pharmaceutical marketing services?

- A. Defining of purpose and tasks of enterprise's marketing service
- B. Forecasting of market condition
- C. Working out of Statements on marketing service
- D. Substantiation of organizational structure
- E. Substantiation of production and distribution directions of activity
- F. Creation of marketing service (group, department, etc.)
- G. Defining of separate divisions' tasks and functional duties for marketing service workers?

CHAPTER 3

MARKETING RESEARCH AND THE INFORMATION. MARKETING INFORMATION SYSTEMS

In the given chapter essence, directions, methods and stages of marketing research are presented. Value and principles of formation by pharmaceutical industrial and wholesale-retail enterprises of the information is shown. Described structure and opportunities of marketing information system.

3.1. THE PURPOSE, OBJECTS AND METHODS OF MARKETING RESEARCH

Using marketing, the manufacturer or wholesale and retail enterprise plans what to produce, where to distribute goods, what price to establish, etc. For this purpose it is necessary to know the potential buyer, its opportunities, preference, and also to have data about presence of the similar goods on the market, about a demand condition for it, etc. Such information receive by marketing research.

It is possible to name marketing research as the communicative channel by which connection with an environment is established.

Marketing research are function which connects the organisation with consumers through the information. The received information is used for revealing and definition of possibilities and problems of marketing; workings out, specifications, an estimation and the control of execution of marketing actions; perfection of understanding of marketing as process.

Marketing research are the scientific researches directed on regular gathering, reflexion and the analysis of the information concerning needs, opinions, motivations, relations, behaviour of separate persons and the organisations (subjects of economic activities, official bodies, etc.) for the purpose of proved marketing decisions' acceptance.

Marketing research are spent in three directions: research of macro-and a microenvironment and the internal environment of the enterprise.

Studying of macroenvironment factors, their tendencies and influence on enterprise activity allow to define its strategy, to allocate perspective directions for work on the market.

Marketing research of a microenvironment study the market, competitors, consumers, goods, prices, distribution systems.

Concrete result of marketing research take place at a choice of strategy and tactics of enterprise's marketing activity.

Market research is the most widespread direction in marketing research. Objects of market research are tendencies and processes on the market which include the economic changes analysis, scientific and technical, demographic, ecological, legislative and other factors. The structure and market geography, its capacity, dynamics of sale, a competition condition, market conjecture, opportunities and risks are investigated also. The basic results of market research are forecasts of its development, an estimation of conjecture tendencies, definition of key success factors. The market segmentation, choice of the target markets and market niches is carried out.

Research of consumers allows to define factors of consumers choice of goods (incomes, a social status, an age, sex, education). The consumption structure, goods security, consumer demand tendencies are investigated.

Research of competitors consists in reception of necessary data for maintenance of competitive advantages on the market and also to find co-operation possibilities. For with purpose are analyzed strength and weaknesses of competitors, their market share, work with goods, changes of prices, advertising campaigns. The material, financial, labour potential of competitors, the organisation of management are studied. The choice of ways and possibilities of achievement of the most convenient position in the market concerning competitors becomes result of such research.

Studying of firm structure of the market is carried out for the purpose of reception of the information on possible intermediaries, and also transport and forwarding, advertising, insurance, legal, financial, consulting and other companies and organisations creating a marketing infrastructure of the market.

Overall objective of **goods research** is determine of conformity of technical and economic indicators and quality of goods which are present on the market, to requirements of buyers, and also their competitiveness analysis.

Results of research give the chance to the enterprise to develop own assortment of goods according to consumers needs, to raise their competitiveness, to define directions of activity depending on different stages of product life cycle, to find idea and to develop new goods, to improve marketing, to develop a corporate style, to define patent protection means.

Price research is directed on definition of such level and a parity of the prices which give the maximum profit with minimum expenses. As a result of the spent research optimum parities "expense-price" and "price-profit" are selected.

Research of distribution and sales provides determining of the most effective ways and means of the fastest selling of goods to the consumer. Research include the analysis of functions and features of wholesalers and retailers activity, their relationship with manufacturers.

Studying of intermediaries provides the analysis of market coverage, trading intermediary's potential, its reputation, distribution network, financial stability, etc.

Such data allow to define possibilities of increase in goods turnover, to optimise commodity stocks, to develop criteria of a of effective distribution channels choice and techniques of sale to end users.

At *studying of suppliers* of raw materials, stocks, the equipment, and also finished goods (for trading organisations) the analysis of offered production quality, the prices for it, conditions of deliveries, condition of supply, possibility of crediting, possible volumes of deliveries, reputation of the supplier are carried out.

Research of marketing communications system allows to develop a public relations policy and to create the favourable relation to the enterprise, its goods; to define methods of consumer demand formation, influence on suppliers and intermediaries; to raise efficiency of communicative connections, including advertising.

Research of the internal environment of the enterprise has an object to define real competitiveness level of the enterprise as a result of comparison of corresponding factors of the external and internal environment. Manufacture, sale, management, marketing, the finance are analyzed. It is important, that enterprise activity has been completely adapted to environment, what is why are allocated strength and weaknesses of the enterprise, opportunity and threat. This information is used for strategic and tactical decision making on a complex of marketing in a company.

Marketing research usually are directed on studying of research object which represents a social reality or social process, and also they are concrete people, documents, etc., acting as observation unit and the analysis. **Object of research** are the most significant sides of object which are subject to direct studying in applied research. Applied research are directed on studying of social factors: behaviour of individuals, social groups, collectives; products of human activity – goods and services; judgments, opinions, sights of people. A subject of marketing research of theoretical (fundamental) character are the various markets, types of consumers, their motivations, etc.

In marketing research process the basic stages are allocated.

1. Working out of the concept or the research program:

- problem statement;
- definition of the purpose and problems;
- object and subject of research definition;
- definition of indicators system;
- formation of a working hypothesis.

2. Gathering and the analysis of primary data:

- working out of the working tool;
- data acquisition process;
- processing and the analysis of data.

3. A formulation of conclusions and registration of research results:

- working out of conclusions and recommendations;
- registration and presentation of results of research (Fig. 3.1).

Results of research can be presented in the form of a short statement of research essence or in the full scientific report in which scheme of research is systematised and evident, substantiated conclusions and recommendations in details are there.

Results of marketing research are used for proved administrative decision making. Marketing research provide their accurate organisation. Information receive with use of room and field research, and also various sources of the information (internal and external, own and received etc.).

At **room** research official sources of the information are used: the reporting, directories, the statistical data (secondary data).

In pharmaceutical market research as the basic sources of the information are used price-lists of pharmaceutical companies, recipes, histories of illnesses, consignment note, orders of pharmacies, statistical data, publications in professional editions, specialised databases, etc.

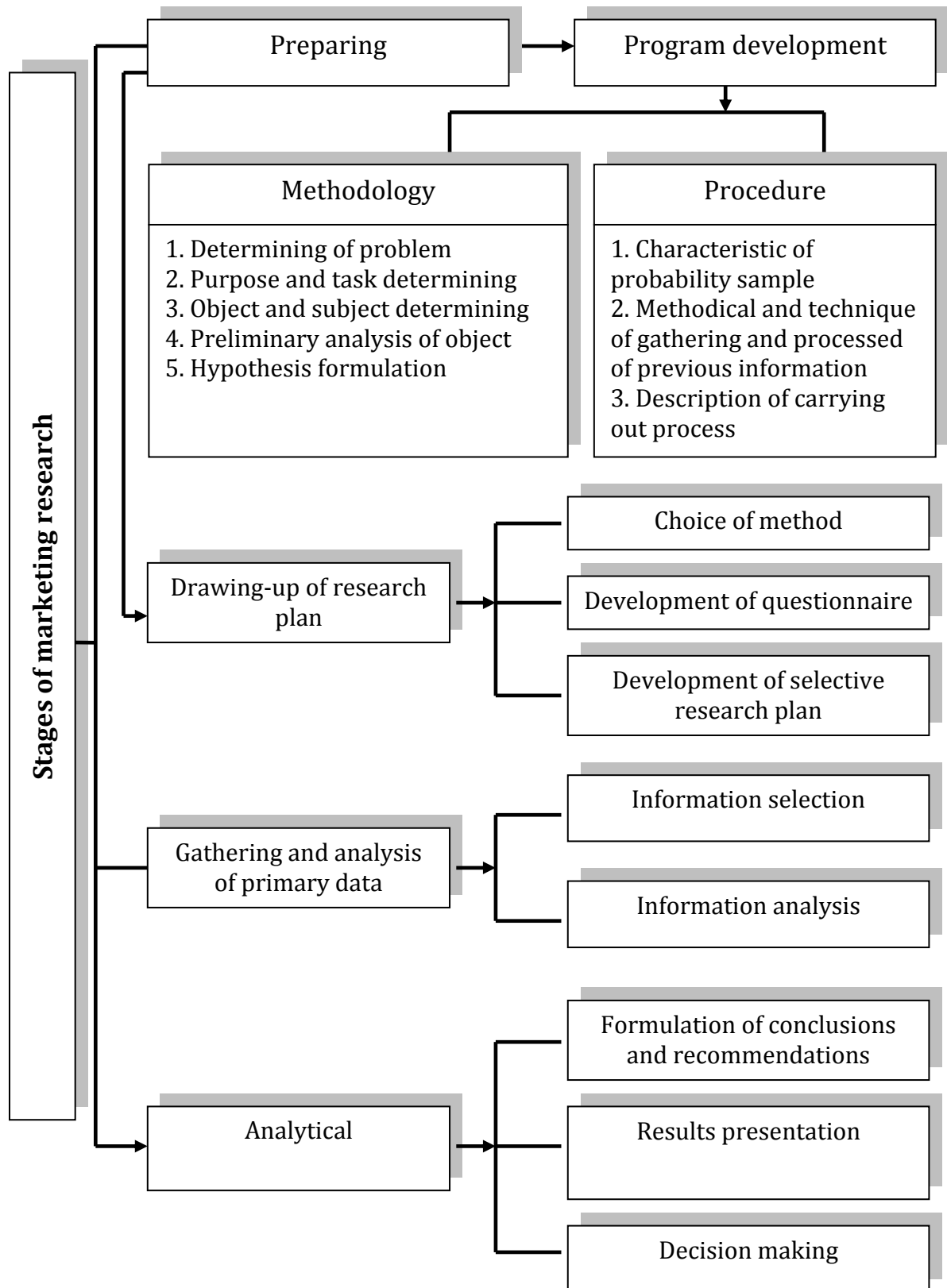


Figure 3.1 – Stages of marketing research

Field research is used, as a rule, with the purpose of studying the reaction of consumers on a product (primary data). The main widespread methods are interrogation, supervision, experiment and panel.

Interrogation. It is necessary to understand finding-out of people' positions or reception from them references on any question. It is the most widespread and major form of data gathering in marketing. Approximately in 90 % of research this method is used. Interrogation can be spent in the oral or written form.

For working out of questions it is necessary to start from an information need and possibilities interrogated to give a right answer. If researcher wants to know agreement or disagreement, sufficient the type of questions «Yes – no». If it is necessary to draw a conclusion on opinions of interrogated might to use scale questions.

Supervision – is used as a way of information's reception in market research much less often, than interrogation. Advantages of a method of supervision are:

- independence of object desire to cooperation, ability investigated to verbal revealing in substance of a case;
- possibility to provide higher objectivity;
- possibility of perception of not realised behaviour (a choice of goods in pharmacy);
- possibility of surrounding situation count, especially at supervision by means of devices.

Supervision has a lacks:

- it is difficult to provide representatively, because supervision has need, as a rule, special conditions (for example, behaviour of visitors in pharmacy: it is possible to observe only those who has come, the casual choice of objects is impossible);
- subjectivity of perception observing, selective supervision;
- the behaviour of objects can differ from natural if supervision is opened (effect of supervision).

Experiment is research, at which should be established as change of one or several independent variables influences one or several dependent variables. Essential signs of experiment:

- the isolated changes (separate sizes vary the researcher, others should be, as far as possible, constants);
- the researcher actively interferes with process of data occurrence;
- the interconnection of cause and effect (for example, influence of colour of packing on sales volume) is checked.

The panel. Goods sale constantly fluctuates as a result of competitors action and preferences of the consumers changes, therefore the necessary information can be received as a result of numerous interrogation of group of

the interested buyers at regular intervals or by supervision over sale development in certain group of pharmacies. The panel has such signs:

- the subject and a research topic are constant;
- data gathering repeats at regular intervals;
- a constant (with certain conditionality) set of objects of research – trading enterprises, consumers.

Distinguish three kinds of the panel: trading, consumer, special forms.

The consumer panel is based on an interrogation method. Drugstores are special forms of the panel.

By consumer panel it is possible to receive such information:

- quantity of the goods sold by a family;
- the sizes of financial expenses;
- market share of the basic manufacturers;
- the prices by which the preference is given, kinds of packing's, kinds of goods, kinds of retailers;
- a difference in behaviour of the consumers belonging to various social strata, living in different regions, cities of different size;
- the special analysis «fidelity to mark», changes of marks, effectiveness of various marketing actions etc.

3.2. THE VALUE OF THE PHARMACEUTICAL INFORMATION

The information represents a set of the ordered document files and information technologies which provide information processes on the basis of standardized forms of submission and data transmission, forms and methods of rendering of information services of different type.

Information is of great importance in conditions of the market – for the manufacturer, wholesale, retail trade. The information on the market, assortment of goods, demand, a market capacity, a share of the separate organizations, distribution channels, advertising uses the greatest demand. Sources of this information are questioning, exhibitions, seminars, fair brochures, price-lists, periodic or special editions, statistical collections, the thematic directories, the specialized databases. Except for the information on the market the information on the internal environment (scientifically – technical potential, the staff, industrial reserves and stocks, production costs, profit profitability of release of goods, pricing), as well as the information on the environment (demographic, economic, climatic, scientific – technical, political, cultural) is used.

Possession of various information and its use in interests of the enterprise is the main strategic condition of marketing. Value in marketing management causes major principles of information formation:

Urgency, that is real timely display of the marketing environment condition (in the best commercial databases the information is updated daily);

Reliability – provides an exact reconstruction of a condition and development of manufacture, the market, an environment. In connection with necessity of preservation by the enterprise of competitive positions various sources of the information should be used, and the obtained data should be analyzed on absence of contradictions;

Relevance of data – information formation according to certain requirements;

Completeness of display – is necessary for the objective account of all factors forming or influencing of condition and development of the marketing environment;

Purposefulness of data – focuses on specific goals and tasks;

The coordination and information unity – require such system of indicators' working out which contradictions in conclusions would not be supposed, inconsistency of the primary and received data.

In the conditions of the market economy such kinds of the information are used: tactical; commercial (about a supply and demand); external economic; social; ecological.

Information should meet the following requirements: objectivity; sufficiency; efficiency; the information of the given base is systematized and convenient for use by heads.

In the pharmaceutical market the information on achievements is necessary in the field of creation, release of new medicines, tactical demand, offers on separate pharmacological groups, the analysis of own activity, search of new commodity markets, estimation of competitive advantages.

The information on advertising, which promotes demand, is necessary for promotion, planning of the need for medicines, their rational use, introduction in medical practice.

Consumers of the pharmaceutical information are operators of the market, experts (doctors and pharmacists), consumers.

There are 3 basic kinds of the information:

- the cumulative information necessary for maintenance of the effective pharmacotherapy;
- the cumulative information necessary for realization of marketing actions, which creates the marketing information system;
- a set of the information necessary for planning and the control of logistical actions.

There are specific information matters for the pharmaceutical market: about diseases; about health services; demographic structure; a level of incomes; legal regulation sales of medicines to population; purchases, manufacture, export and import.

Research of consumers allow to establish factors by which consumers are guided at a choice of the goods (incomes, the social status, age, formation).

Research of competitors is the analysis of weaknesses, market share, work with the goods, the prices, advertising, as well as the material, the financial parameter of competitors, the organization of management.

Studying of the firm's structure of the market is carried out with the purpose of getting the information about intermediaries, insurance, legal, financial companies. The research of goods is necessary to determine: technical and economic parameters and the quality of goods; conformity to the requirements of buyers; competitiveness of the goods; the research results enable to develop the assortment, to indicate directions of activity, to find idea of the new goods.

The research of the price. As a result of research, the most effective parities are selected: "costs – prices" and "price – profit".

The research of distribution and sales is carried out to choose: the most effective and the fastest ways of goods sale; it contains the analysis of the enterprises activity of wholesale and retail trade; it allows to develop the criteria of choice of the effective distribution channels.

The research of the selling and advertising stimulation system allows: to develop the system of public relations; to determine methods of formation of demand, influence on suppliers and intermediaries; to increase efficiency of advertising.

The research of the internal environment of the enterprise is necessary for: determination of a real level of competitiveness of the enterprise; achievements of conformity of activity of the enterprise to a level of development of environmental factors.

The structure of the marketing information necessary for operation of business, is resulted on Fig. 3.2.



Figure 3.2 – Sources and structure of marketing information on enterprises

3.3. MARKETING INFORMATION SYSTEMS

A marketing information system (MIS) is a set of procedures and methods designed to generate, analyze, disseminate, and store anticipated marketing decision information on a regular, continuous basis. An information system can be used operationally, managerially, and strategically for several aspects of marketing.

A marketing information system can be used operationally, managerially, and strategically for several aspects of marketing.

No marketing activity can be carried out in isolation, it doesn't work in isolation that means there are various forces could be external or internal, controllable or uncontrollable which are working on it. Thus to know which forces are acting on it and its impact the marketer needs to gathering the data through its own resources which in terms of marketing he is trying to gather the market information or form a *marketing information system*. This collection of information is a continuous process that gathers data from a variety of sources synthesizes it and sends it to those responsible for meeting the market places needs.

The effectiveness of marketing decision is proved if it has a strong information system offering the firm a Competitive advantage. Marketing Information should not be approached in an infrequent manner. If research is done this way, a firm could face these risks:

1. Opportunities may be missed.
2. There may be a lack of awareness of environmental changes and competitors' actions.
3. Data collection may be difficult to analyze over several time periods.
4. Marketing plans and decisions may not be properly reviewed.
5. Data collection may be disjointed.
6. Previous studies may not be stored in an easy to use format.
7. Time lags may result if a new study is required.
8. Actions may be reactionary rather than anticipatory.

The total information needs of the marketing department can be specified and satisfied via a marketing intelligence network, which contains three components.

1. Continuous monitoring is the procedure by which the changing environment is regularly viewed.
2. Marketing research is used to obtain information on particular marketing issues.
3. Data warehousing involves the retention of all types of relevant company records, as well as the information collected through continuous monitoring and marketing research that is kept by the organization.

Depending on a firm's resources and the complexity of its needs, a marketing intelligence network may or may not be fully computerized. The ingredients for a good MIS are consistency, completeness, and orderliness. Marketing plans should be implemented on the basis of information obtained from the intelligence network.

An Marketing Information System offers many advantages:

1. Organized data collection.
2. A broad perspective.
3. The storage of important data.
4. An avoidance of crises.
5. Coordinated marketing plans.
6. Speed in obtaining sufficient information to make decisions.
7. Data amassed and kept over several time periods.
8. The ability to do a cost-benefit analysis.

The disadvantages of a Marketing information system are high initial time and labour costs and the complexity of setting up an information system. Marketers often complain that they lack enough marketing information or the right kind, or have too much of the wrong kind. The solution is an effective **marketing information system**.

The information needed by marketing managers comes from three main sources:

1. Internal company information – E.g. sales, orders, customer profiles, stocks, customer service reports etc.

2. Marketing intelligence – This can be information gathered from many sources, including suppliers, customers, and distributors. Marketing intelligence is a catchall term to include all the everyday information about developments in the market that helps a business prepare and adjust its marketing plans. It is possible to buy intelligence information from outside suppliers who set up data gathering systems to support commercial intelligence products that can be profitably sold to all players in a market.

3. Market research – Management cannot always wait for information to arrive in bits and pieces from internal sources. Also, sources of market intelligence cannot always be relied upon to provide relevant or up-to-date information (particularly for smaller or niche market segments). In such circumstances, businesses often need to undertake specific studies to support their marketing strategy – this is market research.

A marketing information system can be conditionally divided into four basic subsystems:

- a subsystem of the internal reporting;
- a subsystem of gathering of the external current marketing information;
- a subsystem of marketing research;
- a subsystem of the marketing analysis (Fig. 3.3).

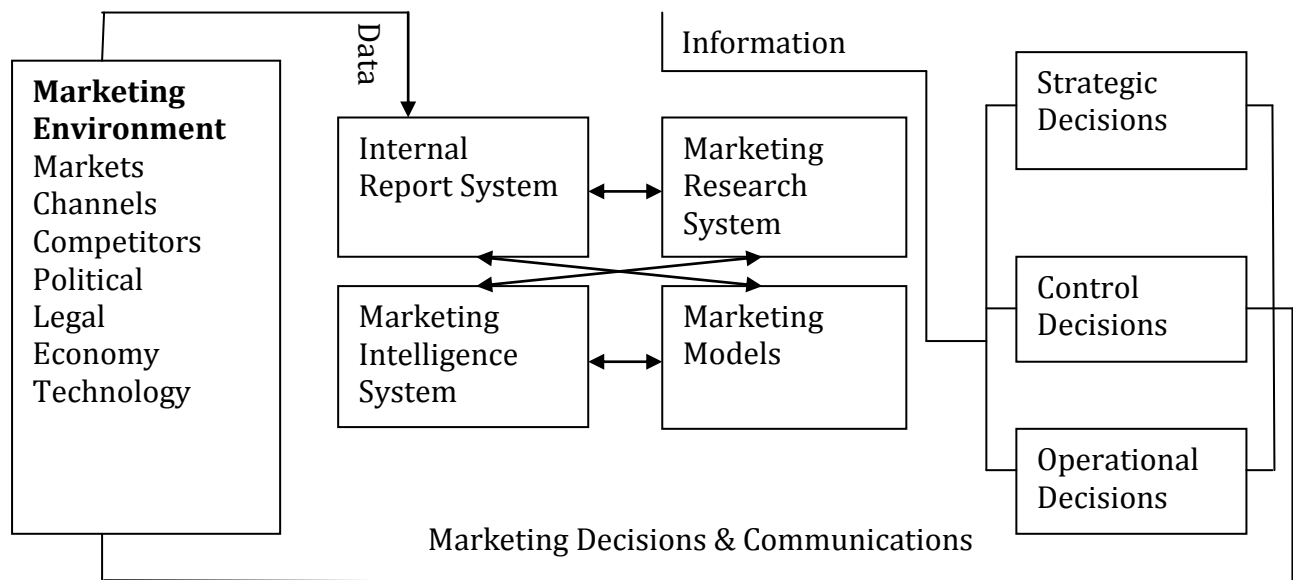


Figure 3.3 – Structure of marketing information system

The subsystem of the internal reporting allows to accumulate the information which source is the firm. These are data about the order for production, the prices, sale, stocks, expenses, etc. Such information helps heads and experts to develop and make marketing decisions, however it is not used almost separately from many other things necessary data.

The subsystem of the external information is focused on sources and methodical receptions which help receive data on events and the situations occurring in environment. Thus information sources are as research of employees of firm, its intermediaries and consumers, and data of mass media, bulletins, etc.

Subsystems of the internal and external information operate by secondary information which reception does not demand carrying out of special research. The main advantages of the secondary information are its relative cheapness and speed of reception. At the same time sometimes this information does not give possibility to provide a substantiation of the effective administrative decision. The basic lacks of the secondary information are:

- not relevant (discrepancy or incomplete conformity to the accepted decision);
- fast ageing of the information;
- not always high reliability of the information;
- insufficient completeness.

In such cases there is a necessity in reception of the primary information by *marketing research* are carried out and the *corresponding subsystem is formed*.

Advantages of the primary information are such:

- it always the newest information because receive it at the moment of carrying out of research;
- the control of methodical approaches to carrying out of research is provided, that at certain level of competence of researchers guarantees reliability of the received data;
- data gather according to need in concrete administrative decision.

Besides, the firm-customer of research is the exclusive owner of the received information which remains secret for competitors more often.

The main lack of procedure of reception of the primary information is its dearness and considerable expenses of time for carrying out of research.

By results of marketing research it is possible to estimate market volume, to define a segment of potential consumers and on the basis of this information to establish the purposes for expansion or enterprise reduction, to generate the sale plan.

The system of the marketing information analysis contains of economic indicators analysis, and also short-term and long-term forecasting on the basis of the analysis of tendencies. Marketing research and the analysis are based on application of different economic and mathematical methods: multidimensional, regression and correlation, imitating modeling, the statistical theory of decision-making.

The system of marketing information analysis by using of economic-mathematical methods gives the chance to define:

- influence of major factors on distribution (sale volume) and value of each of them;
- opportunity of distribution at a rise prices or publicity expenses in the corresponding volume;
- parameters of production competitiveness;
- an estimation of market activity of the enterprise, etc.

The obtained data are transferred by a firm management for necessary decisions making.

Questions for the out-of-class control

- 1. What are the value and essence of marketing research?*
- 2. What is the marketing research?*
- 3. Name the basic directions of marketing research.*
- 4. Characterise separate directions of marketing research.*
- 5. What are the object and a subject of marketing research?*
- 6. What methods are used in marketing research?*

7. *Open their essence.*
8. *Name stages of marketing research.*
9. *List directions of information marketing activity in pharmacy.*
10. *What kinds of the commercial information have the greatest demand in market economy?*
11. *List the general requirements to the administrative information.*
12. *What data concern the information on the internal environment of the enterprise?*
13. *What information on a commodity market and services is used by marketing service?*
14. *What structural divisions of the enterprise use the marketing information?*
15. *What principles of formation of the marketing information?*
16. *List subsystems of marketing information system.*
17. *What value have internal and external reporting subsystems?*
18. *What advantages and lacks of the primary and secondary marketing information?*
19. *Characterize system of the marketing information analysis.*
20. *What features of pharmaceutical information marketing systems are?*
21. *Result examples of information marketing systems in pharmacy.*
22. *What advantages of creation of regional computer networks?*
23. *In what value of formation of a uniform information field consists in Ukraine?*

Tests

1. *What does the given definition correspond to: «... are the scientific research directed on regular gathering, reflexion and the analysis of the information concerning needs, opinions, motivations, relations, behaviour of separate persons and organisations to make of the proved marketing decisions»?*
2. *Experts of marketing service of the pharmaceutical enterprise have received the task to study a market capacity of a concrete medical product, sales dynamics, competition condition, opportunities and risks in the market. What object of a microenvironment of the enterprise dose the given direction of research corresponds?*
 - A. Consumers
 - B. The market
 - C. Goods
 - D. Competitors
 - E. Firm structure
 - F. The price

3. The regional medical representative of a foreign firm to study of territorial pharmaceutical market uses sources of special periodicals and statistical literature. What kind of marketing research is based on use of the specified sources?

- A. The field
- B. The room
- C. The panel
- D. All answers correct
- E. The right answer is not present

4. What room methods of research of the market can be used marketing experts?

- A. Selective supervision
- B. Continuous supervision
- C. Telephone survey
- D. Carrying out of experimental sale of goods
- E. The analysis of the previous research

5. Experts of marketing department at the pharmaceutical enterprise which introduce on the market new antidiabetic preparation, spend questioning of doctors-endocrinologist. What method of marketing research is used?

- A. Experiment
- B. Interrogation
- C. Supervision
- D. The panel

6. Pharmaceutical enterprise wants to estimate rate of pharmacy visitors who have done shopping. What method of research is used?

- A. Supervision
- B. Interrogation
- C. Experiment
- D. The panel
- E. All answers are true
- F. The right answer is not present

7. The experiment purpose as research method can be:

- A. Definition of a potential sales volume of the new goods
- B. Dependence research between the price and sales volume
- C. Efficiency estimation of advertising campaign
- D. Efficiency estimation of marketing mix
- E. All answers are true
- F. The right answer is not present

8. What types of information have the greatest demand in the market economy condition?

- A. Tactical
- B. Social
- C. Political
- D. Economic
- E. External economic
- F. Ecological

9. The purpose of functioning of marketing information system is:

- A. Creation of marketing plan
- B. Information support of marketing decisions
- C. Realization of marketing concept of management
- D. All answers are true
- E. Right answers are not present

10. What subsystems are included the general model of marketing information system?

- A. Internal reporting
- B. External current marketing information
- C. Marketing control
- D. Marketing research
- E. Marketing analysis

CHAPTER 4

STUDYING OF PHARMACEUTICAL MARKET

The chapter is devoted to complex research of the market, definition of its qualitative and quantitative characteristics: capacity, segmentation, motivation of consumers, a level of demand, supply and needs in medical products. Techniques of planning needs in medical products of separate groups are described: medicines of specific action; medicines, which consumption is strictly normalized; medicines of wide spectrum of action. Taking into account market replenishment by new preparations the technique of defining needs for them is shown. Kinds of demand for medical products, methods of studying of supply and demand are described.

4.1. RESEARCH OF THE MARKET OF MEDICAL PRODUCTS

Market research is information basis of achievement of such purposes, as certain sales volume, creation and a launch on the market of new goods, increase in market share.

Prime value in market research gets studying of commodity structure. In this case the concept «market» is identified with concept «the commodity market». As **commodity market** understand sphere of product sales (or groups of goods), which interconnected by certain properties.

Object of products' market research is a parity of supply and demand in certain economic and social conditions.

Orientation of complex research of the market:

- studying of market requirements to product, i.e. of buyers' requirements and, that is especially important, end users to consumer value of product;
- complex research of the market predetermining careful studying of an economic conjuncture;
- analysis of market segmentation and research of separate market segments for the purpose of the further revealing of the target markets;
- studying of firm structure on the market, i.e. defining of basic groups of firms working in the given market: firms-partners (buyers), firms-competitors, which yet have not shown interest in relation to the given goods, but can be considered as potential buyers or active partners. On each firm corresponding research of reliability degree, the solvency, competitive lacks, etc. are carried out;

- research of forms and methods of trading practice concerning the given goods on the given market and its segments (as a majority of agreements of the purchase and sale is carried out, what forms of intermediary arrangements are typical, what kinds of agreements are applied);

- the analysis of social and psychological features of buyers and consumers in the concrete markets, their motivations at decision-making on purchase, types of buyers depending on the relation to purchase, social and psychological types of buyers, cast in different groups of buyers and consumers.

Studying of medical products market is based on allocation separate pharmacotherapeutic groups of preparations, grouping of preparations for treatment of certain diseases (for example, oncological, psychoneurological, a diabetes, etc.) or according medicinal forms (solutions for injections, tablets, aerosols, etc.). The main task of research of the market is definition of its capacity.

4.2. STUDYING OF QUANTITATIVE CHARACTERISTICS OF THE MARKET

Capacity of the commodity market is necessary to understand as possible sales volume of goods (concrete production of the enterprise) at the given level and a parity of prices. The market capacity is characterized by the sizes of demand a population and size of commodity offers.

The formula is applied to definition of capacity of the domestic commodity markets (4.1):

$$C = P + I - E + C_s, \quad (4.1)$$

where C – market capacity, P – domestic production, I – import, E – export, C_s – commodity stocks.

Capacity of the potential market are possible sales volume of goods to the buyers, requiring them and showing interest to the certain goods (4.2):

$$C = B \times P \times P_a, \quad (4.2)$$

where C – capacity of the potential market, B – quantity of potential buyers, P – quantity of purchases by average potential buyer, P_a – the average price of goods.

Capacity of the real market is possible sale volume of goods to the buyers, needing them, showing interest to the certain goods and *having possibility* to get it. Unlike an indicator of potential market capacity considering all consumers, wishing to get the given goods, the indicator of real market capacity includes only those, who can get goods taking into account its price.

The market capacity of medical products depends on different factors. To number of the general, that influence a realization of consumer goods, the price level, number and material welfare of the population, its cultural level concern, etc.

At the same time, consumption of medical products has the differences and primary factors which predetermine it, diseases of the population, other features of consumption connected with number of doctors, level and availability of medicine and medicinal help, treatment techniques, occurrence of new effective medicines, etc.

A market capacity does not remain invariable, it in a certain measure depends on an economic conjuncture.

At falling of a conjuncture the market capacity decreases, and any speeding up of delivery of goods on the market leads to vigilance of buyers, that usually accelerates reduction of prices. At increase of a conjuncture the market capacity increases, and sale speeding up can cause only rise in prices delay. Therefore by delivery of goods to the market the firm should correlate the share of a market to objective frameworks of its capacity.

A market share is a relative density of goods of firm in the general capacity of the given commodity market, expressed in percentage:

$$\text{Unit Market Share (in sale volume)} = \frac{\text{Unit Sales}}{\text{Total Market Unit Sales}} \times 100$$

$$\text{Unit Market Share (in money)} = \frac{\text{Sales of separate goods}}{\text{Market Capacity}} \times 100$$

Market share can also be defined in a separate segment, calculated the relative market share compared to competitors (possibly – with the three major) or with the leader:

$$\text{Market Share in Segment} = \frac{\text{Sales of goods}}{\text{Total Sale Volume in Segment}} \times 100$$

$$\text{relative Market Share} = \frac{\text{Company's Market Share}}{\text{Competitors' Market Share}} \times 100$$

$$\text{Market Share Compared to Lieder} = \frac{\text{Company's Market Share}}{\text{Leaders' Market Share}} \times 100$$

Indicators of market share characterize the company's competitiveness and, along with the dynamics of market share is used to monitor the results of marketing activities. Increasing market share is a key factor in achieving a leading position in the industry.

The high market share can achieve a significant volume of production, which in turn makes it possible to extend the conditional activity of the company, as well as to increase the desired profit. The increase in market share is a difficult task for several reasons. The most important conditions for increasing the share of the market are price, new products and services, the scope and quality of marketing and advertising. These include improved product quality and overall company image. Quality and originality of goods as factors of competitiveness affect consumer demand and sales volume. Also important is the determination of the period of time during which the firm intends to reach a larger market share.

Another indicator of quantitative assessment of the market is saturation. Saturation of the market – this is a measure of the prospects for change in demand (in %) and is defined as the ratio of the number of buyers have already bought the product, the total number of consumers (4.3):

$$MS = \frac{B_b}{B} \times 100\%, \quad (4.3)$$

where MS – market saturation, P – total number of customers, Pc – the number of customers who have purchased goods.

The market is attractive to firms, if this indicator is 10%, and at the level of saturation of 85-90% of the market is futile.

4.3. MARKET SEGMENTATION

The total market for most types of products is too varied – too heterogeneous – for management to consider it as a single, uniform entity. Market segmentation is the process of dividing the total heterogeneous market for a product into several segments, each of which tends to be homogeneous in all significant aspects. Management then selects one or more of these market segments as the organization's target market. Finally, a separate marketing mix is developed for each segment or a group of segments in this target market.

The market segmentation is a customer-oriented philosophy and, thus, it is consistent with the marketing concept. Firstly, we identify the needs of the customers within a submarket (segment) and then satisfy those needs.

The value of segmentation is shown in the following positions:

- provides a better understanding of not only consumers' needs, but what are they (their personal characteristics, behaviour in the market, etc.);
- provides a better understanding of the competition's nature in specific markets;
- have an opportunity to concentrate limited resources on the most favourable directions for their use;
- development plans of marketing activities are taken into account characteristics of individual market segments, resulting in a high degree of orientation of the marketing requirements on specific market segments.

By tailoring marketing programs to individual market segments, management can do a better marketing job and make more efficient use of marketing resources. A small firm with the limited resources might compete very effectively in one or two market segments, whereas the same firm would be buried if it aimed for the total market. By employing the strategy of the market segmentation, a company can design products that really match the market demands.

Ideally management's goal should be to segment its markets in such a way that each segment responds in a homogenous fashion to a given marketing program. Three conditions will help management move towards this goal.

1. The basis for segmenting – that is, the characteristics used to categorize customers – must be *measurable*, and the data must be *accessible*.
2. The market segment itself should be *accessible* through existing marketing institutions –middlemen, advertising media, company sales force, and so on – with a minimum of cost and waste.
3. Each segment should be *large enough* to be profitable.

The commonly used bases for segmenting the consumers market may be grouped into the following four broad categories:

1. **Geographic segmentation.** Many organizations segment their market on some geographic basis such as census region, city size, urban-suburban-rural, or climate. Many companies market only in a limited geographic area.

2. Demographic segmentation. Probably the most widely used basis for segmenting consumer markets is some demographic factor such as age, sex, income, stage in the family life cycle, ethnic background, etc. Demographic factors can also serve as the bases for operational market segments, because they meet the conditions for the effective segmentation – measurable, accessible, and large enough.

3. Psychographic segmentation. Three common bases for the psychographic segmentation of consumer markets are the social-class structure, personality characteristics, and life-styles.

4. Behaviour towards product (product-related bases). Behavioural characteristics define that consumers expect from the goods as they use the goods, their attitude to the goods.

Segmentation criteria depend on the nature of the market. In the study of the market of medicines most commonly used geographic and demographic principles, however, carried on the consumer segmentation by morbidity rate.

In terms of economic agents of the pharmaceutical market are important demographic characteristics of sex, since more than half the population are women. In general, women use more drugs and buy it for their families.

It is also important relation of representatives of different age groups. Population aged less 19 years and over 65 years is a significant proportion of medical services, respectively, they consume more drugs.

The cost of drugs depend on the level of population's income: people with higher incomes have more opportunity to seek medical help, to acquire expensive- products, etc.

For the segmentation of prescription drugs' consumers important factors such as cause of morbidity, the ability to pay for treatment of a third party (budget funds or insurance company).

Segmentation of the organizations – consumers recommend conduction on the following criteria:

- type of organizations – consumers (hospitals, health centres, school and preschool);
- specialty (gastroenterology, cardiology, neuropsychiatric, etc.);
- ownership and funding sources.

An enterprise should assess the different market segments and decide how many and what segments to allocate for future marketing work for them.

The practical significance have selection of "target market", "market window", "niche market".

The target market of the market is one or several segments selected for the marketing activity of the enterprise.

Market "window" is a segment of consumers, which needs manufacturers neglect. Needs are satisfied with other goods.

Market "niche" is a segment of the market, for which the optimal are the goods of the given firm.

4.4. RESEARCH OF CONSUMERS AND A TYPOLOGY OF MEDICINES' CONSUMPTION

Independent group of research is the study of consumption, the consumer needs and the motives of behaviour on the market.

Study of motivation and consumers' behaviour use in the next modeling of these processes. In general, the behaviour of consumers in the market differs according to needs and objectives of market activities, motivation, etc. However, consumer behaviour has some commonality. In the market of their behaviour can be expressed by economic, social and psychological factors that characterize specific needs.

Variety factors influencing consumer behaviour and, primarily external environment factors. Becomes important factors of individual differences of consumers: income, motivation, knowledge, dedication and enthusiasm, personal lifestyle, demographics, etc.

Usually allocate organization-consumers and end users. They differ in way of use goods and services and what to buy.

The organizations (enterprises) – customers include manufacturing companies, wholesalers and retailers, government agencies and other non-profits organizations.

In the field of pharmaceuticals these are pharmaceutical manufacturers, distributors, resellers, pharmacies, hospitals, etc.

End-users are the persons (individual consumers), family households (one or several families united by a common household).

Feature of consumers of drugs is that their behaviour is largely dependent on the appointment of doctors associated with the disease or its prevention.

The main objective of marketing specialist is to identify the objects who make decisions about purchasing goods.

"Consumer" and "customer" in marketing are clearly content. Customers – are those who are directly involved in the purchase. Consumers – a broader concept they are subjects who satisfy their needs.

The problem of enterprise is reveal, study and estimate accurately concrete need, for which satisfaction activity is directed.

Concepts "need", "demand" and "consumption" are interconnected and before to describe methodical approaches to their research, will result definition of these concepts.

Need in something, objectively necessary for ability to live and development of the person, social group, a society as a whole.

Demand – public or a personal need in material benefits and services, in means of production and the consumer goods, provided with money resources.

Consumption – use of a product in the course of satisfaction of needs, a final phase of process of reproduction.

For forecasting of need indicators, demand and consumption at the first investigation phase and the analysis is used of the most objective criterion – consumption. In that research allocate such aspects: changes in consumption (dynamics), the sizes and structure of consumption concerning different spending units (for example, on 1 inhabitant, on 1 or 1000 patients, etc.); reasons of differentiation of consumption; definition of a minimum of consumption (or optimum sizes).

Feature of medicines as consumption products is that they cannot be selected by the patient (except the non-prescribe drugs), – appointment by doctor is necessary.

Consumption of medical products is influenced by introduction of new methods of treatment, level of security medicines of a pharmacies chain, an individual choice by doctors of separate medical products or their groups, reduction or the full termination of demand for some preparations owing to their replacement with more effective, etc.

For an establishment of laws of separate medical products groups consumption and working out of methods of needs definition for them studying of features of their application is necessary. As a rule, the recipes which have been written out by doctors, histories of illnesses and sheets of the appointments, typical schemes of treatment separate nozological forms of diseases are with that end in view analyzed.

4.5. STUDYING OF THE NEED FOR MEDICAL PRODUCTS

Methods of definition of the need for medical products are various depending on group of a medical product:

1. Medicines of specific action.
2. Medicines, which consumption is strictly normalized.
3. Medical products of a wide spectrum of action.

Solving of the need for specific action medical products (effective concerning activators of separate diseases: for treating diabetes, influencing on the digestive system, etc.) and selectively working on separate functional systems of an organism (antituberculous, etc.). Calculations are carried out by the formula (4.4):

$$\Pi = P \times K \times X, \quad (4.4)$$

where Π – is the general need for a specific medicine for one year;

P – is expenses of a medicine for a therapy course for one patient;

K – is the quantity of courses of treatment per a year, which are prescribed to one patient;

X – is quantity of patients who need this medicines for treating diseases.

Solving of the need for medical products, the application of which is limited to the corresponding norms. Concern Narcotic, psychotropic and alcohol drugs belong to this group.

For solving of the need for medicines of the given group the norms of consumption per 1000 population one year in calculating by the substance, (cocaine g/c – 0,2, etc.) are used (4.5).

$$N = \frac{S \times P}{1000}, \quad (4.5)$$

where N – is much possible size of the need for the given medical products a year;

S – is the specification of consumption for the given medical products per 1000 person a year;

P – is population.

Calculations of the need for medicines of a wide spectrum of action (antibiotics, febrifugal, somnolent, etc.). Calculation of the need for these medicines is based on the data on their actual use for last years.

4.6. STUDYING OF A SUPPLY AND DEMAND OF MEDICAL PRODUCTS

The basic components of a market mechanism is demand, the price and the offer of goods in the market. Interaction of these elements will be in details considered in the section devoted to pricing in system of marketing. In the given section receptions of supply and demand research of medical products as important directions of studying of the economic conjuncture, needs of consumers directly connected with satisfaction are resulted.

Demand is considered as set of requirements on goods from the consumers supported by purchasing capacity. Distinguish few kinds of demand: negative, absent, hidden, decreasing, irregular, high-grade, excessive, irrational.

Negative demand. The market is in condition of negative demand if its most part dislikes the goods (service) and agrees even on certain expenses to avoid it (it is an inoculation, the stomatologic procedures, some operations, for example, on removal of a bilious bubble).

Actually on the overwhelming majority of medical products there is a negative demand, unwillingness of consumers to use this production. More often consumers prefer not to get medical products, but have necessity for it during illness. A consequence of such relation to medicines is also that the prices for them always are considered high or too high.

The marketing problem – to analyse, why the market feels hostility to goods and whether the marketing program can change the negative relation of the market at the expense of processing of goods, reduction of prices and more active stimulation.

Absence of demand. Target consumers can be not interested in the goods or are indifferent to it. The marketing problem is to find ways of association of advantages inherent in the goods with needs of nature or interests of the person.

The latent demand. Desires of consumers, which is impossible to satisfy by goods or the services which are available in the market. The marketing problem is to define size of the potential market and to create the effective goods and the services, capable to satisfy the latent demand.

At existence of decreasing demand the marketing problem is to return the reduction in demand tendency by creative reconsideration of the approach to the offered goods.

Irregular demand. In many organizations sale fluctuates seasonally, daily and even in hour, that causes of problems under loads and overloads. The marketing problem is to find means of smoothing of fluctuations in demand on time by flexible prices, stimulants and other pushing means.

High-grade demand. About it speak, when the organization is satisfied by the trading movement. The marketing problem is to support an existing level of demand, despite changes in consumer advantages and amplifying competition.

The excessive demand. For a number of organizations a level of demand above, than they can or wish to satisfy. In this case the problem of demarketing is to find means of time or constant reduction in demand.

Irrational demand. Counteraction of demand for the goods, unhealthy, requires purposeful efforts. For example, narcotics, spirits. The marketing problem is to persuade adherents to refuse the tastes. Menacing information are thus spread, the prices are sharply raised and availability of the goods is limited.

At studying of demand for medical products it is accepted to distinguish the realized (satisfied), unsatisfied and formed demand.

Effective demand – actual realization of medical products at sufficient and their constant presence in a pharmacy chain.

Unsatisfied demand – demand for medical products which arrive in a chemist's network in insufficient quantity or non-uniformly.

Formed demand – is demand for new and little-known medical products.

For *studying of demand* for medical products sociological research, in particular, interrogation of the population and the medical personnel in the form of questioning or interview and studying of opinions of experts are most widely used. By results of sociological research:

- it is defined effective and unsatisfied demand of the population on medicines, is developed system of calculation of standard indicators of demand and its short-term forecast for a substantiation of planned decisions is spent;

- the analysis of activity of pharmaceutical enterprises concerning population maintenance separate pharmecotherapeutical groups of medical products is carried out, the share in realization of the goods of medical appointment comes to light; the volume of replacement of medicines their analogues pays off;

- the demographic and social structure of patients who address for the pharmaceutical help is investigated.

Questions for out-of-class work

1. *What is value of market research?*
2. *What directions are allocated in market research?*
3. *How the market capacity is defined?*
4. *What is the market share and how it is defined?*
5. *What is market segmentation?*
6. *What principles of market segmentation? What are features of segmentation medical products consumers of?*
7. *What requirements should answer market segments?*
8. *Open concepts «the target market», «a market window», «a market niche».*
9. *What essence of research of medical products consumers?*
10. *What factors influence behaviour of consumers of medical products?*
11. *Give the characteristic of concepts "need", "demand", "consumption".*
12. *On what consumption of medical products depends?*
13. *How consumption of medical products is researched?*
14. *What techniques of defining of need for medical products are used?*
15. *How need for medical products of specific action is defined?*
16. *What definition of need for the medical products which application is limited by corresponding specifications is based?*
17. *What methodical approaches are used at calculations of need for preparations of a wide spectrum of action?*
18. *What kinds of demand distinguish?*
19. *How demand for medical products is studied?*

Tests

1. *What concept corresponds to definition: «... is a sphere of realization of concrete goods (or groups of the goods), the industrial among themselves certain properties industrial or consumer character connected among themselves by certain properties»?*
2. *What concept corresponds to definition: «... is a possible volume of sale of goods (concrete production of the enterprise) at the given level and a parity of the prices»?*

3. That does not concern the maintenance and an orientation of complex research of the market:

- A. Studying of market requirements to the goods
- B. Definition of firm's purposes
- C. Complex research of the market
- D. The analysis of market segmentation
- E. The analysis of the internal environment of firm
- F. The analysis of firm structure of the market
- G. Research of forms and methods of trading practice
- H. The analysis of socially-psychological features of buyers
- I. The analysis of an economic-financial condition of firm

4. What direction of complex market research the parity between demand, the offer and a price level is studied?

- A. Studying of an economic conjuncture
- B. Studying of market requirements and the goods
- C. The analysis of market segmentation
- D. Studying of firm structure of the market
- E. The analysis of socially-psychological features of buyers

5. To enter the domestic pharmaceutical market the company producing antihistamine drugs should know the market capacity of this group of medicines. What formula can be used for calculation?

- A. $C = P + I - E_X + C_S$
- B. $P = P_1 + C - P_2$
- C. $N = C \times P \times N_C$
- D. $P = \frac{I + N}{100}$
- E. There is no correct answer

6. The pharmaceutical company at complex research of the market of medical products to the quantitative characteristic of the market carries:

- A. Average rate of expenses on food or the medicinal help
- B. Demographic structure of the population
- C. Economic market condition
- D. Price level

7. Marketing service during market studying revealed a segment where concrete needs of consumers are satisfied by using of other goods. Such segment is called:

- A. Target market
- B. Market window
- C. Market niche

8. The pharmaceutical company, deducing on the market new production, has faced a problem of a choice of concrete segments. What characteristics of segments it is necessary to consider the companies for successful segmentation?

- A. Definiteness
- B. The sufficient size
- C. Transparency
- D. Availability to effective marketing activity
- E. Heterogeneity
- F. Quantitative measurability
- G. Dynamism
- H. Possibility of use during enough long period of time

9. What statement concerning market segmentation is correct?

- A. Segmentation is a basis for a choice of a correct combination of marketing elements
- B. The decision to occupy a corresponding segment of the market for firm means a considerable long-term investment of remedies in manufacture
- C. At an estimation of alternative bases of segmentation is possible revealing of preconditions of a divergence in behaviour of buyers
- D. All of the above

10. The market segment consists of consumers:

- A. Which differently react to the same set of incentive stimulus
- B. Which equally react to the same set of incentive stimulus
- C. Which do not react at all to incentive stimulus

11. The pharmaceutical firm divided consumers into groups depending on sex, age, structure and size of a family. What principle of market segmentation of medical products underlies such division?

- A. Demographic
- B. Geographical
- C. Social and economic
- D. Psychographic
- E. Behavioural

12. The company divided consumers on their accessory to a public class, a way of life, the social status. What principle of segmentation is used?

- A. Demographic
- B. Psychographic
- C. Behavioural

13. The marketing service of company divided consumers depending on their knowledge, relations, character and intensity of use of the goods and realization into it. What principle of segmentation is applied in the given situation?

- A. Demographic
- B. Geographical
- C. Social and economic
- D. Psychographic
- E. Behavioural

14. To estimate different segments of the market, the pharmaceutical company has chosen few for marketing studying and marketing activity. How group of segments is called?

- A. Target market
- B. Market window
- C. Market niche

15. As a result of market segmentation the enterprise choose an optimal and corresponding for goods segment. Such segment is called:

- A. Target market
- B. Market window
- C. Market niche

16. The marketing department of the pharmaceutical company that has developed a new antifungal medicine has the task to determine an indicative need for it. Which of the formulas will be used in this case?

- A. $P = \frac{I + N}{100}$
- B. $N = C \times P \times N_C$
- C. $P = \frac{P}{n}$
- D. $P = X_n \times \bar{K} \times \bar{P}$

17. To purchase of optimum quantity of drugs for region, it is necessary to know approximate need for them. What formulas use in calculations?

- A. $P = \frac{I + N}{100}$
- B. $P = \frac{P}{n}$
- C. $P = X_n \times \bar{K} \times \bar{P}$

18. What kinds of demand distinguish at studying of demand for medical products?

- A. The high-grade
- B. The realised
- C. The hidden
- D. The unsatisfied
- E. The irregular
- F. The formed

19. What kind of demand corresponds a situation when desires of consumers cannot be satisfied by goods and services which are available at the market?

- A. Negative
- B. Hidden
- C. Irregular
- D. High-grade
- E. Excessive
- F. Irrational

20. What kind of demand the situation when the organization is satisfied by the trading movement is characterize?

- A. Negative
- B. Hidden
- C. Irregular
- D. High-grade
- E. Excessive
- F. Irrational

CHAPTER 5

THE PRODUCT IN MARKETING ACTIVITY. ASSORTMENT OF MEDICAL PRODUCTS. THE COMMODITY POLICY OF PHARMACEUTICAL ENTERPRISES AND PHARMACIES

The chapter is devoted the goods characteristic as one of the major elements of marketing. Consumer properties of goods, including medical products, life cycle, positioning of goods, trade mark function are described. The special attention is given competitiveness of production, in particular, to quality, marketing and commercial components, techniques of an estimation, certification of medical products. Characteristics of marketing strategy are resulted with adaptation their kinds to activity of pharmaceutical companies. Directions and factors of creation optimum assortment and commodity policy of the pharmaceutical enterprises and pharmacies are described. Development cycles of the new goods and medical products, and also conditions of their enter on the market are presented.

5.1. CONSUMER PROPERTIES OF PHARMACEUTICAL GOODS

Product or goods is the central link in marketing system. Certainly, it is possible to name it a physical thing or service. However the goods have wider definition. Consumers buy it not only for the appearance, the chemical maintenance, or design. They buy the goods for satisfaction of the needs and benefit which expect to receive.

A goods are the product of work made for realization at the market to satisfy certain need. Thus, the goods – are not only the physical things, but comprises also all necessary for satisfaction of inquiries and consumer wishes. Studying of goods and its properties represents a basis for realization of the major principle of marketing: to organize manufacture of such goods which as much as possible would meet modern market requirements and consumers demand. I.e. in marketing goods are considered first of all as "*means*", set of material and non-material characteristics with which help it is possible to *satisfy certain need*, and then already – as the product of work made for sale.

Goods on character of final use are divided on two big groups: 1) individual consumption; 2) industrial appointment.

It is necessary to notice, that the consumer goods are classified on one of the most convenient methods of distribution to groups on the basis of consumer habits. To this sign allocate goods of daily demand, the previous choice, special and passive demand. In turn goods of *daily demand* share on goods of the *basic stable demand* and for *emergencies*.

From goods of the *previous choice*, i.e. goods which the consumer in the course of a choice and purchase, as a rule, compares among themselves on indicators of suitability, quality, the price and appearance (unlike acquisition of daily demand goods), allocate goods *similar* and *differing*.

Goods of special demand – it is products which have unique characteristics and for their acquisition the considerable part of buyers is ready to make additional efforts.

Goods of passive demand – it is products what the buyer does not know or knows, but mostly does not reflect rather their purchases.

At a choice of a marketing strategy the certain quantity of commodity classifications is developed for separate goods on the basis of the characteristics inherent in these goods.

On degree of durability inherent in goods or material tangibility them divide into such groups:

- long using goods;
- short-term using goods, i.e. such, that are completely consumed for one or several cycles of use;
- services – objects of sale in the form of actions, benefits or satisfactions.

The pharmaceutical goods represent special group of goods and share on two subgroups: medical products and products of medical appointment.

Pharmaceuticals (medicines)- any substance or a combination of substances (in the certain medicinal form), intended for treatment or preventive maintenance of diseases at the person, for diagnostics or for restoration, correction or changes of its physiological functions, placed in packing and placed at the market.

Lists of medical products operating in Ukraine are made on the basis of *Anatomo-therapeutic chemical classification* (ATC-classification), which is based on distribution of medical products to groups depending on their action on certain anatomic body or system according to therapeutic indicators and chemical characteristics of a preparation. Feature is that each

ready medicinal form has only one code ATC. According to this system medical products share on the groups having five different levels.

Medical products classify also by:

- toxicological groups;
- anatomical-nosological principles (preparations operating on respiratory system, cardiovascular system, on digestive system, etc.);
- therapeutic application (analgetics, antibiotics, hypotensive means, etc.);
- pharmacological action (diuretics, anticoagulants, neuroleptics etc.);
- chemical structure (alkaloids, cardiac glycoside, hormonal means etc.);
- kinds of the control and a turn order (narcotics, psychotropic substances);
- prescribe and non prescribe drugs;
- direction of use (internal, external);
- physical and chemical properties and influence of environment factors (photosensitive, thermolabile, dyes, etc.);
- modular condition (firm, liquid, soft, gaseous);
- kind of the medicinal form (solutions, suspensions, tablets, ointments, etc.);
- readymade drugs (industrial production) and a medicine of individual manufacturing;
- working lives;

Medical technical products, materials and the medical products intended for diagnostics, treatment, preventive maintenance of a human body and-or maintenance of these processes concern **products of medical appointment (PMA)**. Taking into account different criteria allocate such group PMA:

- on materials, which are made, – rubber products, products from glass, plastic, etc.;
- on assortment groups – dressing and perfumery-cosmetic means, sanitary and hygiene subjects, etc.;
- on a functional purpose – subjects of patients care, medical tools, devices, devices and the equipment;
- on storage groups – rubber products, dressing means and auxiliary materials, products from plastic, medical technique products.

To the basic characteristics of goods it is necessary to carry: functionality, reliability, duration. Before goods manufacture the analysis of its consumer value, as a rule, is carried out.

Consumer value – is set of consumer properties of goods. Consumer properties of goods include:

- quality; including reliability, suitability term, design;
- conformity to functional purpose;
- conformity of the price to quality and the consumer value;
- the presence of the accompanying documentation;
- quality after sales service;
- a variety of assortment; opportunity of choice.

Medical products have special consumer properties:

- therapeutic efficiency;
- conformity of quality to the certain requirements;
- safety;
- convenience of application;
- profitability.

Understanding of tendencies and characteristic of consumer estimation of goods – exclusively important problem of the marketer. Before it there is a problem to find and realize in goods any elements capable especially to involve the buyer, to force it not only to choose goods among analogues, but also to refuse goods purchase absolutely other characteristic. In marketing these elements have the name «**key factors of market success**».

Number of key factors of market success concern:

- an *individualization* of goods, i.e. the manufacture directed on small groups of homogeneous consumers;
- “*critical weight of goods*”, i.e. a necessary set of technical novelties which consumer imagine high-quality and progressive goods associates;
- *multifunctionality of goods* – the nature of this factor follows from needs and advantages of the consumer, and natural desire of the last – first, to satisfy certain needs not by group of goods, and one, secondly, to make it whenever possible more cheaply. The primary goal of the marketer in formation of this factor – to take part in search and processing of idea of a multi-purpose choice;
- a *technical package*. In the general view this concept can be characterized as a certain complex of the additional goods and services which allows the consumer: with maximum conveniences to use the bought goods under any conditions; it is convenient to keep and if necessary to serve goods; to use goods with any other goods for performance of the general functions, etc.

What is important to consider in goods to it have bought? Here these parameters: profitability and complex improvement of goods, it reliability maintenance, updating of goods for separate regions, maintenance of "compatibility" of goods and release of technologically similar goods. Patent cleanliness and goods legal protection has great value also.

5.2. THE PRODUCT'S LIFE CYCLE

Related to the status of a product in the company portfolio is that product's place in the "product life cycle".

Products tend to go through different stages, each stage being affected by different competitive conditions. These stages require different marketing strategies at different times if sales and profits are to be efficiently realized. The length of a product's life cycle is in no way a fixed period of time. It can last from weeks to years depending on the type of product.

Most discussions of this cycle divide it into four stages known as introduction, growth, maturity and decline (Fig. 5.1).

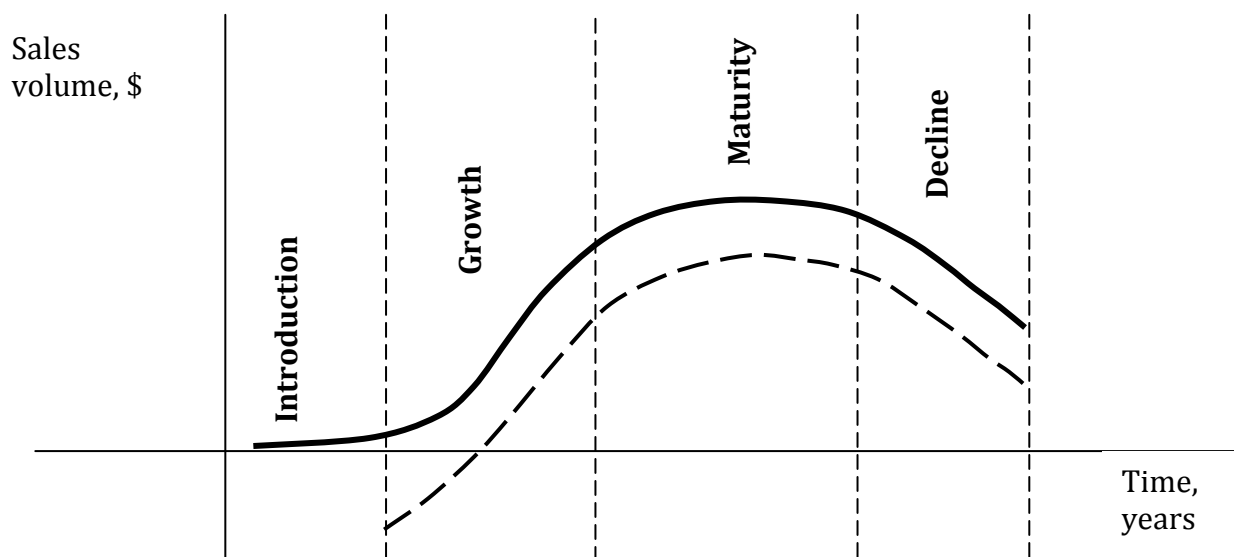


Figure 5.1 – The product's life cycle

Introduction is the period, during which the initial market acceptance may be in doubt; thus, it may be a period of a slow growth. Profits are often non – existent because of high marketing and other expenses. The marketing strategy during this stage is based on different combinations of product, price, promotion and distribution variables.

The market for the product during this phase will be comprised of a small percentage of the medical population that is normally the first to try new drugs, and who are quite influential with their colleagues. If the product is as effective and safe as this core group wishes, word can be expected to filter down to the rest of the medical community.

In the introductory stage a direct competition may not be a problem although, if the product merely does a job in a new or better way, there may be difficulty in convincing the physician of the value of the change. Production cost, marketing costs, and prices are traditionally high during the introduction stage. Unless the product can be produced efficiently using the existing equipment and in the face of unpredictable sales, the economy of the mass production will be hard to realize. Marketing costs will reflect the special nature of promotion to stimulate the primary demand.

Survivors of the introduction stage enjoy a **period of growth**. During this period there is the substantial profit improvement. The strategy in this stage takes the following shape: (a) product improvement—addition of new features and models; (b) development of new market segments; (c) selective demand stimulation; and (d) price adjustments.

During the growth stage there is the widespread approval of the product concept. The number of competitors will begin to increase. Either modifications of the original product or completely different products for the same purpose will appear. By this time production methods will have been established, with a frequent lowering of costs. Prices will tend to go down for two main reasons:

1. Increased sales will make some economies of scale possible.
2. The increase in the number of competing firms leads to both a theoretical and an actual tendency toward lower prices.

The growth stage sees promotional activities devoted to the stimulation primarily of selective demand.

During the next stage, **maturity**, there is the intense rivalry for a mature market. This leads to a proliferation of sizes, dose forms, and other product variants. Battling to retain the company's share, each marketer steps up promotion, and perhaps grants price concessions. Unless new competitors are obstructed by patents or other barriers, entry is easy. Thus, maturity is a period when sales growth slows and profits peak and then start to decline.

During the maturity stage competition reaches its peak. By this point all of the firms that have any hope of receiving a share of the market will be pursuing it. By virtue of the numbers involved some of these companies

will be marginal from either a financial or technological standpoint. The total sales of the product class, which have been rising through the early stages, continue to increase, but at a decreasing rate. The net effect is the price competition for this business.

Strategy in the maturity stage comprises the following steps; (a) search for new markets and new and varied uses for the product; (b) improvement of product quality through changes; and (c) new marketing-mix perspectives. During this phase all the product variations may be expected to appear. It is now seemingly desirable to have tablets, capsules, and liquid. A dermatologic form may be prepared, or a long-acting form, or a combination. The promotion may now attempt to add some vitality through efforts to segment the market by using special messages to separate physician specialties. Finally, there is the **decline period**, which may be precipitous. Though sales and profits continue their downward trend, the declining product is not necessarily unprofitable. Some of the competition may have been removed by this stage.

There can be a number of reasons for the decline of a product class – most are related to the effectiveness of the product as compared to other means of therapy. If the decline is caused by a new product development, the decline may be rapid, with only those, who are slow to change in any direction continuing to prescribe the product.

Promotion during this stage may again be aimed at stimulation of the primary demand. The effort may be half-hearted, and may be aimed at only a core of physician-users. Some firms may now drop from the competition leaving a potential marketing opportunity for those remaining. The profits may be slim, however, with many of the economies gone (Table 5.1).

Table 5.1 – Characteristic stages of product life cycle

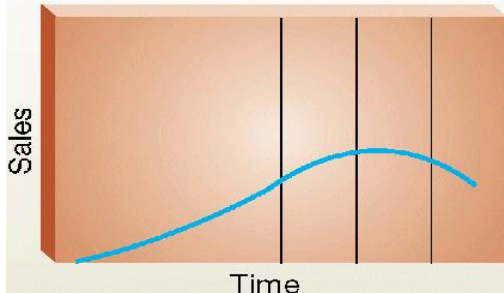
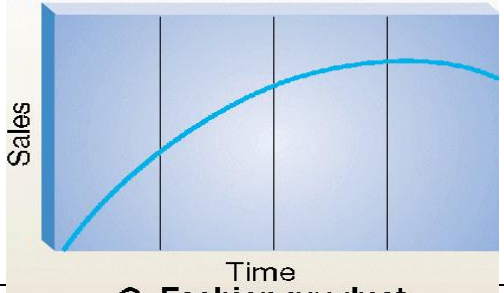
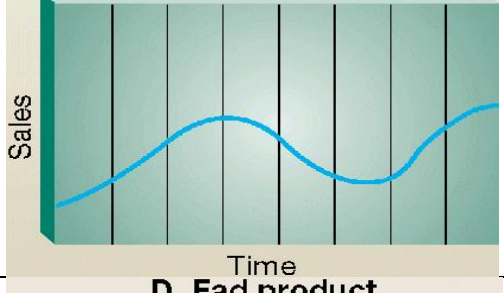
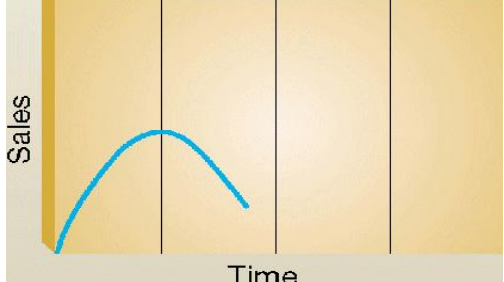
A. Introduction Stage	
Sales grow slowly	Profit is minimal or negative
Create awareness	Stimulate trial
High production costs	Limited product models
Frequent product modification	Penetration pricing
Skimming pricing	Little competition
High failure rate	High marketing costs
<i>Promotion strategy focuses on primary demand for the product category</i>	
Developing product awareness	Informing about product benefits
<i>Intensive personal selling to retailers and wholesalers is required</i>	

Table 5.1 (continues)

B. Growth Stage	
Sales grow at an increasing rate	Many competitors enter the market
Large companies may acquire small pioneering firms	Profits are healthy
<i>Promotion emphasis</i>	
Heavy brand advertising	Differences between brands
<i>Gaining wider distribution is a key goal</i>	
<i>Toward the end of this stage</i>	
Prices normally fall	Profits reach their peak
Development costs have been recovered	Sales volume has created economies of scale
C. Maturity Stage	
Sales continue to increase but at a decreasing rate	The marketplace is approaching saturation
Annual models of many products	An emphasis on product style rather than function
Product lines are widened or extended	Marginal competitors begin dropping out of the market
Heavy promotions to both the dealers and consumers are required	Prices and profits begin to fall
D. Decline Stage	
Signalled by a long-run drop in sales	Falling demand forces many competitors out of the market
The rate of decline is governed by how rapidly consumer tastes change or how rapidly substitute products are adopted	A few small specialty firms may still manufacture the product
<i>Strategies</i>	
Deletion	Dropping a product from the company's product line, is the most drastic strategy
Harvesting	Company retains the product but reduces marketing support
To prevent slipping into decline	Promote more frequent use of the product by current customers Find new target markets for the product Find new uses for the product Price the product below the market Develop new distribution channels Add new ingredients Delete old ingredients Make a dramatic new guarantee

Except classical form of PLC, practice of work of different firms and enterprises gives its various modifications (Table 5.2).

Table 5.2 – Shape of the Product Life Cycle

PLC curve	Characteristic
A. High learning product 	Significant education of the customer is required. Extended introductory period.
B. Low learning product 	Sales begin immediately Little learning is required by the consumer Benefits of purchase are readily understood.
C. Fashion product 	Length of the cycles may be years or decades.
D. Fad product 	Rapid sales on introduction Equally rapid decline. Often novelties and have a short life cycle.

Product life cycle in respect to the technology life cycle. As a new technology matures so is the product or service that uses this technology. The change that occurs during a technology life cycle has a unique reflection on the customers and so on the product life cycle.

In the early days of a new technology, early adopters and technology enthusiasts drive a market since they demand just technology. This drive and

demand is translated as the introduction phase of a new product by many companies. As technology grows old, customers become more conservative and demand quick solutions and convenience. In this case a product usually enters in the realm of its growth and as time passes its maturity.

The “chasm” shown (Fig. 5.2) in the graph above depicts the difference between the early and late adopters. Each needs different marketing strategies and each is translated to a product’s different phase of its life cycle. One should note that the late adopters hold the greatest percentage of customers in a market. This is why most products begin their life cycle as technology driven and change into customer driven as time passes by.

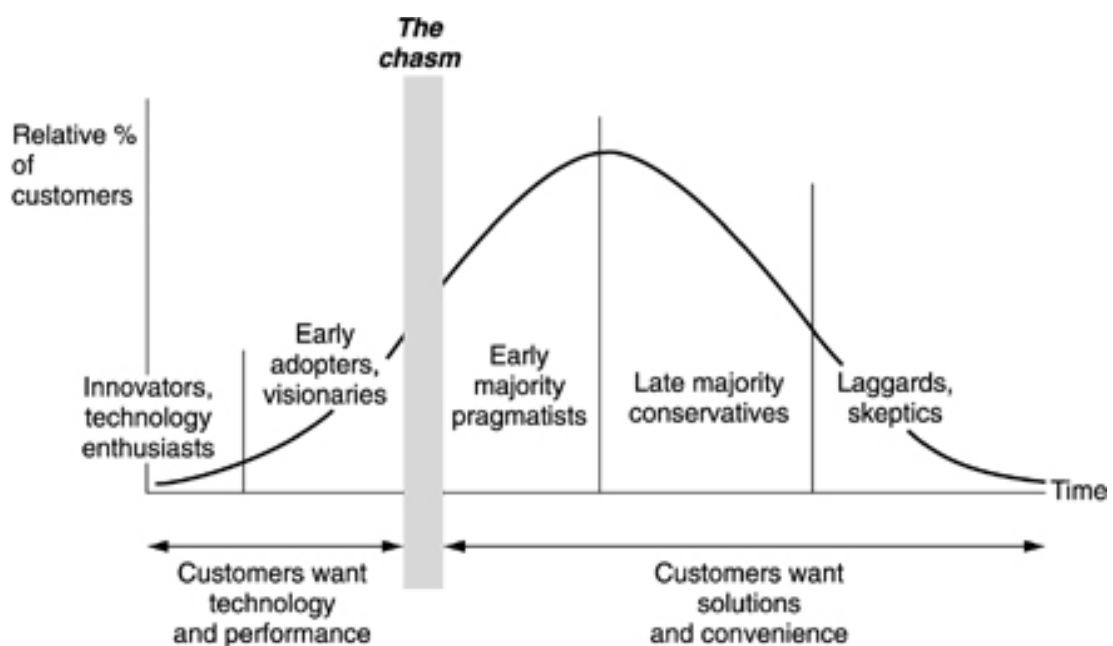


Figure 5.2 – Change in customers as technology matures

5.3. POSITIONING OF PHARMACEUTICAL GOODS

The term “positioning” refers to placing a brand in that part of the market where it will have a favourable reception compared to competing products. Since the market is heterogeneous, one brand cannot make an impact on the entire market. As a matter of strategy, therefore, the product should be matched with that segment of the market where it is most likely to succeed. The product should be so positioned that it stands apart from competing brands. Positioning tells what the product stands for, what it is, and how the customers should evaluate it.

Positioning helps in differentiating the product from competitive offerings. Positioning is achieved by using marketing-mix variables, especially through design and communication efforts. While differentiation through positioning is more visible in OTC products, it is equally true of prescription drugs. With some products positioning can be achieved on the basis of tangible differences (e.g., product features); with many others, intangibles are used to differentiate and position products.

A product's position is the image that the product projects in relation to competitive products and to other products marketed by the same company. Marketing executives can choose from a variety of positioning strategies, some of which are as follows:

1. Positioning in relation to a competitor.
2. Positioning in relation to a target market.
3. Positioning in relation to a product class.
4. Positioning by price and quality (Fig. 5.3).

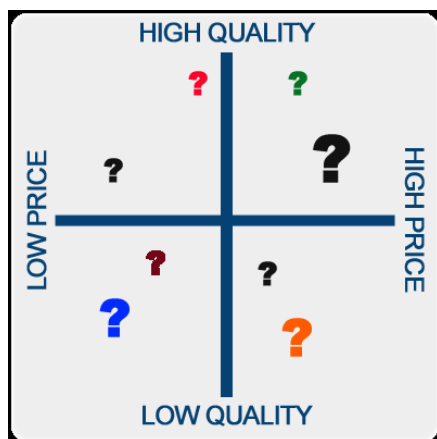


Figure 5.3 – Positioning at the market

Opportunities for positioning of medical product:

1. On the basis of specific properties (force of action, by-effects, bearableness, etc.).
2. On the basis of a way of application (once a day, as primary therapy, in the second or in the third turn).
3. In relation to the end user or the patient.
4. In relation to a medical product to the competitor.
5. In relation to a therapeutic class of medical products (for example, new in an existing therapeutic class or the representative of a new therapeutic class).
6. In relation to elements of a marketing complex (for example, design of packing, the size of packing, etc.).

5.4. COMPETITIVENESS OF PHARMACEUTICAL PRODUCTS AND MANAGEMENT OF QUALITY

Usually, the competitiveness of goods implies any relative integral characteristic, which displays its difference from goods of a competitor and, accordingly, determines its attractiveness to the consumer.

Competitiveness refers on the one hand, a purely qualitative characteristics of goods, on the other – all the important and weighty enough for the consumer conditions of purchase and future use of the goods.

Some authors have noted that trying to express schematically competitiveness of goods it's like to try to show the complexity of the scheme and all the subtleties of the market process. Competitiveness is first of all, the philosophy of work at the market, which focuses on:

- understanding of consumer needs and trends of their changing;
- knowledge of the behaviour and capabilities of competitors;
- knowledge of the environment and its trends;
- the ability to create such a product and so to bring it to the consumer, so he gave him an advantage over competitors' products;
- art to do all this a long-term, forward-looking basis.

Study of consumer behaviour suggests that for them in developing and selecting the winner is the product for which the ratio of useful effect (E) to the cost of its acquisition and use (C) as compared to other similar products maximum. Therefore, the condition of the advantages of one product over all others is: $K = \frac{E}{C} \rightarrow \max$.

The main component of the competitiveness of its product is quality, covering a number of components:

- *technical and economic indicators* of quality, technology of its manufacturing and operational characteristics. For example, for medical products it should be disintegration tablet medicinal forms; dispersion, uniformity of soft medicinal forms, etc.

- *conformity of production to the obligatory quality standards*; special value in the majority countries is given now to the quality standards which provide ecological cleanliness, high degree of production unification, action of safety and protection of health of the person;

- ecological indicators which characterize conformity of goods to requirements of environment protection and are based on rational wildlife management;

- *ergonomic indicators* – are connected with consideration of properties and features of a human body and provide observance of hygienic, anthropometrical, physiological, psychological and other norms;

- the *aesthetic indicators* defining the external form and a kind of production, its design, appeal, expressiveness, an emotionality of influence on the consumer etc.;

- *maintenance of patent cleanliness and patent protection* of goods. In the presence of license agreement, resolving to make production on the given technology, the enterprise-manufacturer can make it for sale, as a rule, only at the domestic market. Absence of patent cleanliness does production noncompetitive in the corresponding market and is a serious obstacle for development of export activity.

Except quality, competitiveness covers marketing and commercial components, that in aggregate affects the price of sale or on the price of acquisition of goods.

Marketing component shows advantages and lacks at level of competitiveness of goods on character and quality of market research and inquiries of end users, overall performance degree on goods advancement at the market.

Commercial component of competitiveness testifies to quality of commercial work in comparison with firms-competitors.

Except the aforesaid, competitiveness of goods is characterized also by the **economic component** including advantage or unprofitableness of the given goods from this point of view of expenses on its use or recycling.

Visible place belongs to **image and prestige** questions, and also authority of the country where goods are made.

As a whole all above-stated components of competitiveness create **the price of consumption** of goods which covers such concepts, as profitability of use of goods while in service, prestigiousness of its trade mark.

Estimation of competitiveness of goods can be carried out by a method of an expert estimation, interrogation of consumers, and also a comparative estimation of key parameters of goods. Last technique includes such stages:

- market analysis, choice of the most competitive sample as bases for comparison and definition of competitiveness level offered goods;
- defining of a set of compared parameters of both goods;
- calculation of an integrated indicator of competitiveness for offered goods.

Goods quality management covers all system of interaction at the production and its advancement in the market to the consumer. Involved subjects form a quality chain (Fig. 5.4).

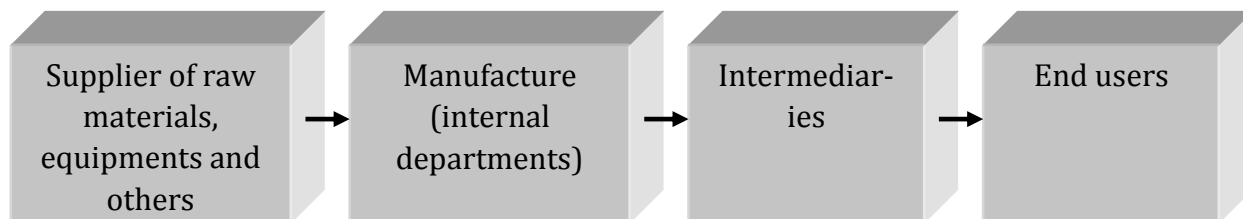


Figure 5.4 – Goods quality chain

The quality system should cover all stages of development, manufacture, distribution, consumption and production recycling. Functioning of quality system is regulated by the international standards ISO 9000 making demands to marketing, supply, manufacture, sale, the service policy, etc., and also to quality system as a whole.

Quality of production is defined at a stage of marketing research: by results of the analysis of consumers inquiries, competitors, systems of advancement of goods etc, requirements to parameters of goods quality are formed.

The major mechanism of product quality control is **certification** which allows to estimate and confirm objectively to the consumer its safety and efficiency. Certification can be obligatory and voluntary. *Obligatory certification* of quality is spent on conformity to requirements to the standard documents and the international (national) standards, installed when due hereunder.

Voluntary certification of production is spent on conformity to any standard documents coordinated between the supplier, on the one hand, and the customer – another.

Standard documents which are used for production certification contain, as a rule, requirements to:

- technical or technological parameters, quality of goods and conditions of its tests (to methods, control rules, etc.);
- production marks, its packing, transportation, storage and use on direct appointment.

The certificate of conformity of quality of production to operating standards is the document which stands out for acknowledgement of conformity of certificated production to the established requirements.

5.5. MARKETING STRATEGIES OF PHARMACEUTICAL ENTERPRISES

Decision-making on manufacture of goods should be based on the strategic approach. It means, that any decision in the given area should be accepted, considering an organization ultimate goal. The encyclopaedic dictionary of businessman makes such definition of concept «**marketing strategy**» (strategy of coverage of the market): this is formation and realization of purposes and problems of the enterprise-manufacturer and the exporter on each separate market (a market segment) and each goods for the certain period of time (long-term, intermediate term) for realization of industrial and commercial activity in full conformity of a market situation and opportunities of the enterprise (firm). Marketing strategy represents the program of marketing activity of firm at the target markets, defining basic decisions on achievement of marketing purposes.

Realization of marketing strategy is carried out in the conditions of quickly changing environment of the firm which account is possible only in short-term plans, i.e. in frameworks of «**marketing tactics**». It also formation and realization of company's problems at the separate markets (segments) and on each goods, but only during the concrete period of time (short-term) on the basis of a marketing strategy and an estimation of a modern market situation with a constant correcting of problems taking into account changes of tactical and other factors.

In the theory and marketing practice there are some approaches to strategy planning. The basic models of strategic decision-making are:

- Ansoff's Product/Market Matrix
- Porter's generic strategies;
- a Matrix of growth/share of the market (Boston Consulting Group Matrix – BCG);
- General Electric Business Skin.

Ansoff's Product/Market Matrix includes such kinds of strategies :

1. *Market Penetration*. Means increasing of revenue by, for example, promoting the product, repositioning the brand, and so on. However, the product is not altered and we do not seek any new customers.

2. *Market Development*. Here we market our existing product range in a new market. This means that the product remains the same, but it is marketed to a new audience. Exporting the product, or marketing it in a new region, are examples of market development.

3. *Product Development*. This is a new product to be marketed to our existing customers. Here we develop and innovate new product offerings to replace existing ones. Such products are then marketed to our existing customers.

4. *Diversification*. This is where we market completely new products to new customers. There are two types of diversification, namely related and unrelated diversification. Related diversification means that we remain in a market or industry with which we are familiar. Unrelated diversification is where we have no previous industry or market experience (Fig 5.5).

Market \ Product	Present	New
	Present	New
Present	Market Penetration	Product Development
New	Market Development	Diversification

Figure 5.5 – Ansoff's Product/Market Matrix

The company can follow one of three broad strategies in the selection process. In **strategic Porter's model** two basic concepts of marketing planning and alternative of each of them are considered: a choice of the target market (within all area or separate segments) and strategic advantage (uniqueness or the price). Uniting these two concepts, the Porter's model allocates such base strategy of coverage of the market:

- advantage on expenses (not differentiated marketing);
- differentiation (the differentiated marketing);
- concentration (the concentrated or target marketing) (Fig. 5.6).

By adopting a strategy of market aggregation – also known as a mass-market or an undifferentiated-market strategy – an organization treats its total market as a single given. This unit is one mass, aggregate market, which parts are considered to be alike in all major respects. Management then develops a single marketing mix to reach as many customers as possible in this aggregate market. That is, the company develops a single product for this mass audience; it develops one pricing structure and one distribution system for its product; and it uses a single promotional program that is aimed at the entire market.

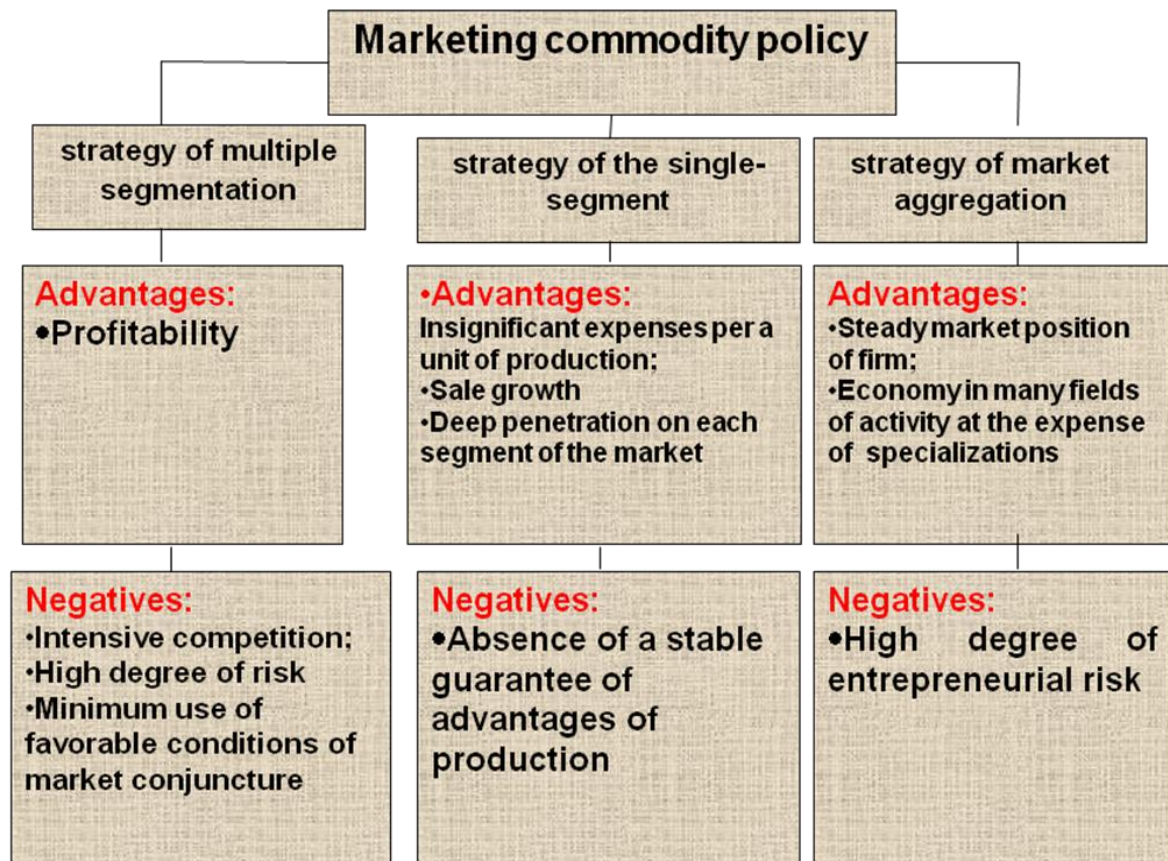


Figure 5.6 – Strategies of market coverage

A strategy of the single-segment concentration involves selecting as the target market one homogeneous segment from within the total market. One marketing mix is then developed to reach this single segment. A small company may want to concentrate on a single market segment, rather than to take on many competitors in a broad market. This strategy enables a company to penetrate one small market acquire a reputation as a specialist or an expert in this limited market. They can enter such a market with limited resources. And as long as the single segment remains a small market, large competitions are likely to leave the single-segment specialist alone.

In the strategy of multiple segmentation, two or more different groups of potential customers are identified as target-market segments. As part of the strategy of the multiple segmentation, a company frequently will develop deferent variety of the basic product for each segment. However, the market segmentation can also be accomplished with no change in the product, but rather with separate marketing programs, each tailored to a given market segment (Fig. 5.7).

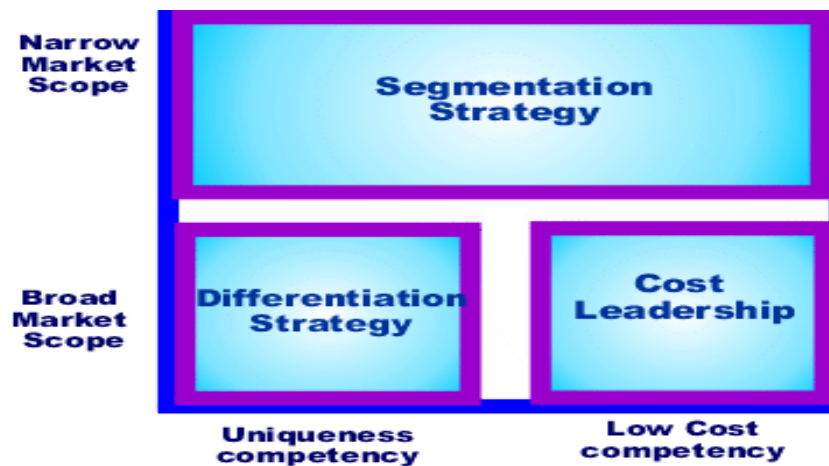


Figure 5.7 – Porter's model

Matrix BCG considers groups of goods depending on market growth rates, parities of market share for given goods to corresponding share of the basic competitor, volumes of investments into manufacture of goods, profits, etc. According to it four groups of the goods are allocated: "stars", "cash cows", "problem child" or «question signs», "dogs" and corresponding marketing strategy (Fig. 5.8).

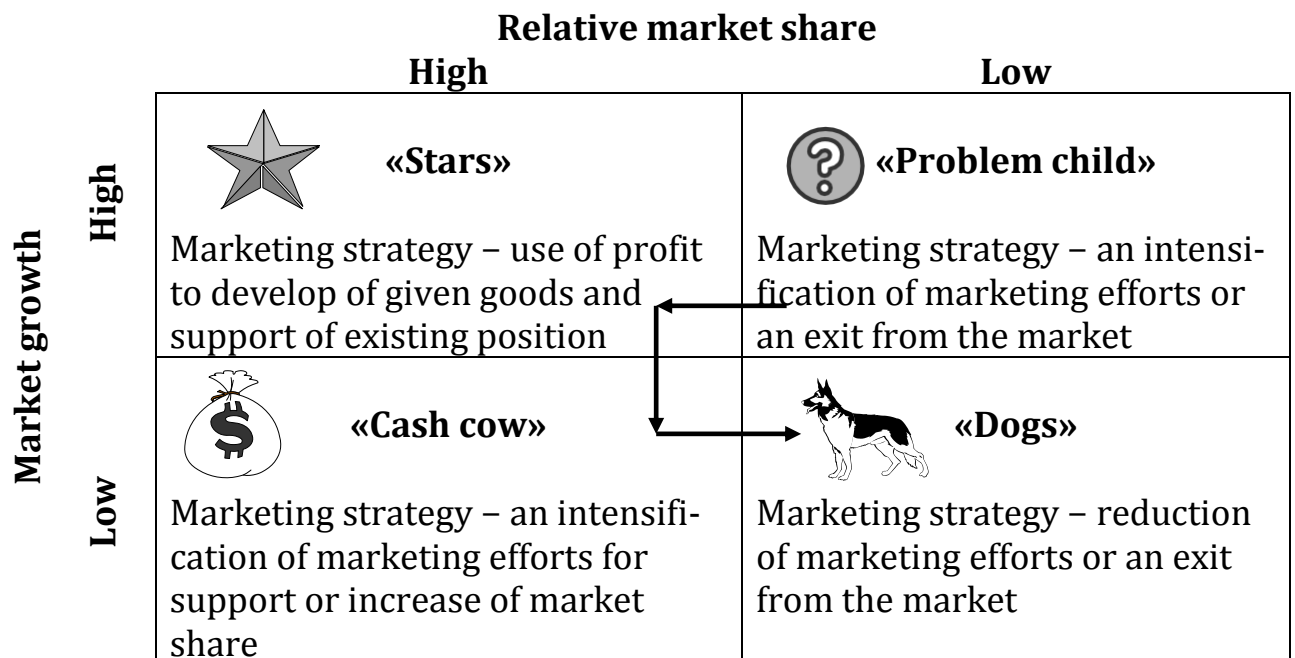


Figure 5.8 – The Boston matrix

Dogs. These are products with a low share of a low growth market. They do not generate cash for the company, they tend to absorb it. Get rid of these products.

Cash Cows. These are products with a high share of a slow growth market. Cash Cows generate more than is invested in them. So keep them in your portfolio of products for the time being.

Problem Children. These are products with a low share of a high growth market. They consume resources and generate little in return. They absorb most money as you attempt to increase market share.

Stars. These are products that are in high growth markets with a relatively high share of that market. Stars tend to generate high amounts of income. Keep and build your stars.

Matrix BCG has received the further development in the **model “attractiveness – competitiveness”** offered by a consulting firm «MC Kinsey». Construction of this model is spent on two key parameters: attractiveness of branch and competitiveness or enterprise strengths. As indicators of appeal of the market (branch) can be used: market growth rates; profitability; competition level; market capacity; market state regulation; possibility of not price competition; concentration of consumers, etc.

As indicators of competitiveness of the enterprise serve: market share; expenses; price level; appeal of assortment; image of firm.

In construction process of a matrix for each of indicators weightiness is defined, the rank on the selected scale then the weighed estimation of an indicator taking into account the received estimation and factor of weightiness of an indicator is defined is appropriated. On the basis of the received values the matrix (Fig. 5.9 is under construction) where it is allocated three zones for each indicator: high, average, low.

		Business position		
		High	Medium	Low
Market attractiveness	High	Invest heavily for growth	Invest selectively and build	Develop for income
	Medium	Invest selectively and build	Develop selectively for income	Harvest or divest
	Low	Develop and build on strengths	Harvest	Divest

Figure 5.9 – Mc Kinsey model

Marketing strategy also can be classified depending on a situation in the market, from a condition of the firm and some other factors (Table 5.3).

Table 5.3 – Classification of marketing strategies

Factors defining strategy	Kinds of strategies and their characteristic
Market share	<ol style="list-style-type: none"> 1. Attack 2. The defensive 3. Deviation strategy
Condition of market demand	<ol style="list-style-type: none"> 1. Conversion marketing 2. Creative, developed marketing 3. Stimulating marketing 4. Remarketing 5. Synchrony- or stabilizing marketing 6. Supporting marketing 7. Demarketing 8. Counteracting marketing
Commodity policy	<ol style="list-style-type: none"> 1. Differentiations 2. Vertical integration 3. Diversification 4. Narrow commodity specialization
Relation to product	<ol style="list-style-type: none"> 1. Horizontal – when new goods are continuation of goods which already is issued, and it is calculated on a certain circle of buyers. 2. Concentric – when search of new goods which in technological and market relation would be conformable that are already made is conducted, and involved new buyers. 3. Conglomeratic – when the release of new goods which have been not connected with goods which already made by firm till this time and consequently working out of new technologies and development of the new markets is necessary is carried out.

The choice of marketing strategy does not mean, that the firm will always implement it. Strategy can change, if:

- some years it does not provide satisfactory indicators of sales volume and profit;
- firms-competitors have sharply changed the strategy;
- external factors influencing activity of firm didn't change;
- prospects for acceptance of measures which can raise firm profit substantially have opened;
- have changed or there were new preferences of buyers or tendencies to possible changes in this area have changed;
- problems put in strategy are already solved and used.

5.6. ASSORTMENT POLICY OF PHARMACEUTICAL PRODUCTION ENTERPRISES AND PHARMACIES

Assortment policy establishes the connection between market requirements, on the one hand, both intentions and enterprise possibilities – with another. The problem of assortment policy consists in to during each given moment (and in reasonable prospect) the set of goods let out or realized by the enterprise optimum met requirements of consumers both under qualitative characteristics, and in quantitative volumes. It is an overall objective of assortment policy.

The **commodity assortment** covers all assortment groups offered by firm. The commodity assortment is a group of goods closely connected between similarity of their functioning, sale to the same groups of consumers, realization through similar trade channels or an accessory to the same range of the prices. Everyone assortment group consists of assortment positions.

Assortment position – is concrete model, mark or size of production which is sold by firm.

The commodity assortment is characterized *by width* (i.e. quantity of assortment groups), *depth* (or quantity of positions in everyone to group), *comparability* (presence of analogues on a generality of final use, distribution channels, groups of consumers and a range of the prices) and a *saturation* (total offered assortment positions).

The wide range allows to classify production, to be guided in different requirements of consumers and to stimulate realization of purchases in one place.

Presence of deep assortment allows to satisfy needs of different consumer segments on one goods, to interfere with occurrence of competitors, to offer a range of the prices and to stimulate support of dealers. Nevertheless it also increases expenses on support of stocks, updating of production of manufacturers and performance of orders.

Wider concept, than **commodity assortment**, is the commodity nomenclature. The commodity nomenclature is a set of all assortment groups and commodity units which are offered by the enterprise. The basic indicators of the nomenclature of the separate enterprise also are the width, depth, a saturation and comparability or a harmony.

The basic *components of assortment* policy are:

- statement of purposes, proceeding from strategy and tactics of firm consider market research;
- formulation of assortment programs;
- working out of a complex actions for achievement of specific goals;
- defining of resources and realizing of terms.

Principles of assortment policy of the enterprise are adequacy and flexibility. Adequacy provides an establishment of communication assortment policy and the market, and also conformity of company's scientific, industrial, marketing and service potential to assortment policy purposes. Flexibility consists in constant search of possibilities, deciding of challenges by market studying.

Before making up the assortment industrial and trade enterprise its analysis should precede. Make a list of the nomenclature of let out products on commodity groups, kinds and updating is made; each group and a kind are studied independently and in interrelation. The analysis in directions is carried out:

- the estimation of sale indicators, total and net profit, i.e. is defined relative density of each product in profit reception;
- defining of market share of commodity position of the enterprise occupies on a concrete segment;
- each series of goods is estimated from the point of view of qualitative and technical characteristic;
- the analysis of life cycle of main let out production;
- effectively to spend approbation of the relation of active and potential consumers to goods let out by the enterprise;
- the analysis of production costs by each kind of production in comparison to production costs of firms-competitors is carried out;
- level of a sale price of goods and the settlement price of its consumption (includes also cost of services, etc. costs) is considered;
- commercial conditions of sale (terms of delivery, the term of payment, level of custom charges and taxes, system and convenience of calculations, nearness to the consumer of a marketing network of the enterprise-seller etc.) are estimated.

Problems of assortment policies could be various:

1. Satisfaction of the consumer's needs
2. The optimum use of technologies and experience of the enterprise

3. Optimization of the firm's financial results (formation of assortment is based on expectation of the certain level of profitability and profit)
4. Attraction of new buyers by expansion of the offer
5. Support of the flexibility principle at the expense of diversification fields.

Process of the commodity assortment in pharmacy should consider commodity specialization and trading area, to be directed on served contingent's demand satisfaction and reception of high profitableness. For maintenance of profitable activity it is necessary to consider costs and taxes of separate groups of goods. One of making up the assortment principles – maintenance of its stability. An indicator characterizing stability of assortment, the corresponding factor which pays off by the formula is (5.1):

$$S_a = 1 - \frac{A_n}{n \cdot a}, \quad (5.1)$$

where S_a – stability factor of assortment of goods in the certain period;
 A_n – quantity of versions of goods which are absent on sale at the moment of checks;
 a – quantity of versions of goods provided by assortment list;
 n – quantity of checks.

At calculation of stability factor it is necessary to exclude the goods of seasonal demand. Optimum value throughout a quarter for different type of trade enterprises or establishments makes 0,75 – 0,9.

Criteria of assortment making up for goods in pharmacies are:

- legislation on purchases and realization of medical products and issue of medical appointment;
- obligatory minimum assortment of medical products for drugstores;
- the List of medical products which are released without recipes;
- the List of medical products which can be got by the establishments of public health services financed from the budget (for the drugstores which are taking part in medicinal maintenance of such establishments);
- disease of the population;
- level of incomes (purchasing capacity) of a served contingent of consumers;
- tendencies of development of the pharmaceutical market;
- demand for medical products;

- therapeutic efficiency of medical products;
- competitiveness of medical products;
- pharmaeconomical estimation of medical products;
- economic indicators of assortment (relative density of realisation volume of separate groups and names; relative density of the income on group and on separate assortment positions; speed of movement of preparations).

The important quantitative criteria of assortment formation in a drugstore are speed of movement of separate medical products and profitability from their realization.

Speed of movement of medical products for the certain period is recommended to define by the formula (5.2):

$$RR = \frac{R_b + S_a - R_a}{R_e + S + S_a}, \quad (5.2)$$

where R_b and R_e – are the rests at the beginning and at the end of the period;

S_a – is average monthly arrivals;

S – the total arrivals for the certain period;

R_a – is average monthly sales.

At RR from 0.5 to 1 the realization rate it is characterized as slow, at RR from 0.26 to 0.49 it is stable. The index from 0 to 0.25 testifies the high rate of drug realization.

5.7. COMMODITY POLICY OF THE PHARMACEUTICAL ENTERPRISES

After a choice of marketing strategy the enterprise (firm) defines marketing tools of influence on consumers by goods, i.e. the commodity policy. The **commodity policy** is an exact firm's activity which corresponds to marketing strategy; it is directed on studying ways of the competitiveness increase of let out production, first of all, its qualitative characteristics, creation of new goods, making up the assortment and management, the search of market segments, development and realization of the packing strategy, trademarks, service of the goods.

To the decisions in the commodity policy, it is necessary to carry:

- the nomenclature of the made goods;
- width of assortment groups;

- a range of volumes of release of each goods;
- quality of the goods;
- updating;
- maintenance of goods the trade mark;
- an exception of manufacture of obsolescence goods;
- manufacture of new goods;
- standardization;
- the planned ageing of the former kinds of goods for the purpose of attraction of buyers' attention to goods-novelty;
- quantity of each kind of goods which are let out for the certain period.

The model of realization these decisions can be defined in the form of end result of three variables interaction: enterprise' problems; available resources; market opportunities (Fig. 5.10).

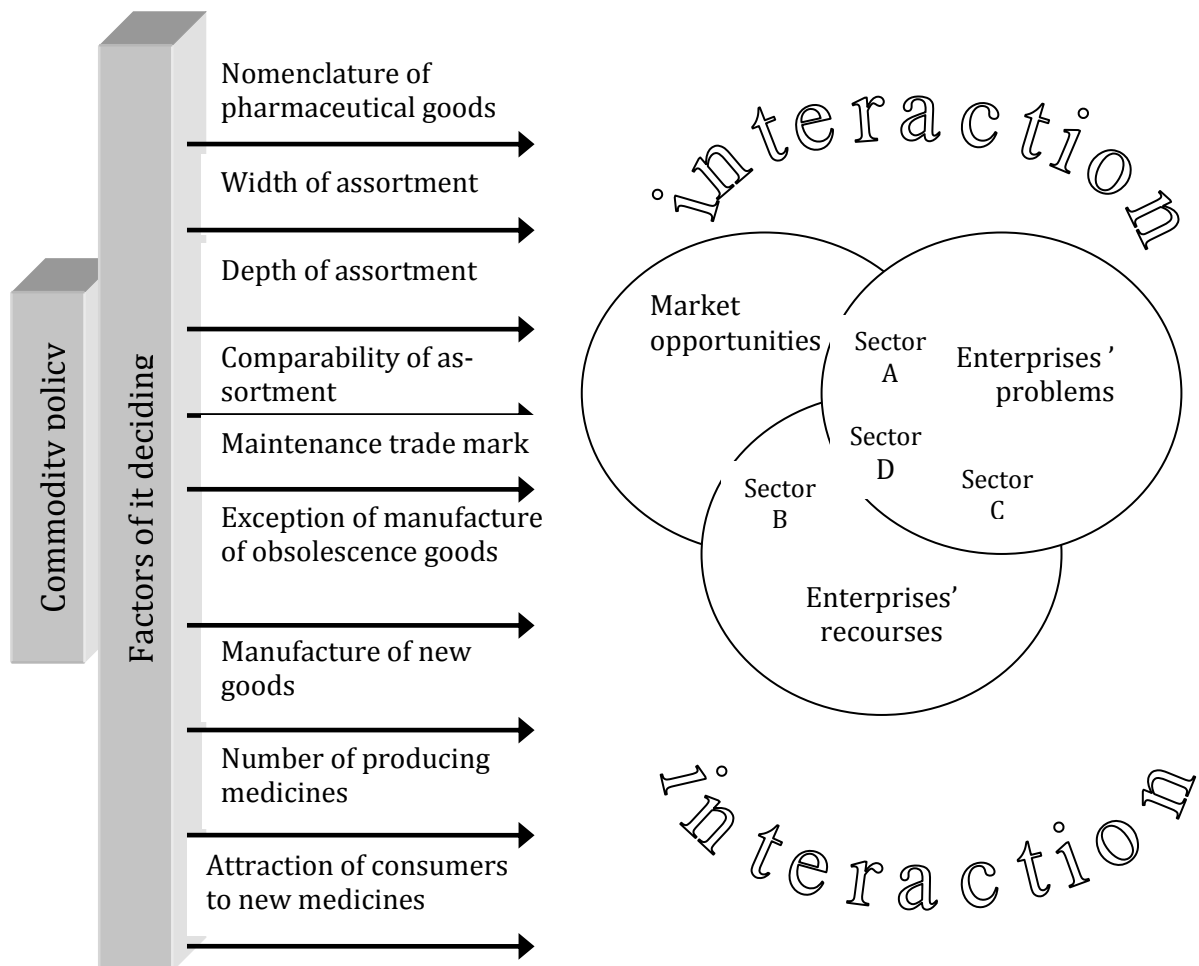


Figure 5.10 – Directions and scheme of commodity policy realization by pharmaceutical company

Sector A shows, that the problem of the enterprise and market opportunity coincide. Therefore the problem of administrative structures is connected with search of necessary resources.

Sector B coordinates market opportunities and available resources of firm. In this case a problem of administrative structures – revision of problems of the enterprise.

In sector C problems of the enterprise and its resources coincide. The firm management problem consists in search of the corresponding market (segment) and maintenance of advancement of goods on it.

Sector D – is an ideal variant when all variables are interconnected. The main thing in this situation – efficiency, acceptance of correct decisions and their embodiment during a life, i.e. skilful use of marketing strategy and tactics.

5.8. TRADE MARK AND GOODS PACKING. BRAND

Steady position of goods at the market, its competitiveness is promoted by presence of commodity mark or an enterprise trade mark.

Trade mark is a name, term, sign, symbol, figure or their combination, intended for identification of goods and services of different manufacturers (intermediaries).

Trade name are designated by a firm name, the logo, trading image and the trademark. The trade mark associates with certain properties of goods, its advantages, value, individuality.

Functions of trade mark concern:

- establishment of direct connections with consumers;
- determination and representation of goods' features in comparison with analogues;
- description of relationship of different goods of the same kind by certain criteria (quality, price line);
- symbolical instructions on consumer properties and utility of goods for the consumer;
- protection against fakes and probability to mix with the similar goods of other manufacturers.

For manufacturers trade mark is use an aspiration to diversify, differentiate homogeneous goods by means of special packing and name that gives the chance to form image of the enterprise, to “insure” against threat of price competition.

For the consumer advantage of the marked goods are connected with decrease in risk of acquisition of the poor-quality goods, simplification of choice and recognition of goods, which was generated positive or negative experience, etc.

Allocate *such types of trade marks*:

- *manufacturer mark* (brand) – the mark created by the manufacturer;
- *own-label mark* (brand) which is created and appropriated by trading and marketing intermediaries;
- *license mark* – the branded name of goods or the service, offered the licensee the proprietor of trade mark;
- *joint mark* – provides use for one goods of branded names of two different enterprises (firms);
- *group marks* – use by firm of one name for all goods (for example, production of known manufacturer of medical equipment “Siemens”);
- *marks-fighters* – cheap variants of marks which are supervised by manufacturers and provide small expenses for trade mark advancement.

Trade label (logo) – the designation registered when due hereunder, appropriated to goods for its difference from others and instructions on its manufacturer (the enterprise, firm). It represents figure (symbol, sign), certain association of letters, numbers. The trade label is registered by the State patent of Ukraine according to the law of Ukraine «About protection of the rights to signs for goods and services». Such label protects exclusive rights of the manufacturer-seller to using mark or an emblem.

The basic *functions* of a trade label – to inform on goods and its manufacturer, to testify to high quality of the goods, to cause trust of the buyer thanks to positive reputation of the owner of a trade mark, to advertise the goods, etc.

Registration of trademarks is necessary for competitive struggle, advertising of goods, acquaintance with them commercial structures and buyers, and also for possible sale of licenses for trademarks. In majority countries on purpose of observance infringements of the proprietor’s right along with a trade mark the special designation ® which specifies that the given trade mark is registered is entered and protected by the law.

For the buyer the trade label is an incentive motive of acquisition and the original quality assurance.

There are three levels of trade label perception:

1. Recognition, when knowledge of target audience concerning the offered goods is provided. The purpose of marketing efforts thus – to convince the consumer to carry out trial purchase and to transform the potential consumer into the real.

2. Advantage consisting in support of interest and its transformation into the stable form of demand. The purpose of marketing efforts – to convince buyers of advantages and utility of goods, to win group of constant supporters.

3. Loyalty: at this level the consumer meaningfully searches at the market for the goods with a certain trade mark. Marketing efforts go on maintenance of interest and a reminder to consumers about the given trade label.

Now the wide circulation has received such concept, as a brand which quite often identify with the trade mark, in pharmacy – with an original (in-patent) medical product. However it is not so, concept of brand is wider.

The brand is a complete feature set which contains trademark, rational and emotional consumers' perception of a producer's (seller) corporate style, trade mark and goods, and also actions for its promotion at the market. Brand describe as set which consists of a product, satisfying functional requirements of consumers, and the additional value inducing consumers to feel satisfaction of that this product has higher quality. To become a brand, goods should satisfy consumers' requirements better, than the similar goods-competitors. Besides, the consumer should be informed on a brand.

The brand simplifies for the consumer the problem decision on differentiation of goods which associates with the certain characteristics necessary for satisfaction of its requirements. The concept of brand reflects advantages of goods in relation to competitors and provides a great demand.

The brand bears the information on system of consumer values. For example, the doctor appreciates in an antibiotic high efficiency concerning microorganisms and low degree of development of stability at infectious diseases. The brand is reflexion of individuality of a medical product – both original, and similar or generic. It is possible to consider the medical product as a brand if it has a visual sign or brand (trading) name (mark), and work on trust strengthening to it, reliability or it exclusive, the added value of a medical product (convenience of reception, dispensing, a variety of medicinal forms, speed of reception of effect, duration of action, reception possibility different groups sick – children, people of advanced age, etc.) has been spent.

To making brand corresponds such direction in activity of the enterprises and firms, as branding. **Branding** define as a direction of marketing communications specializing on working out of a complete corporate style and its elements for formation and strengthening of characteristic lines of image and the commodity offer of the enterprise.

Integral part of the general commodity policy and planning of a new product in marketing system is working out of packing of goods.

Packing is a result of carrying out of complex measures providing protection of production from damages and losses, from negative factors of environment also facilitates process of a turn of production during transportation, warehousing, realizations, etc.

By marketers' estimations, only 3 % of buyers do not pay attention to packing, 97 % get of goods, having defined on packing known firm, and 35 % from them – only after will read the text placed on it.

Allocate such *kinds of packing*:

- internal (primary) – direct capacity of goods;
- external (secondary packing) serves as protection for internal and acts in film by preparation of goods for use;
- transport (container) – the capacity necessary for storage, identification or goods transportation.

Packing carries out such important functions, as:

- maintenance of safety of goods and its protection against environment influence;
- simplification of use of goods;
- maintenance of creation of rational units for transportation, loadings and unloading of goods;
- maintenance of creation of rational units for their warehousing;
- maintenance optimum – on weight and volume – units for goods sale;
- communicative, advertising and an excitant of sale of production.

The choice of a packing kind depends on: weight and goods volume at optimum use of vehicles and warehousing means; level of fitness of packing to means of automation of cargo handling works, transportations and warehousing of goods at clients; transport and transportation ways.

Except the general requirements, packing for pharmaceutical goods and medical products should answer some features connected with a physical and chemical condition, colour, the relation to physical, chemical, temperature influences. Therefore the packing material should provide a certain temperature mode, humidity of air, protection against direct solar

beams etc. Criteria of quality of pharmaceutical packing harmlessness of a material, its compatibility with a medical product, convenience in use, stability to microorganisms, maintenance of the maximum period of storage of a medical product, etc.

Recently the packing role has considerably raised. Now its basic problem consists in attention attraction to goods and granting of the information on it. It stimulates goods purchase, and also allocates it among many similar with a trade mark, the text, the form or colour registration. Packing, thus, has got value of the advertising means calculated on a wide range of consumers and long-term influence.

The important advantage of the firm goods is **corporate style** presence. It allows consumers to remember firm and quality of goods that if necessary it is easy to distinguish it from similar production of firms-competitors. Besides, the corporate style provides to goods certain image. The corporate style is a set of methods of manufacturing, registration, advancement at the market, providing a generality of production of a commodity producer (seller) and distinguish it, and also the manufacturer from competitors.

Corporate style elements are: a trade mark, a logo (specially developed original tracing full or the abbreviated name of firm, goods or commodity group), the firm block (a trade mark and logo composition, and also the country, the post address, phone, etc.), firm colour, the firm complete set of fonts, firm constants (a format, system of imposition of the text and illustrations, etc.).

The great value has also psychological effect of packing colour. It is proved, for example, that dark blue colour associates with emotional warmth; red – it is a life, vigour; blue-green – clearness, safety; yellow – an innovation, the future and development.

Information marketing loading is carried out also the **mark**. These are necessary inscriptions, images and conditional marks which contain on labels, packing or on goods.

The most widespread means of marks is **the label**. On it one branded name of goods, or great volume of the information on it can be displayed or only. The label carries out some functions: identifies goods or mark; shows goods grade; describes goods, i.e. who, where and when it has made, conditions of its use, the packing maintenance, safety precautions; propagandizes goods the attractive graphic performance.

The system of the computer account of the consumer goods extended nowadays has led to occurrence of new means of marking – **bar coding**. Firstly it has been introduced in the USA over 20 years ago. Since 1977, in Europe and other continents the European system of coding EAN («the European article») which is a version of American system UCC («the Universal commodity code») has affirmed. In the western countries on 99 % of production which is made, put shaped coding.

As a matter of fact bar code – a way of introduction of the information in the computer thereof there is an account of goods on parameters and quantity. There is a possibility practically in one stage to watch a demand condition, consumer preferences, dynamics and changes of structure of a commodity cash.

The bar code represents coded by means of strips of a different thickness and figures the information placed in the form of a label on packing. The information is read out by a light beam when it passes on a shaped code. Thus it is possible to identify any goods.

According to extended in the majority countries of the world the system of coding EAN-13 to each kind of a certain product gives number from 13 figures. First two or three define the country in which goods are made, following five – a producer, five more – the product name, consumer properties, sizes, weight, colour. Last figure – control also certifies reliability of reading of strokes by scanner.

5.9. INNOVATIVE ACTIVITY OF THE PHARMACEUTICAL ENTERPRISES

For effective activity of firm at the market creation and manufacture of the new goods is solving.

The new goods – are an end result of research activity of firm-manufacturer which by all means should meet the requirements generated at potential buyers by the moment of its enter on the market.

Such goods urged to satisfy absolutely new requirements or to raise satisfaction of already existing needs, or considerably to expand a circle of the buyers, capable to get goods which satisfy existing requirements at already reached level.

In marketing system it is necessary to mean by *new goods*:

- qualitatively new goods, analogues to which to its occurrence at the market were not;

- goods which contains considerable radical improvements also supposes presence at the market of goods-analogues to destination;
- goods which already is at the market, but with the certain improvements which are not changing radically its characteristics;
- goods of market novelty which is old for the existing markets, but new to the given new market;
- goods of new sphere of application.

It is necessary to distinguish the new goods from its *modification* as last represents together with it uniform group of goods having homogeneous signs, but with some differences in characteristics according to requirements of certain segments of the market and end users.

Studying and estimation should precede *creation of the new goods*:

- spheres of possible use, quantity and structure of potential buyers;
- available resources of manufacture and sale;
- possible changes in technological maintenance of the new goods output;
- economic risks and probability of a competition of new goods that are already made by the enterprise or competitors.

Process of working out of the new goods consists of three stages (Fig. 5.11).

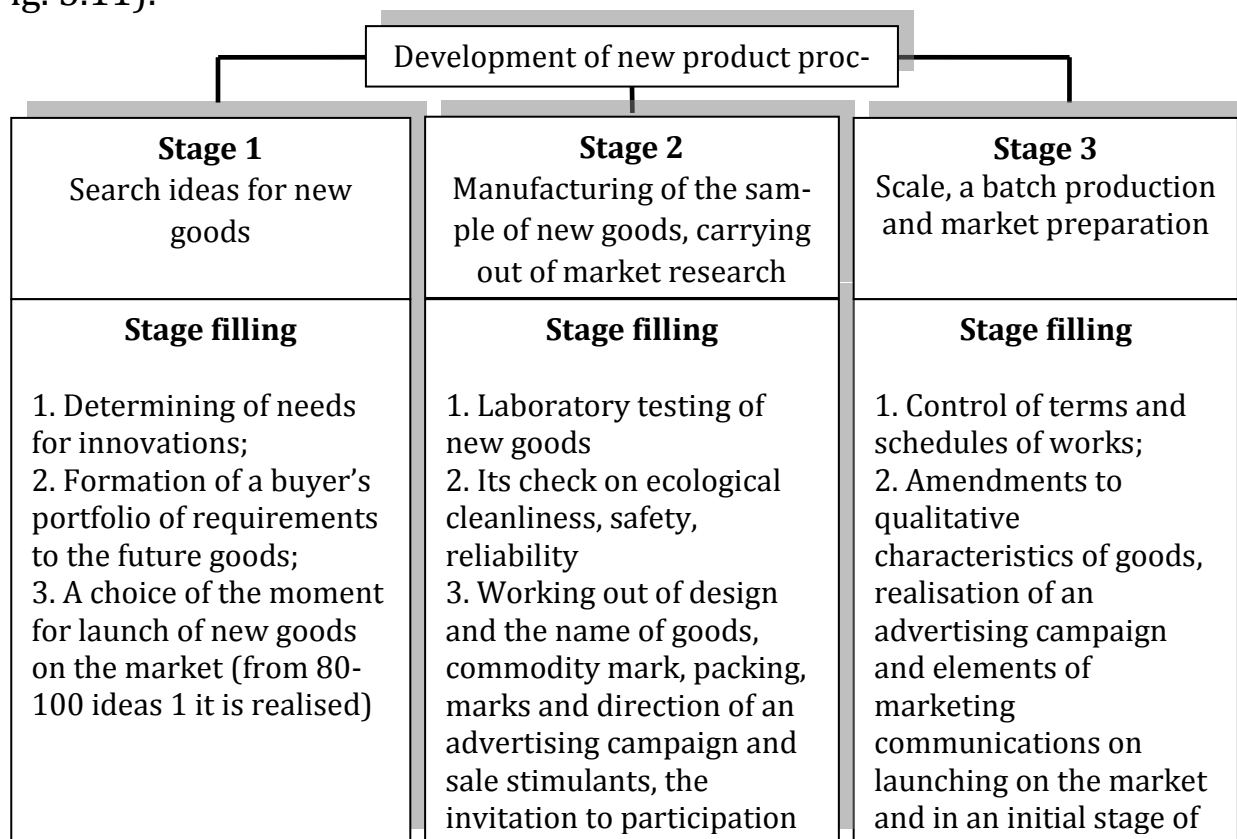


Figure 5.11 – Components of process of new goods' working out

The first stage begins with promotion as it is possible quantities of new ideas concerning needs, ways of their satisfaction, design features of goods, etc. Sources of ideas on creation of new goods can be: consumers; research laboratories; scientists, designers; goods of firms-competitors; information of the trading personnel and trading intermediaries, advertising agents and marketers; specialised professional editions, exhibitions, fairs, etc.

Selection and estimation of the most perspective ideas is carried out by such criteria:

- possible profitableness of the goods;
- available and potential competitors;
- a market capacity;
- level of necessary capital investments;
- level of patent cleanliness;
- expenses which are assumed at an experimental stage;
- possible duration of life cycle of the goods;
- buyers' relation to firm and its production;
- presence materialresources and manpower;
- possible level and time of recovery of payback of the given project of the new goods, etc.

At the second stage it is carried out laboratory and market testing of the new goods is desirable. Laboratory testing provides goods check on ecological cleanliness, safety, reliability. Marketing attributes are developed: design and the goods name, commodity (trading) mark, packing and marking, a direction of an advertising campaign and sales promotion.

Market testing spend by trial sale of the goods in the selective markets. The purpose of these actions is reception of the operative commercial information, namely: reactions of the market to a new product, its packing; possibilities of use of a distribution channels, advertising etc. obtained thus are necessary to change unsuccessful characteristics of the goods and eventually to adapt it for the concrete market.

The closing stage provides working out of general plan of new goods' manufacture, determining and research of supply sources by materials, equipment, launching of a product in manufacture and the subsequent control of exact performance of terms and schedules of works, certain amendments to qualitative characteristics of goods for the purpose of optimum approach of their level to consumers needs.

Actions for sale are simultaneously developed and carried out: advertising campaign means, sale stimulation, the organisation after sale service, at this stage questions are solved: when to enter the market; where to realise the goods; to whom to offer the goods;

The new pharmaceutical product should satisfy new or at higher level already existing needs. Unlike other definitions of industrial orientation, in this case means, that a new product can be differing from available for consumer or in the target (consumer) market.

From novelty positions distinguish medical products of market novelty, the preparations new to firm, and the modified, improved medicines which novelty is transparent in certain borders.

Depending on novelty degree medical products can be divided on original and preparations-generics.

The original (in-patent) medical product is a medical product which is a sole property of the company which have developed it, or being the property of the company-owner of the first sale licence. The molecule of active substance or a way of its reception, biological (pharmacological) activity, structure or a way of reception of the medicinal form of an original preparation are protected by the patent when due hereunder. Before the expiry of the patent term other pharmaceutical company has no right to synthesise and use this active substance in commercial objectives.

Aspiration to keep high level of health services of the population, but thus not to raise budgetary expenses on medical products, the attention of interested parties to generics and to their potential possibilities to economy of money has drawn.

The preparation-generics – is a medical product on which period of patent protection validity has ended, it is not a sole property of the pharmaceutical company which has developed it or owned the first sale licence. It contains the active substance identical to volume that is a part of an original preparation. Any pharmaceutical company by observance of requirements on manufacture in the given country can make such medical product.

Advantages of generics are:

- wider demonstrative base of medicines' efficiency;
- long acknowledgement of side effect absence on human body;
- cheaper than original medical products.

Thanking these factors the positive relation to generics both from doctors and pharmacists (pharmacists), and from consumers was gener-

ated. In the course of creation of original medical products such specific stages are allocated:

- generating of ideas;
- the directed synthesis of new substances or updating of existing connections and substances;
- screening of biologically active substances;
- preliminary working out of a medical product – is spent a tentative estimation of the offered chemical compound about conformity to base criteria.

During this stage the key moments connected with harmlessness, pharmacological action, bioavailability, pharmacokinetics, the medicinal form, sharp toxicity of connection and possibility of its large-scale synthesis which can cause problems at a stage of working out of a medical product are estimated

The subsequent development cycles of new medical product are identical both for original, and generics.

1. The technological and biopharmaceutical research:

1.1. Substantiation of the structure

1.2. Technology development and choosing the medicinal form

1.3. Quality monitoring Development

2. Preclinical research:

2.1. Carrying out the pharmacological research

2.2. Preparation of the feasibility report

2.3. Production schedules development

2.4. The statement of the reference document and its representation in the State Scientific – Expert Center of Medicines for getting the sanction to clinical tests of a drug.

3. Clinical tests:

3.1. Examination of materials

3.2. Definition of efficiency and harmlessness

3.3. Generalization of the clinical tests results

3.4. Getting the sanction to industrial release of a medicines and to medical application of a medicine.

4. The batch production:

4.1. Studying of need

4.2. Formation of demand

4.3. Stimulation of selling .

Basis of a commodity policy in marketing system is the innovative policy of firm.

In the general understanding **the innovative policy of firm** – is set of administrative methods directed on strengthening of company's innovative potential, improvement of quality production efficiency .

Motives of innovations can be divided on external and internal. *The external concern*: market saturation the existing goods, technologies development , fitness to structural changes in the industry spheres, menacing to positions of firm to politician of competitors, necessity of smoothing of tactical fluctuations, changes in advantages of consumers etc. *Internal* are aspiration to increase sale growth, a market share and final profit, to improve competitiveness of goods in the market, to reduce the risk connected with limited commodity assortment, to find exit ways on the new market for firm, etc

In pharmaceutical branch of an innovation with *technological advantage* provide creation of essentially new preparations, medicinal forms, doses, change of physical properties of a preparation on a level of production, use of a new component of medicines, etc.

Marketing orientation of innovations mentions basically variants of management, sale, communications as components of process of commercial realisation of a product, for example: presentation of the new medicinal form of preparation, new form of trade, a new kind of advertising, new sphere of application of traditional preparation, a new segment of the market for which the goods are adapted, etc.

Questions for out-of-class work

1. Give the definition of goods.
2. How can goods be classified?
3. Define the consumer value of goods.
4. List the consumer properties of goods.
5. What consumer properties are defined suitability of a medical product to application ?
6. Specify and open an essence of key factors of market success.
7. Give the definition of product life cycle .
8. Specify and characterise the basic phases (stage) of product life cycle.
9. What dose positioning of goods mean?
10. Name criteria of positioning of medical products.

11. *Define the competitiveness of goods.*
12. *What components are covered by competitiveness of the goods?*
13. *What components are contained by quality of the goods as the basic component of competitiveness?*
14. *What basic condition of competitiveness of the goods?*
15. *Specify the basic comparative parameters of competitiveness of medical products.*
16. *Give the definition of marketing strategy of firm.*
17. *Characterise base strategy of coverage of the market.*
18. *What groups of goods share by matrix BCG ?*
19. *What features of model "appeal-competitiveness"?*
20. *How can be marketing strategies depending on a market situation and a firm condition classified?*
21. *Under what conditions marketing strategy of firm can be changed?*
22. *What are problems of assortment policy of enterprises?*
23. *What is the commodity assortment and what its basic characteristics?*
24. *How the concept of the commodity nomenclature differs?*
25. *In what directions the analysis of commodity assortment is carried out?*
26. *What are criteria of the commodity assortment formation in pharmacy?*
27. *Give the definition of commodity policy.*
28. *What decisions are accepted within the commodity policy?*
29. *Under what conditions realisation of a commodity policy of firm is carried out?*
30. *In what features of formation of a commodity policy of the pharmaceutical enterprises consist?*
31. *What is the commodity mark and what value it has?*
32. *What kinds of commodity marks allocate?*
33. *Make definition of a trade mark and its role in formation and support of image of firm.*
34. *What functions are carried out by goods packing?*
35. *Packing of the pharmaceutical goods should answer what requirements?*
36. *What is the corporate style?*
37. *What functions the label as carries out marks means?*
38. *What information the label on a medical product should contain?*
39. *In what the essence of shaped coding as marks means consists?*

- 40. Make definition of the new goods.*
- 41. What mean by the new goods in marketing system?*
- 42. Characterise the basic stages of process of working out of the new goods.*
- 43. What can be sources of ideas of creation of the new goods?*
- 44. Into what groups divide medical products from novelty positions?*
- 45. List and open an essence of the basic development cycles of a new medical product.*
- 46. What procedure for registration of a medical product?*
- 47. Make definition of an innovative policy of firm.*
- 48. Into what groups divide motives of innovations?*
- 49. In what an essence of technological orientation of innovations in pharmacy?*
- 50. In what consists marketing orientations of innovations in pharmacy?*

Tests

1. The pharmaceutical enterprise, which has reached high figures of sales volumes of production and recognition of buyers, gets the maximum profit at the following stage of the product life cycle:

- A. Decline
- B. Introduction
- C. Growth
- D. Maturity
- E. Development

2. What does not belong to the consumer value of medicines as goods?

- A. Therapeutic efficiency
- B. Conformity of drug quality to certain requirements
- C. Safety
- D. Profitability
- E. Trademark

3. The pharmaceutical firm produces and sells a medicine with a wide spectrum of action. The product is homogeneous and is offered to the whole market. What type of the marketing strategy is used by firm?

- A. Non-differentiated marketing
- B. The strategy of the single-segment
- C. The strategy of multiple segmentation
- D. Balanced marketing
- E. Individual marketing

4. What of the following factors does not belong to the “key factors of the market success” of the goods?

- A. Individualization of the goods
- B “Critical weight of the goods”
- C. Variety of the goods
- D. Multifunctionality of the goods
- E. A technology package

5. The drugstore offers the qualified measurement of the blood pressure to visitors. What type of the goods does this procedure belong to?

- A. A special demand product
- B. A short-term product
- C. A daily demand product
- D. Service
- E. A passive demand product

6. The pharmaceutical company produces and sells vitamins differing by a set of qualitative and quantitative characteristics. What type of the marketing strategy does the company keep?

- A. Non-differentiated marketing
- B. The strategy of multiple segmentation
- C. The strategy of the single-segment
- D. The balanced marketing
- E. There is no correct answer

7. A visitor of a drugstore has got a medicine by individual prescription. What type of the product is it?

- A. Preliminary choice product
- B. Special demand product
- C. Daily demand product
- D. The product of passive demand
- E. The product for emergencies

8. What statement is not the definition of positioning?

- A. Providing the product comparing with the competitors a definite position at the market and consciousness of target buyers
- B. The way of consumers’ estimation of the goods in comparison with other goods, determination of competitive features of the goods at the market
- C. Providing competitive positions for the product at the market and developing the corresponding marketing mix
- D. One of the firm is policy elements considering the product as a complex in short -, middle – and the long-term period
- E. There is no correct answer

9. The rate of drug realization is used for decision-making when forming the optimal assortment in the drugstore. What formula is used for calculation?

A. $RR = 1 - \frac{R_b}{n \times a}$

B. $RR = \frac{V_p A}{\sum V_p (B + C) \div n}$

C. $RR = \frac{R_b + S_a + R_a}{R_b + S + S_a}$

D. $RR = \frac{I_{g.t.}}{I_{g.ta.}}$

CHAPTER 6

PRICES, PRICING, THE PRICE POLICY OF PHARMACEUTICAL ENTERPRISES AND PHARMACIES

The chapter is devoted pricing of the enterprises and strategy of a price establishment for the goods in the market environment. The presented materials shine theoretical bases of pricing, function and classification of the prices; open supply and demand laws, an order and methods of pricing depending on factors and market types.

6.1. THEORETICAL BASES OF MARKET PRICING

In the conditions of market relations the important role is played by the law of cost which is realised through mechanisms of pricing, equation of a supply and demand. This law serves one of social production regulators, promoting moving of resources from one sector of economy in another and in them. The main line of market pricing consists that real process of prices' formation occurs not in manufacture sphere, and in sphere of realisation of production, i.e. in the market.

Thus, **the price** – is an exchange equivalent of cost of the goods or services in money terms. In a broad sense for the price accept set of all values which exchange the buyer on possibility to use the goods or service.

The price – a unique component of marketing mix which makes profit, other components represent expenses. The price also is the most flexible component of marketing.

The price factor in marketing is one of the main problems that speaks a number of circumstances:

- the price is the major indicator for the enterprise as its basic function is maintenance of the income of realisation of the goods;
- all enterprises are compelled to make decision on the prices. Prime value has an establishment of the prices in such cases: when the enterprise establishes the price for the first time (at release of the new goods, formation of marketing channels, at an entry on new segments of the market); in connection with change of some circumstances (structure of expenses, market condition, character of competition, etc.); at change of the prices by competitors;

- in a number of branches pricing plays a main role in the marketing program, and also is object of direct influence of the legislation and the state bodies.

Price represents the value of a drug product for both the buyer and the seller. Price has several functions:

1. Registration. The registration function of price is the means of the account of the cost indexes: the volume of the commodity circulation, the volume of the commodity stocks, arrival of goods, profitability.

2. Stimulating. This function is expressed in stimulating influence on manufacture and consumers.

3. Distributive. This function provides distribution of the national income between various branches of economy, regions of the country, different social groups.

4. The function of balancing the supply and demand. Through the prices communication between manufacture and consumption, supply and demand is carried out.

5. The function of price as criterion of the rational manufacture accommodation. This function shows that with the help of the mechanism of the prices transferring the capital from one sector of economy into another one, where the rate of return is higher, is carried out.

6.2. PRICES CLASSIFICATION

In the free market conditions relation of the seller and the buyer develop naturally and are regulated by nobody. Results of mutual relations are reflected in market prices.

The market price – is the actual price which is defined according to a supply and demand of the goods. Depending on purchase and sale of the goods and services different kinds of the prices which can be classified on separate basic groups are established.

1. On degree of the state influence on pricing allocate:

1.1. **Free prices.** They are formed depending on a condition of market conductor and established without the state intervention – on the basis of the free arrangement of the seller and the buyer. The state bodies, not accepting participation in formation of free prices, carry out control functions.

1.2. **Controlled prices.** For separate groups of the goods the state establishes the top border of price, to exceed which it is forbidden. In the conditions of market economy such management of the prices concerns the vital goods and services (medical products, strategic raw materials, energy carriers, public transport, consumer products of the first necessity).

1.3. The fixed prices. The state bodies fix such prices in planned or other documents. Neither manufacturers, nor sellers have no right them to change.

2. Depending on forms and spheres of trade price share on such kinds:

2.1. Wholesale prices (enterprise wholesale prices, wholesale cost prices of the industry. Wholesale prices are prices on which production of the enterprises is realised and bought, firms and the organisations irrespective of patterns of ownership as the wholesale reference.

2.2. Retail prices. Retail prices are prices on which the goods are realised to the population, to the enterprises and the organisations.

2.3. Tariffs. Tariffs for services are prices (quotation) which define level of payment of municipal and household services.

3. Auction and stock quotes are prices formed on corresponding kinds of the markets which concern type of the free market.

3.1. The auction price – is the direct price of the goods sold at auction. It can essentially differ from a market price (more often – towards increase) as displays unique both rare properties and signs of the goods and appreciably depends on skill of the person which spends auction.

3.2. The stock quote – is the price for the goods, securities and the services realised as exchange trade which is formed on the basis of a supply and demand. As a rule, at stock exchanges a standard consignment of goods defined grades which make approximately 10 % of urgent (future) agreements is on sale and bought without the previous review, unlike auction.

4. The world market prices are prices which were actually established on the goods of the given group in the world market and recognised as the international trade organisations for the certain period.

Thus, it is possible to assert, that the price level in certain degree depends on the buyer. For the seller possibility in sphere of working out of price actions in marketing system are a little limited (Fig. 6.1).

As it has been specified above, a market price more than full expenses, however happen situations when the market price will be lower, than a component of all expenses. The top border of a market price is defined by presence of unique qualities of the concrete goods which distinguish it from the goods-analogues of firms-competitors.

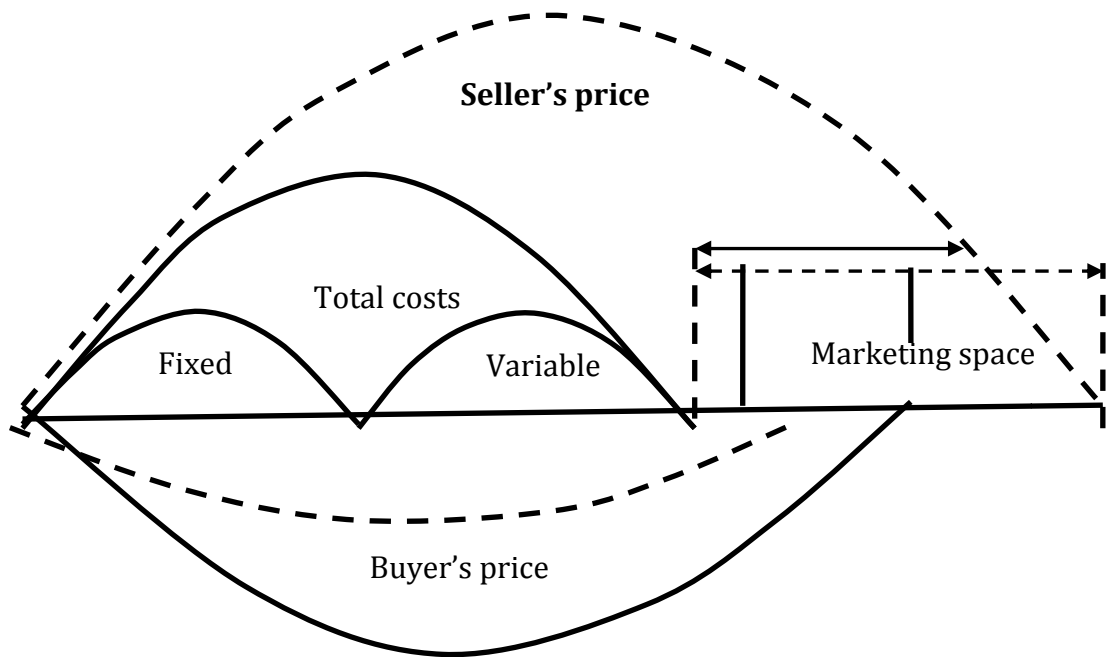


Figure 6.1 – The price structure

The difference between the top and bottom border of a market price forms an interval – «marketing space», limiting freedom of action of firm concerning definition of level of the established prices. Formation of the price of the goods within this space depends both on the market as a whole, and from the purposes of the marketing program of firm and a state policy in sphere of the prices in general.

6.3. PRICING FACTORS

The decisions accepted by the enterprise in sphere of pricing, are subject to influence of internal and external factors (Fig. 6.2). To the internal factors influencing pricing, concern: the marketing purposes of firm, marketing strategy, expenses and a stage of product life cycle.

Determining of price for the goods depends on its positioning in the market and sale strategy. Thus marketing main objectives can be:

- maintenance of a survival of firm – matters in that case when goods super manufacture is observed, the competition or change of , the competition or change of requirements of consumers becomes aggravated. For the purpose of increase in demand the enterprise usually reduces the price, but such measure can be short;
- maximization of profit on realization of all nomenclature of the goods;

- a gain of a certain market share . Sometimes the enterprises (firm) aspire to maximisation of market share and considerably reduce the prices, believing, that it guarantees the minimum expenses and the maximum profit in long prospect;
- leadership achievement on indicators of quality of the goods – provides an establishment of the high price;
- increase of reputation of the manufacturer among distributors;
- penetration on new, including the foreign markets, etc.

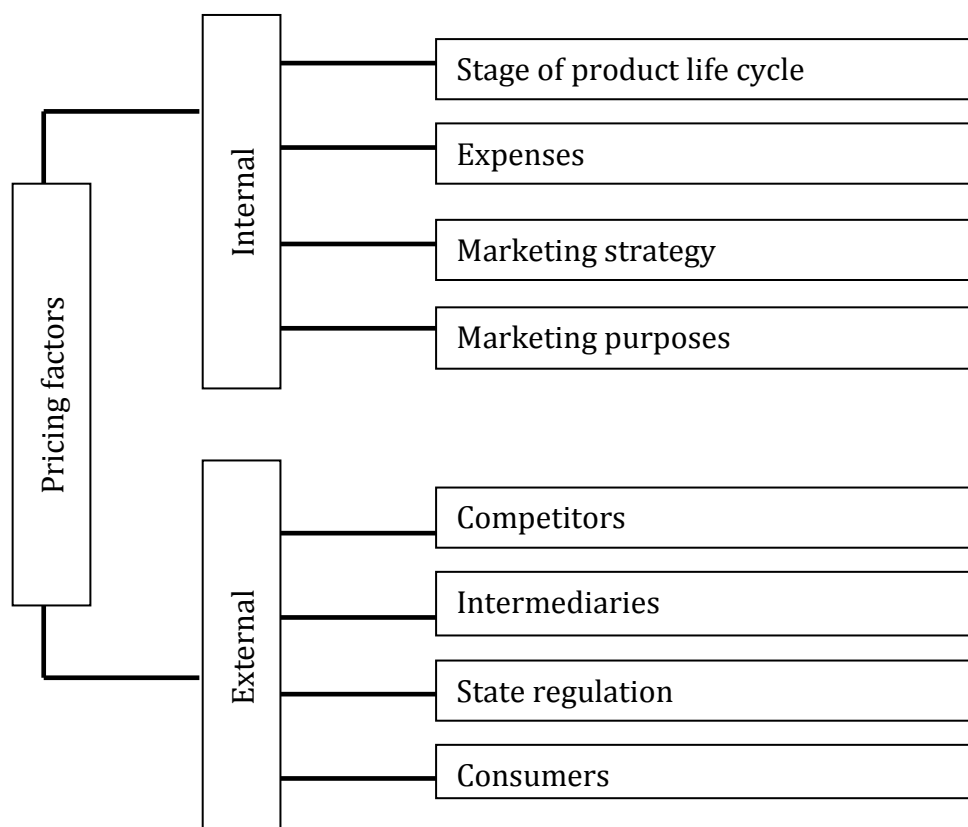


Figure 6.2 – Pricing factors

As a whole pricing has important role in achievement of the time or perspective purposes of enterprise.

Marketing strategy of the enterprise influences pricing as an element of all marketing complex. Therefore decisions under the prices should be co-ordinated with decisions on goods positioning, trade channels and advancement methods. Change of marketing complex any of components demands revision of a price policy of the enterprise.

Expenses for production serve as the basic terminator of a floor price. The enterprise aspires to establish such price to cover expenses for manufacture, realisation and a complex of actions for goods advancement and also to receive sufficient profit to compensate expenses and risk.

Pricing depends also on **stage of product life cycle**. So, at an *introduction stage on the market* one of two price strategy can be used:

- “skimmed of cream” (for example, a medical product viagra);
- “penetration on the market” – an establishment of extremely low price (for example, the Japanese printers owing to such pricing in the market of the USA have occupied more than 75 %).

At a *growth* stage – there are competitors, but also there is a possibility of price manoeuvring as a result of sales volume growth.

At a *maturity* stage there comes an undesirable competition. The establishment of a real price demands exact definition of the moment of achievement by the maturity goods.

At occurrence of signs of recession can become necessary:

- price increase (especially at inelastic demand) for short-term increase in profitableness before definitive removal of the goods and for indemnification of expenses for working out and deducing on the market of new generation of the goods;
- price fall (even below cost) to draw attention of buyers to accompanying goods.

Among the external factors influencing pricing, consumers, state regulation of prices, participants of trade channels (intermediaries) and competitors are allocated.

The first factor – **consumers** of the goods essentially influence decision-making concerning the prices. Thus between the prices and quantity of the purchases made under these prices, it is possible to explain interrelation two economic principles:

- the law of demand and price elasticity of demand;
- segmentation of the markets, when reaction of buyers of different segments of the market to the price the unequal.

The second external factor influencing a price level, – **state regulation**. Degree, forms and scales of the state intervention in pricing depend on level of economic development of the country, inflation, monopolisation and a competition, relative density of public sector, etc.

State intervention in pricing process is carried out by: restrictions of level of the price; introductions of tax payments for the purpose of withdrawal of a part of incomes at manufacturers and consumers; the state support of the prices by means of grants manufacturers or grants to consumers.

Are allocated direct and indirect (indirect) state regulation of the prices. *Methods of direct price control* are:

- an establishment of the fixed (firm) prices for the major goods and services;
- application of the limiting prices or limiting factors of their excess;
- declaring of change of the price;
- blocking of the prices for the certain period;
- introduction of marginal levels of posrednichesko-marketing and trading extra charges (margins);
- the conclusion of contracts on the prices between the state and the enterprise.

Indirect (indirect) methods of state regulation prevail in the mature market and with their help the state regulates behaviour of the subjects participating in process of pricing. Indirect methods of price control concern:

- use of limiting specifications of profitability;
- change of levels and differentiation of rates of commodity taxes;
- the preferential taxation and crediting;
- differentiation of rates of import duties.

Realisation of the state price policy is based on the control over observance of discipline of the prices which is carried out by system of special bodies.

Following factor is **participants of trade channels**. All participants of distribution channels – from the manufacturer to wholesale and retail trade play the important role in a price establishment, pursuing thus such aims:

- increase in volume of realisation;
- reception of a sufficient part of profit;
- creation of corresponding image;
- maintenance of repeated purchases;
- achievement specially objects in view.

The manufacturer influences the goods prices, using system exclusive distribution or minimising sale through retail trade when the goods are on sale for reduced prices. The manufacturer opens own retail shops, delivers the goods on a consignment basis, provides a sufficient part of profit for participants of distribution channels . As a rule, it is carried out by means of working out well-known within the limits of all country of trade marks to which buyers feel favour and for which are ready to pay any price.

Wholesale or retail trade achieve more influence in pricing, underlining the manufacturer the importance as consumers (buyers) of the goods;

associate growth of profit with the most successful modern form of sale; refuse realisation of unprofitable production; realise the goods of firms-competitors, thereby declining the buyer to the seller, instead of to the manufacturer.

The fourth external factor which in certain degree influences price level, – **a competition**. As a rule, studying influence of the given factor, experts in marketing analyze the competitive environment in which the firm carries out the activity. Economists distinguish four types of the market, certain principles of pricing are inherent in each of which. They are pure competition, monopolistic competition, oligopoly, and monopoly.

Pure competition is a market situation, in which there are many small buyers and sellers with complete market information each. No single buyer or seller controls market demand, market supply, or price. The product is homogeneous, i.e. each seller markets the same product. It is easy to enter or leave this type of market. Pure competition is rarely, if ever, attained in the real world. It is a theoretical concept, an ideal. Something close to pure competition is often found in the marketing of agricultural products such as cereal grains or fresh fruits and vegetables.

In a market situation of **monopolistic competition** there are also many buyers and sellers, but they lack complete market information. Each seller is attempting to gain a differential advantage over its competitors. This advantage may be in the differences of the product, its brand or packaging, the distribution system, promotional appeals, or customer services. The idea is to get the buyer to perceive an attractive difference in what this seller is offering and, therefore, select this particular seller's product.

An oligopoly is a market structure wherein only a few large sellers, marketing essentially similar products, account for all or almost all of an industry's sales. Usually the strong competition and/or large initial investment will make it very difficult for a new firm to enter an oligopoly.

When planning its marketing strategies, each seller must consider the possible reactions of the few competitors. For example, all sellers tend to charge the same price. If one firm raises its price, its sales drop off considerably. If a firm cuts its price, all competitors will follow and the new market price simply settles at a lower level.

A monopoly is a market structure, in which only one firm is marketing a particular product or service, and there are no close substitutes. This situation is typical, for example, in the gas and electric utilities market in any given metropolitan area. Because of their unique market positions, public-utility monopolies are heavily regulated by governmental agencies.

6.4. DEMAND, SUPPLY AND THE PRICE

Demand – solvent need, i.e. the sum of money which buyers can and want to pay for the goods (services) necessary to them. Naturally, demand cannot be identified with need: if the person feels need in something, but it does not have money he does not own purchasing demand. The size of demand for the goods is defined by influence of such factors (6.1):

$$C_m^x = f(\Pi_m^x, D, U_m^x, U_m^y, U_m^g, \Pi_c, \Pi_M), \quad (6.1)$$

where C_m^x – demand for the goods;

Π_m^x – buyer' needs for the given goods;

D – the consumer income;

U_m^x – the price for these goods;

U_m^y – the goods-analogue price;

U_m^g – the price for the additional goods;

Π_c – purchasing capacity of the consumer;

Π_M – opinion of the consumer concerning prospects of its economic well-being.

The demand law shows communication between the prices and quantity of the goods which can be got under each price. It testifies that under other equal conditions on the low price really to sell more goods, than on the high. This interrelation is represented in the form of the curve of demand resulted on Fig. 6.3.

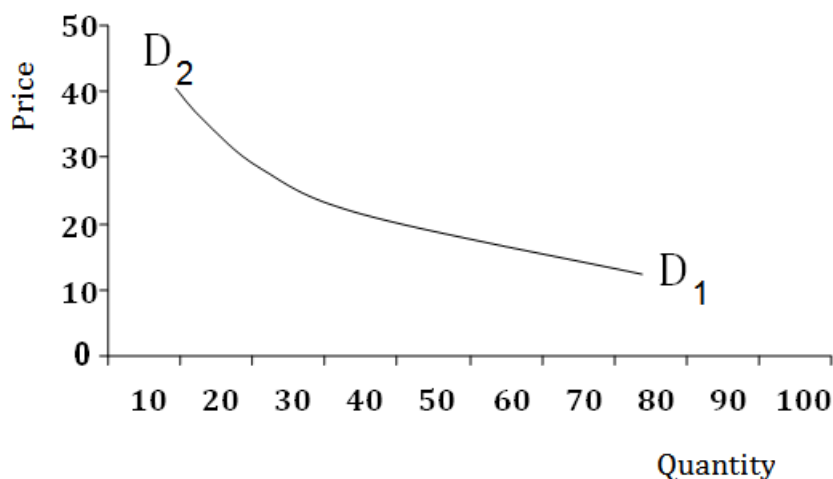


Figure 6.3 – The curve of demand

The demand curve shows, that:

- with low price goods can get more buyers, because the low prices induce many buyers to prefer these goods before others;
- if the prices of goods will be high, the certain quantity of buyers will refuse purchase, i.e. lower price, it is more demand.

Thus, the demand law reflects such functional dependence of demand from the price: $D = f_c(P)$

It means, that between price and quantity of goods inversely proportional dependence, i.e. the above the price is established, the will be less bought the goods under the given price. The increase in quantity of the goods on sale causes in turn reduction of price on them.

In the pharmaceutical market very often there is a situation when under certain conditions demand a separate medicine can change, while the price remains to a constant. The similar situation occurs in such cases:

- when on the market there are analogues of medical products. Fluctuation of the prices for separate preparations causes changes in demand for them or their analogues;
- when there is a real increase of consumers' incomes, that at once influences demand for those medical products which use "respect" at doctors or "fashion" at consumers;
- when preparations are advertised by mass media, especially during seasonal diseases;
- when the increase in the prices on the medicines requiring the additional use of other medical products, except reduction in demand is direct on this pharmacological group, causes reduction in demand for additional medical products (for example, increase in the price at the medical products strengthening secretory function of kidneys, – causes reduction in demand for additional medical products which contain sodium though the prices for them remained invariable).

Degree of quantitative change of demand in reply to change of the prices is characterised by elasticity or inelasticity of demand. It is necessary to understand degree of change of demand as elasticity of demand depending on dynamics of the prices. As a measure of such change the factor of elasticity of demand (ε) which can be calculated by formulas serves (6.2)-(6.3):

$$\varepsilon = \frac{D_2 - D_1}{D_1 + D_2} \div \frac{P_2 - P_1}{P_1 + P_2}, \quad (6.2)$$

$$\varepsilon = \frac{\% \Delta G_d}{\% \Delta P}, \quad (6.3)$$

where D_1, D_2 – is the size of demand at the old and new prices;

P_1, P_2 – is the previous and the new price, respectively.

$\% \Delta G_d$ – % of demand growth;

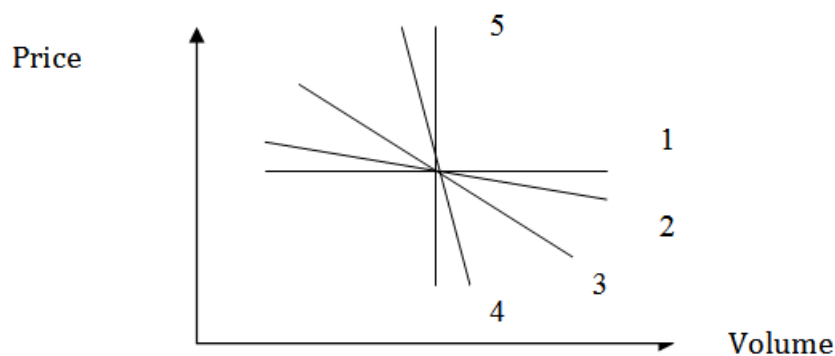
$\% \Delta P$ – % of price decreasing.

Directly volume of demand is defined as (6.4):

$$V_d = P \times Q, \quad (6.4)$$

where P – the price for a commodity unit; Q – quantity of the sold goods.

If at a rise in prices an indicator «the demand volume» (V_d) falls, it is considered to be demand for the goods **elastic** ($\varepsilon > 1$). **Inelastic** demand ($\varepsilon < 1$) appears, if the solvent requirement of buyers is tolerant to changes of the prices. As a rule, the goods of inelastic demand concern: essential commodities; the goods which absolutely or nearly so have no replacements; rather inexpensive. The demand, which factor of elasticity is equalled to unit ($\varepsilon = 1$), is called as unitary. In Fig. 6.4 gruff which show the considered kinds of elasticity of demand are resulted.



1 – Perfectly elastic demand; 2 – Elastic demand; 3 – Unitary elasticity of demand; 4 – Inelastic demand; 5 – Perfectly inelastic demand.

Figure 6.4 – The kinds of elasticity of demand

Consumers of pharmaceutical production, as a rule, co-exist with the market of medicines through all kinds of demand elasticity. So, for example, elastic demand for a medicine takes place when little changes in the price lead to the big changes in demand frameworks. As a rule, this law of demand works for those groups of medicines which have sufficient depth and width of assortment, i.e. presence of analogues.

Inelastic demand – a view of demand for pharmaceutical production from the point of importance and uniqueness of medical products as goods and existing sharp necessity of the sick person for purchase realisation.

On separate groups, as wide spectrum of action (analgetics, cardiovascular preparations, preparations for treatment alimentary system; vitamins, enzymes, etc.), and specific action (neurotropic, hormonal, somnolent, himio – and X-ray preparation, etc.) the price will not have essential influence on demand.

Demand for sanitary and hygiene goods, care of patients goods, diapers for children and adults, dressing means is formed as unitary as any changes in the prices for these groups of the goods, as a rule, are compensated by changes in the size of demand more often.

Price elasticity of demand for medical products is influenced by such **factors**:

1. Presence in the market of medicinal preparations-analogues, i.e. mutual substitution possibility. Than especially elastic demand more than preparations-substitutes
2. Importance of medical products for the consumer. Owing to the importance of an original (innovative) medical product demand for it can be inelastic.
3. Relative density of expenses for a medical product in the consumer income – than it is more, the price elasticity of demand for a preparation is higher.
4. Time factor – the longer the preparation is present in the market, the more elastically on it demand.

In the mechanism of market balance not less important role is played by the supply. The supply – is total volume of goods, which sellers are ready to offer during concrete time, in a concrete place, with the alternative prices. **The supply law** characterises such functional dependence of the offer (S) from the price (P): $S = f_n(P)$

Than the price is higher, supply on the goods from sellers increases. And, on the contrary, at the low price is low supply. The given interrelation is visually presented on the gruff (Fig. 6.5).

The supply curve shows, how with rises of the price manufacturers increase production volumes, and, on the contrary, supply from their party decreases at falling price.

Degree of change of supply volume in reply to price increase is characterised **by elasticity of the supply**. A measure of this change is **the factor of elasticity of the supply** ($F_{E.S.}$) which can be calculated by the formula (6.15):

$$F_{E.S.} = \frac{\% \Delta V_S}{\% \Delta P}, \quad (6.15)$$

where $\% \Delta V_S$ – rises of supply volume in percentage, $\% \Delta P$ – a rise in prices in percentage.

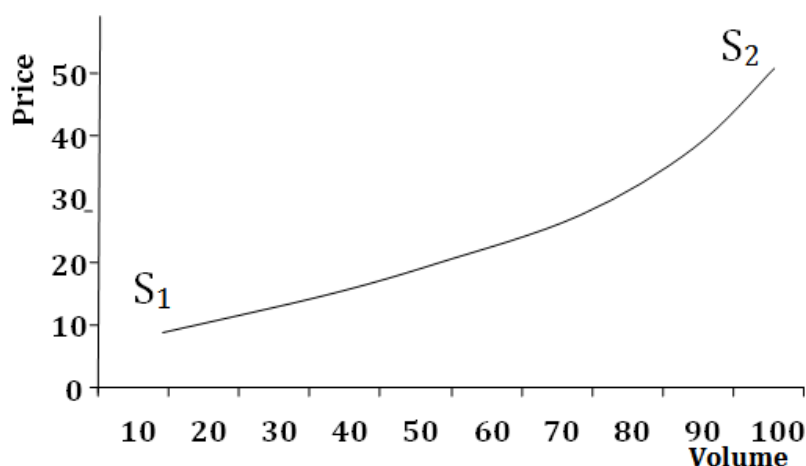


Figure 6.5 – The supply curve

Elastic supply becomes when its size changes more, than the price. *The size of the supply of the goods is influenced by a number of factors:*

- expenses and their derivatives (the cost price, scientific and technical progress);
- market monopolisation;
- dynamics of the prices for others, including the interchangeable goods, etc.

In XIX century in the economic theory there was a discussion: that defines market price level – demand or supply; at what level of the price equivalence of a supply and demand, i.e. a condition of **market balance** can be reached.

The point of crossing of curves of a supply and demand characterises **level of the equilibrium price** (Fig. 6.6).

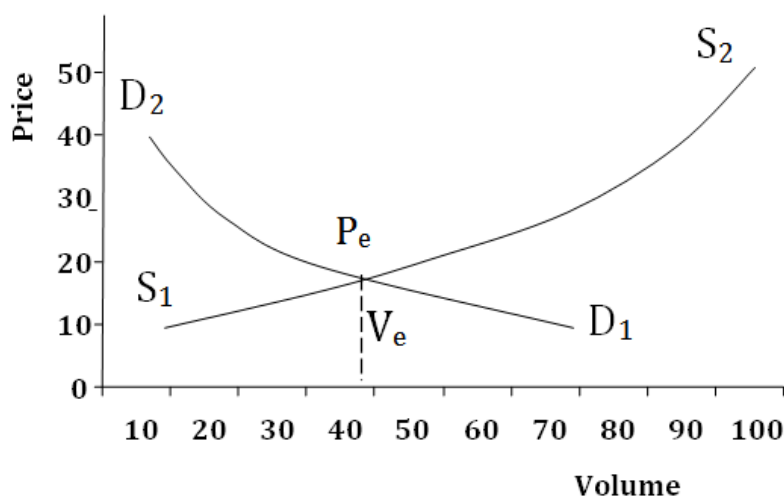


Figure 6.6 – Establishment of equilibrium price

Point P_e on the graph – **the equilibrium price**, testifies, that the price of sellers (on which it is convenient to them to sell) coincides with the price of buyers (satisfying the last). If to design an equilibrium point on an axis of abscises **the equilibrium quantity** (V_e) which characterises quantitative coincidence of a supply and demand will be shown.

The equilibrium price and equilibrium quantity have such properties:

- the optimum quantity of goods, i.e. necessary for consumption is presented in the market. All expenses on manufacture pay off sale at the equilibrium price. Thus, the reached balance testifies to the greatest economic efficiency of the developed market situation;
- in a balance point the greatest social effect is expressed also. At the equilibrium price the consumer will get limiting (for its income) quantity of the goods;
- in the market is not present either surplus of the goods, or deficiency.

Nevertheless outside of the equilibrium price and equilibrium quantity in the market two zones which testify to certain trouble concerning an economic situation of sellers, or buyers (fig. 6.9 are accurately traced).

Zone $D_2 - P_e - S_2$ – is characterised by surplus of the goods: here supply exceeds demand. Such relative commodity well-being can be result:

- superfluous manufacture of the goods;
- unreasonable "lifting" of the prices;
- low quality of the goods;
- a lack of money at the population.

Reduction of prices (discount the goods, their seasonal sale) can be an exit from an adverse situation, in particular.

Zone $S_1 - P_e - D_1$ – a zone of deficiency of the goods: here demand exceeds the offer. Such lack of the goods is formed because:

- few goods of the high quality using raised demand are issued;
- the prices it is artificial decrease (below cost or the equilibrium price), that leads to expansion of consumer demand;
- monetary incomes of the population increase faster, than manufacture extends.

As the approach to regulation of such situation some reduction of monetary incomes of the population, increase in manufacture of the goods, best-selling, or increase of retail prices for these goods can serve.

6.5. ESTABLISHMENT OF THE PRICE FOR THE GOODS

Pricing is carried out by the enterprise according to accepted price policy and strategy. **The price policy** is the complex of measures including determining of the price, extra charges and discounts, conditions of payment for the goods and services, management of the prices taking into account preferences and possibilities of consumers on maintenance of profit of the enterprise-manufacturer or the seller.

Working out of a marketing price policy is preceded by the analysis of external and internal factors of its formation, in turn, as a part of the price policy research of consequences of changes of the price depending on a situation in the market (reaction of buyers and competitors, enterprise actions in reply to changes of the prices by competitors, etc.) should be provided.

The making policy of the prices working out of price strategy of the enterprise is. *Pricing strategy* are basic directions, actions and the methods directed on achievement of the purposes of the enterprise, established by a management.

Pricing – difficult process which it is possible to present in such kind (Fig. 6.7).

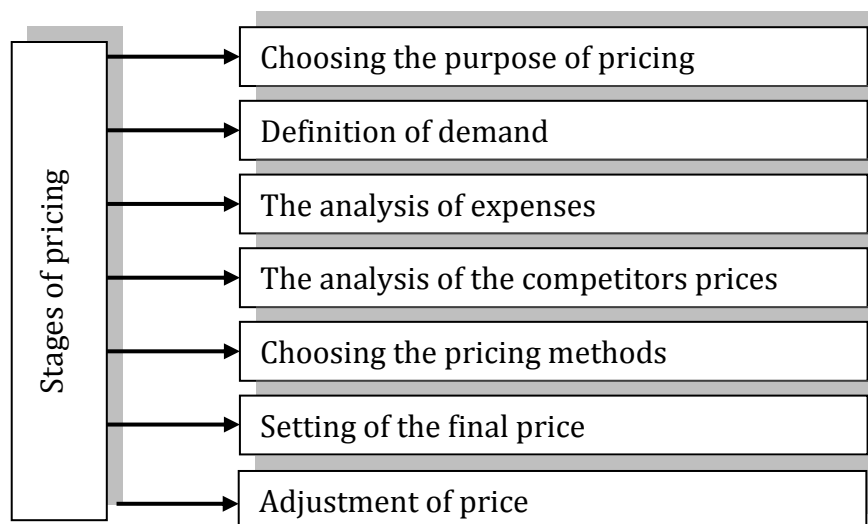


Figure 6.7 – Stages of setting price for goods

Any organisation (firm) should define accurately for itself that wishes to reach by manoeuvring in prices, what aim of pricings? In the marketing theory and its practical realisation in the form of the certain price policy three main objectives of pricing have the greatest value: maintenance of a survival of firm; increase or profit maximisation; market retention (Fig. 6.8).

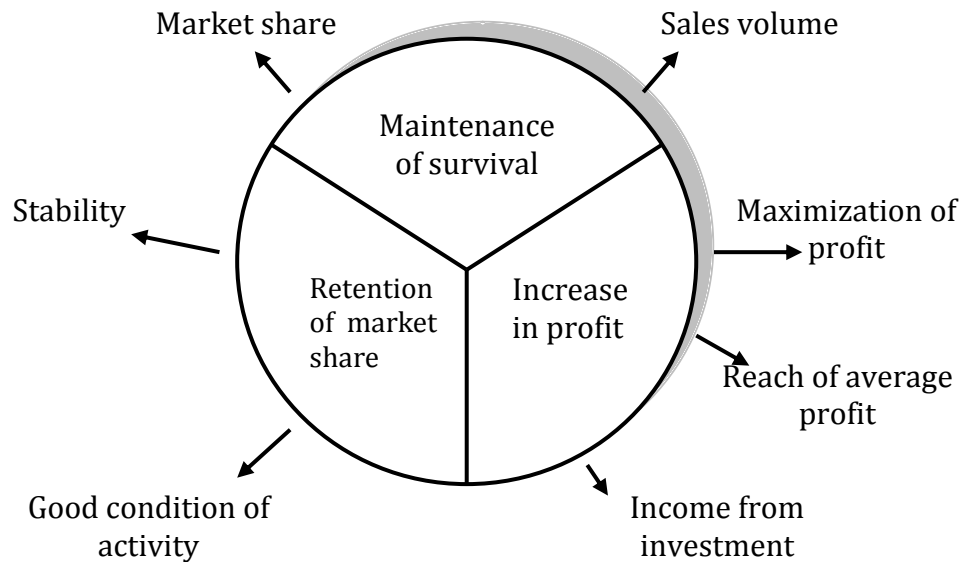


Figure 6.8 – The possible purposes of a price policy

It is necessary to underline, that “*maintenance of survival (sale)*” the firm chooses the purpose in cases, when:

- price demand of consumers is elastic;
- the firm aspires to reach the maximum growth of a sales volume and increase in cumulative profit by decrease in the income from a commodity unit;
- the firm provides, that the increase in volume of realisation will cut down relative expenses of manufacture and sale;
- the low prices is frighten of competitors;
- there is a big market of consumption.

Other of the possible purposes of a price policy – *profit increase*, has such versions:

- establishment by firm of the stable income for some years which should corresponded to the size of average profit;
- calculation of profit increasing in connection with growth of capital investments cost;
- aspiration of fast reception of initial profit in cases, if: firm is not assured of favourable development of business; firm does not have enough money resources.

The purpose which is based on deduction of the market, consists in preservation by firm: existing position in the market; favourable conditions for the activity.

Here the main thing for firm – carefully to watch a situation in the market, namely: dynamics of the prices, occurrence of the new goods, actions of competitors.

The purposes of pricing of pharmacies are: image statement; organisation of trade (stimulation of advancement of goods); growth and development; reception of optimum profit on the invested capital.

The list of problems is not mutually exclusive. As a rule, at an establishment of prices for any given moment use their association. In the competition conditions today it is important to remember, that pricing strategy should be flexible and dynamical, provide different problems for different types of production, to the extent of necessity it needs to be changed so that it reflected changes in the general structure of marketing of a drug-store.

The following stage of establishment of the price – *demand defining* – very important and to postpone or exclude it is impossible, as it is practically impossible to calculate the price without studied demand for the given goods.

The size of demand for medical products is influenced by different factors among which it is possible to allocate the main things:

- disease of population;
- needs for medical products;
- presence or absence of analogues;
- competitiveness of medical products;
- the price for a preparation and its analogues;
- popularity of a medical product (including provided with advertising and the information);
- solvency of consumers of medical products;
- consumer habits.

It is necessary to remember, that demand defines top level of the price which the firm can establish. Bottom its (prices) level define the general expenses (fixed and variables) manufactures. So, *the analysis of manufacture expenses* as a pricing stage – powerful in the general process of establishment of the price.

Not less important experts in marketing and economists consider also a stage of pricing which consists in *the analysis of the competitors' prices*. Comparative purchases analysis of the prices is carried out, goods and their quality are for this purpose spent.

The received information, as a rule, is used by firms as initial for own purposes of pricing and definition of the place among competitors.

At a stage of method of pricing choice the firm uses one of the strategy based on: expenses; demand; competition.

The strategy of pricing based on expenses, is based on such methods: cost price plus profit; break-even method – the analysis of break-even and maintenance of target profit.

The essence cost price plus profit method consists in defining of price on the basis of base expenses for a commodity unit plus extra charge (margin) which is covering unconsidered expenses and containing profit.

The basic advantage of this method is simplicity that provides its popularity. The last speaks a number of the reasons: manufacturers know more about expenses, than about character of market demand ; buyers consider its fair as the price is not corrected depending on demand fluctuations; at use of this method of pricing by all enterprises of branch of their price will be close.

Lack of this pricing method is that it does not reflect current demand and does not consider consumer properties both the given goods, and its substitutes. Taking into account advantages and lacks the method is used in such cases:

- at an establishment of the initial price for essentially new product when it is impossible to compare it that was issued earlier;
- at an establishment of the price for pre-production models, on products which are produced under individual orders;
- at definition of the price for the goods, demand on which chronically exceeds the offer, and also in branches where the majority of the enterprises use such method.

The break-even method occupies intermediate position between cost price plus profit method and market. On the one hand, it is based on the account of expenses, with another – considers dependence of demand on price level. This method gives the chance to calculate and receive desirable profit, realising the goods for a determined price at certain volume of the realised goods. The method is based on use of the schedule of break-even (Fig. 6.9).

The break-even point (critical volume of manufacture or sales, a covering point) – is such sales volume at which the total gain (income) covers the general expenses. The sales volume exceeding a point of break-even, will make for the enterprise profit, smaller – losses.

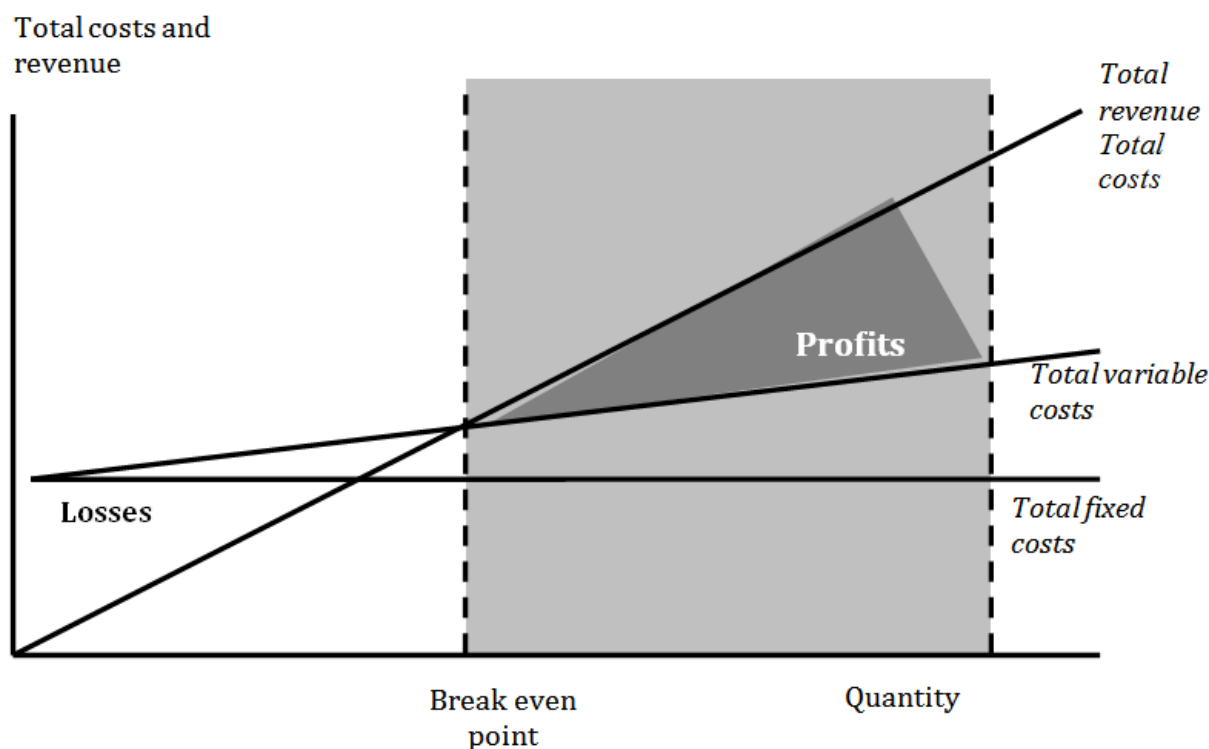


Figure 6.9 – Break-even point gruff

The critical volume of manufacture (sales) can be calculated by the formula (6.10):

$$C.v.r. = \frac{C_{fixed}}{P_{pac} - C_{variable}/_{1pac}}, \quad (6.10)$$

where $C.v.r.$ – a critical sales volume (packing),

P_{pac} – the price of sales per unit of production, \$;

$C_{variable}/_{1pac}$ – variable costs per unit of production (average), \$;

C_{fixed} – fixed costs.

The break-even method is expedient for using at reduction of prices in the market for calculation of the optimum sales volumes providing target profit, for calculation of efficiency of additional volumes of manufacture at preservation of the size of fixed expenses.

If aforementioned methods of strategy of the pricing based on expenses, require certain mathematical calculations the strategy of pricing based on demand, is not limited to them. This strategy is based on perception clients of value of that they receive, having paid a determined price.

Methods of an establishment of the price with orientation on demand can be divided on such which lean only against demand, and also for the

methods simultaneously considering both expenses, and demand. To the first group of methods carry defining of the price *on the basis by buyer's estimation of value of goods* (or on the basis of consumer value). The method is most comprehensible at an establishment of the price for the new goods. The enterprise using such method, defines criteria of value of the given goods for the buyer that gives the chance to establish such price on which it is ready to get the goods. An obligatory condition of application of this method is presence in the market of the interchangeable goods and them diversification.

At formation of the initial price the ball estimation (especially when is absent dependence between qualitative characteristics of the goods and its price or when it is impossible to transfer consumer properties quantitatively) is used by experts. Then value of the goods for consumers is defined and the certain quantity of points is appropriated to it. On the basis of parity between the prices and ball estimations of the similar goods the cost estimation of one point is established. Multiplication of a ball estimation of the goods to a cost estimation of one point defines a guiding price of the new goods. The order of pricing on the basis of consumer value judgment is presented on Fig. 6.10.



Figure 6.10 – An order of pricing on the basis of the consumer values of the goods

Described method is expedient for using at establishment of the price for a new medical product. As criteria (parameters) of an estimation are therapeutic efficiency, speed of pharmacological effect, safety, a dispensing mode, convenience of application, cost of a complete course of treatment, etc. As a result of an objective estimation of value of a medical product the pharmaceutical manufacturer and wholesale-retail intermediaries serve have real possibility of belief of the consumer in advantages of a certain medical product even if it is more expensive than the analogues which are present in the market.

The method of pricing considering expenses and demand, often name based on real cost. It consists that the reasonable combination of quality and ought care with comprehensible price is offered to consumers.

The pricing dependent on a competition, promotes an establishment of the prices:

- above market, providing, that higher price means higher quality, prestige or the best placing of the seller;
- below market, which purpose – increase in volume of realisation compared with competitors;
- at market level , i.e. on a price level of competitors.

The most widespread methods of an establishment of the prices with orientation to a competition it is possible to carry a pricing to at level of the current prices («followings for the leader») and a method of tender pricing.

At formation of the prices by a *method of the current prices* the enterprise basically is guided by the prices of the main competitors in the market, not paying attention to own expenses and demand. The price for the new goods in that case can differ from the prices of the leader, but only in the certain limits caused by distinctions in qualitative characteristics of the goods.

The method of tender pricing (establishment of the price on the basis of the current auctions) or a method of the sealed envelope is used, when firms take part in competition on contract reception. The firm, wishing to take part in the auctions, submits to tender committee economically proved offer under the price. In this case demand and own expenses of firm leave on the second plan, and are guided by basis prices which competitors can offer. Offering the price, the firm aspires to establish it on level more low, than at competitors, but not below own expenses. An optimum suggested price is that which will give the most expected profit.

In pharmacy described method is used at tenders for purchases of the vital medical products (for example, against cancer, antidiabet), for the subsequent sailing of preparations to patient, and also preferential and free medicinal maintenance, etc.

The great value has **defining of the price for the new goods**, depending on novelty degree. So, for the innovative goods can be used: strategy of "skim of the cream» – it is established the high price at a high level of demand and with considerable barriers to an entry of other firms; strategy of deep penetration on the market when the low price promotes a gain of a considerable share of the market and favour of consumers, to creation of entrance barriers to competitors; parity strategy at which the price is es-

established at level of the basic competitors (is used this approach at goods deducing on already established markets).

Feature of pricing on new medical products that at their positioning are allocated treatment consequences, possible definitive result and its difference from the results reached by preparations of competitors.

Studying of influence of a new medical product on cost of treatment of disease, comparison of its clinical and economic value is important also. The possible sums of economy of money resources can serve as a reference point for definition of the price and its as much as possible reasonable size.

At the pricing final stage – an establishment of the final price – experts should pay attention to such conditions:

- the price should consider psychological perception the buyer of the goods of firm;
- for many consumers the unique information on quality of the goods contains in the price;
- at buyers liking to not approximated prices prevail;
- the appointed price, it is necessary to check on conformity to a price image of firm and the carried out price policy;
- it is necessary to predict reaction of competitors on the offered price.

In practice the stage of an establishment of the final price is not final as the market and sale level are influenced by many factors which constantly change and thereof the firm has a necessity of management of the prices or updating.

The main tools of management of the prices are:

- entering of respective alterations into the price-list;
- contracts;
- system of discounts which is presented: trade discount; quantity discount; cash discount; seasonal discount; geographical discount.

Quite often the enterprises adjust the prices, considering distinctions in characteristics of consumers, goods, arrangements, time. *The price differentiation* provides sale of the same goods to different categories of consumers with the different prices; as the goods – on different variants of the goods establish the different prices, but this difference is not based on differences in expenses; the price differentiation on an arrangement testifies that in different regions on the same goods the different prices are established; at price differentiation on price time change depending on a season, month, day of week and even time of days.

Using for updating of the prices *pricing taking into account psychology of the consumer*, the enterprise consider not only economic aspects of the price, but also consumer psychology (for example, interrelation between perception of the price and quality orientation of buyers to the prices-standards).

Pricing for the purpose of sale stimulation is possible, when the enterprises establish on the goods the low prices (sometimes using the seasonal or special prices), discounts at calculations for cash, free warranty service, etc.

One of ways of updating of the prices is appointment of *the prices by a geographical principle* at which the price is established above proportional remoteness of the buyer from firm-supplier.

Principles of development of pharmacies' economic activities depend on forms of the organization of the medical and pharmaceuticals care and are in direct dependence on a political and social country organization. Last year's scientists of the majority countries of the world, and also the World health organization find out the big interest to studying of theoretical and practical questions of economy of pharmacy, including a pricing policy on medical products.

The retail price for medical products in different foreign countries is similar on the structure and contains such elements:

- cost of manufacture of a medicine – 45-50 %;
- tax on turnover – 5-6 %;
- pharmacy statetax – 8-9 %;
- deductions to wholesale trade – 8-10 %
- drugstore profit – 30 %.

Considerable profitability, to 30 %, a drugstore individual preparation of medicines as level of trading extra charges on this group of medicines reaches in some countries 80 % brings. Besides, despite the big assortment of ready made medical products, the population highly appreciates (from this point of view «trust to a medical product») and actively orders in drugstores extempore forms. Therefore at rather low level of an individual compounding – to 5 %, drugstores receive considerable profit at its manufacturing as owing to high trading extra charges and because in all foreign countries for manufacturing of medicines the certain payment undertakes.

The great value in a pharmaceutical industry of the countries with the developed market economy is given to management of the prices. Process has two forms:

- state regulation of the prices for stages of manufacture of a substance and ready made medical products. Such regulation demands the control over the prices on which pharmaceutical preparations on sale;
- negotiations on the prices between the basic consumers and the separate pharmaceutical companies. The role of this kind of management depends on a share

state or others (on a pattern of ownership) the organisations-buyers in the general market.

In many European countries there is a system of state regulation of the prices, the regular publication of the statistical information on the prices, their level and dynamics is adjusted.

In the EU countries relative regulation of the market is reached by means of balance maintenance between a supply and demand and regulations of market prices by their maintenance in certain limits. The basic prices for the basic size and base quantity of production are fixed. They are published in price-lists of leading monopolies with instructions of extra charges and discounts from the basic prices. The actual prices are established by firms on the basis of these price-lists with a deviation no more than 5 %.

The price level on medical products is influenced by a number of factors among which dominating are efficiency of preparation, advantages in comparison with analogues, popularity in the market and among doctors, and then – expenses and complexity of technology. As a rule, the prices for original medical products many times over exceed actual production costs.

In connection with shortage of funds of social insurance in the majority of foreign countries last years the tendency to stimulation of consumption of the medicinal preparations-generiks conceding under the price to innovative (original) preparations of known trademarks develops.

Main principles in definition of the prices for medical products in the EU countries recognise realness and publicity of the prices. Definition of the price for a medical product should be based on real cost with use of a public method of calculation of the prices that allows the competent authorised bodies to spend an estimation of components of the price on new medicinal preparation.

Practically in all EU countries the control over pricing on medical products is carried out. For example, the prices for medical products in France, Belgium, Italy are rigidly regulated and supervised. The same system exists in Japan, India and China. In these countries the price for medicines rather low, and average consumption high.

In such countries as USA, Great Britain, Holland, Germany, Denmark exists free pricing under the influence of a parity between supply and demand. As a result – the prices for medicines high and consumption is limited.

Questions for out-of-class work

- 1. Give the characteristic of the price from marketing positions.*
- 2. Name the basic functions of the price.*
- 3. What is the registration function of the price?*
- 4. How stimulating function of the price influences manufacture and consumption?*
- 5. Explain the state scale of distributive function of the price.*

6. *How price function – balance of supply and demand – does carries out communication between manufacture and consumption?*
7. *Prove practical value of such function of the price, as criterion of rational placing of manufacture.*
8. *Give definition of concept "market price".*
9. *On what groups it is possible to classify the prices taking into account ways of their regulation?*
10. *What kinds of the prices depending on the form and trade sphere are share?*
11. *Prove wholesale price components.*
12. *Name components of sale (wholesale) price of the industry.*
13. *Give the list of structure of a retail price elements.*
14. *Give characteristics auction, exchange, the world market prices.*
15. *Name the factors influencing pricing.*
16. *Open an essence of the factor "expense" of pricing .*
17. *List marketing main objectives at definition of the prices.*
18. *How stages of product life cycle does influence pricing?*
19. *What value of consumers as the price factor?*
20. *What are applied methods of state regulation of the prices?*
21. *What specificity of state regulation of the prices on pharmaceuticals?*
22. *How participants of trade channels are influence on the prices?*
23. *What influence is rendered by the competitive environment on the prices?*
24. *What types of markets defining strategy of pricing of the enterprise are distinguish ?*
25. *Explain differences between price and not price competition.*
26. *Open an essence of the demand law.*
27. *Result the formula of calculation of demand elasticity factor.*
28. *Name the factors influencing elasticity of demand for medical products.*
29. *Prove the offer law as functional dependence of the offer on the price.*
30. *Present the formula of calculation of factor of elasticity of the offer.*
31. *Give characteristics of concepts «the equilibrium price», «equilibrium quantity».*
32. *What itself the price policy of the enterprise represents?*
33. *What is the price strategy?*
34. *Name the basic stages of pricing.*
35. *What purposes of a price policy happen?*
36. *What features of problems of pricing of the chemist's enterprises?*
37. *Characterise cost plus profit pricing method.*

38. *What essence of break-even method?*
39. *What methods are included strategy of pricing which based on demand?*
40. *What methods of an establishment of the price at strategy of pricing with orientation to a competition?*
41. *What essence of a method of tender pricing?*
42. *What features of definition of the price for the new goods, including on new medical products?*
43. *Give the list of the basic tools of management of the prices.*
44. *What means of updating of the prices can be used the enterprise?*
45. *What features of pricing on medical products in foreign countries?*

Tests

1. *Which function of the price provides distribution of the national income between various branches of economy, regions of the country, different social groups?*
 - A. The registration one
 - B. The stimulating one
 - C. The distributive one
 - D. The function of balancing the supply and demand
 - E. The function of the price as a criterion of the rational manufacture arrangement
2. *The price on the products of the company fixed with the help of graph, which shows the gross expenses and total returns (income) for different levels of sales. Which method is used?*
 - A. The cost-plus pricing
 - B. The break-even method
 - C. The competition-based pricing
 - D. The method of pricing with orientation on demand
 - E. The tender pricing method
3. *The market is characterized by such conditions as the presence of a large number of buyers and sellers that do not affect the level of current prices, the presence of homogeneous and interchangeable competing products, the lack of price controls. Indicate the type of the market:*
 - A. The monopoly.
 - B. The monopolistic competition.
 - C. The oligopoly.
 - D. The pure competition
 - E. There is no correct answer

4. The pharmaceutical company enters the market with a new medicine with the price that is significantly higher than those of competitors. What pricing strategy does the company follow?

- A. The strategy "following the leader"
- B. Price discrimination
- C. Skimming pricing
- D. Dumping
- E. The price differentiation

5. The state has set the upper limits of prices for drugs by restricting trade allowances in the structure of retail prices. Which type of the price does it correspond to?

- A. State
- B. Adjustable
- C. Free
- D. Contractual or contract
- E. All answers are correct

6. The market is characterized by a large number of buyers and sellers of a particular type of goods. None of them has a significant impact on the level of current prices. It is the market of:

- A. The monopolistic competition
- B. Pure free competition
- C. The oligopolistic competition
- D. Monopoly
- E. All answer are correct

7. The graph of "demand – price" looks like a horizontal line (taking into account the fact that the values of the volume of sales are in the axis x, and the prices on the axis y). What kind of demand is it?

- A. The elastic demand
- B. Perfectly elastic demand
- C. Inelastic demand
- D. Perfectly inelastic demand
- E. Unitary elasticity of demand

8. What does not belong to the stages of the process of pricing?

- A. Choosing the purpose of pricing
- B. Determination of demand
- C. Analysis of expenses
- D. Determination of the product life cycle
- E. Analysis of the competitors prices

9. The foreign producer of the goods sets prices below the basic cost to eliminate competitors. This practice is known as...

- A. Discriminatory prices
- B. Differential prices
- C. Dumping prices
- D. Free price
- E. There is no correct answer.

10. The enterprise has fixed the price for its goods by charging margins (allowances) to the cost of the goods. Which pricing method is used in this case?

- A. The cost-plus pricing
- B. The break-even method
- C. The competition-based pricing
- D. The method of pricing with orientation on demand
- E. The method of tender pricing

CHAPTER 7

PHARMACEUTICAL SALES UP COMPANIES

This chapter describes general issues of sale of goods, its role in the firm's marketing programs. The theoretical and practical material on the organization of distribution channels, the use of methods and systems sales in the distribution of pharmaceutical products. From the standpoint of the current state of the pharmaceutical sector and the pharmaceutical market of Ukraine with the characteristics of the structural elements of the marketing of pharmaceutical products, their functions and activities, the characteristics of wholesale and retail trade of medicines and pharmaceutical logistics.

7.1. THE CONCEPT OF MARKETING. SALES POLICY VENTURES

The main content of the principle of marketing is customer satisfaction, provides not only the production of necessary goods, but also to bring these products to consumers convenient way, in a convenient place and at a convenient time. This contributes to the achievement of sales.

Distribution an activity of company to plan, organize and control the physical movement of materials and finished products from their place of manufacture to point of use in order to meet consumer needs and to obtain firm profits. It is carried in the *distribution policy*.

The existence and development of marketing activities caused by a number of causes:

1. *The need* is distribution system which brings the goods to the consumer, making it more accessible.
2. *Fighting* for the buyer's money is expanding distribution network, bringing it closer to the consumer and creating maximum comfort for him during and after the purchase, the company reaches a certain competitive advantage.
3. *Rationalization of production processes* associated with the fact that the distribution network takes over part of the finishing operations of the production process (sorting, packing and wrapping, etc.), which efficiently perform on the stage of pre-sales service.

4. *Problems of effectiveness of market behaviour and development firm.*

This means that the study of consumer behaviour, their relationship to the product in order to further meet the needs of efficient conduct where customers directly confronted with the goods, i.e. in system sales.

Tasks of distribution policy can be divided into strategic and tactical (Table 7.1).

Table 7.1 – Tasks of distribution policy

STRATEGIC TASKS	TACTICAL TASKS
1. Planning (forecast) future distribution channels 2. Selection of systems and methods of marketing and related types of channels 3. Routing of sales 4. Establish a network of wholesale and retail outlets, warehouses, showrooms, etc.	1. Operation with existing customers and attract new ones 2. Search and selection of commercial offers for the supply of goods 3. Organization of orders, including the transportation of freight and cargo handling operations 4. Ensuring the effectiveness of marketing 5. Check the availability of inventory and other logistics 6. Develop methods of sales promotion, including how to motivate participants in a distribution channel, etc.

7.2. CHANNELS, THEIR FUNCTION AND STRUCTURE

Functions of distribution are carried out through distribution channels. **Distribution channel (distribution)** a set of firms or individuals who take for themselves or someone else to help pass the ownership of a particular product or service on their way from producer to consumer. Differently participants can called distribution channel **intermediaries**.

Marketing channels perform several functions that contribute to the successful implementation of marketing programs of the company. They are:

1. *Reporting* – collecting and processing information obtained through market research and for planning and organization processes of distribution of goods.

2. *Promotion* – the development and distribution by means of marketing communication of information about products to attract buyers.

3. *Establish contacts and negotiations* – establishing and maintaining relationships with potential buyers, an agreement on prices, volumes and terms of delivery

4. *Ordering* – the conclusion of contracts with other members of distribution channel to purchase products by manufacturer, monitor their implementation.

5. *Adapt products to customer requirements* – production, sorting, packing and wrapping, assembling products, after sales service.

6. *Physical movement of goods* – the organization of transportation and warehousing.

7. *Financing* – search and distribution of the funds needed to cover the operating cost of the distribution channel.

8. *Risk-taking* – the responsibility for all processes in the channel of distribution.

All functions can be conditionally grouped into three groups: related agreements; logistics; serving.

Given this, it should be noted that the choice of distribution channels is a difficult management decision, as the selected channels will directly affect on the effectiveness of all other solutions in the field of marketing.

The choice of distribution channel also depends on the costs and profits. If a company fully takes over the functions of marketing, then it is itself covers the costs involved, but all profits will belong to it. In the case of external channels both costs and benefits are distributed among all participants in a distribution channel. Therefore, companies need to assess the potential benefits and choose the alternative.

Depending on their functions and the number of intermediary distribution channels can be simple or complex level structure.

The level of sales channel is any intermediary that performs a particular work on the approximation of the goods and property rights to it to the final consumer.

In the modern theory and practice of marketing channels differ:

- *zero*, or a direct marketing channel, consisting of producer and consumer, to whom he directly sells goods;

- *one level*, including a mediator. In consumer markets, it often acts as an intermediary retailer, and the goods for production purposes markets is a sales agent or broker;

- *two level* – include two mediators. In the markets of consumer goods is a wholesale and retail traders, and in the markets goods for production purposes distributor and dealers;

- *three level* – including the three mediators, respectively, between wholesale and retail traders may be small wholesale trader.

There are channels with a lot of levels, but they occur less frequently. In addition, manufacturers believe that the longer sales channel, the less ability to effectively control it.

In the figure 7.1 shown the most typical for level structure distribution channels of pharmaceutical products.

The structure of the channels of pharmaceutical products due to the specificity of drugs as a commodity. Because the drugs are divided into the prescription, which can be obtained only by prescription, and therefore treatment should take place under the supervision of a physician (outpatient or inpatient), and non-prescription, which can be freely bought in pharmacies and used for self-treatment, the direct (end-) consumers can be considered as the patient, who buys the drug at the pharmacy and the facility, which procures drugs for use in its activities with the aim of providing medical care to the population.

Zero level channels is possible in case of sale of drugs to hospitals pharmaceutical company, but realized that such agreement, the order must be quite large. Nowadays this method of distribution cannot be called common, because, first, the manufacturer is easier to use an intermediary for the sale of large quantities of products, and secondly, the limited budget does not allow hospitals to form large orders. Recently, a number of pharmaceutical companies of Ukraine opted for a proprietary pharmacy, which makes it more accessible to a specific range of medications.

Distribution channel with one level is used more often, and acts as an intermediary pharmacy.

The most common way of pharmaceutical products in Ukraine is a distribution channel that includes two or three intermediaries. Among them, one or two wholesale and retail one.

With the structure of distribution channels are directly related to concepts such as length and width of the channel.

The length of the channel is characterized by a number of intermediate levels that make it up.

The channel width is determined by the number of independent members on an individual level (step) value chain.

The decision on the length and width of the channel depends on the nature of the product and distribution channel usage.

Typically, the channels of capital goods are distinguished smaller number of intermediaries in general and in the value chain at every level than the distribution channels of consumer goods. Are also shorter and channels of distribution services, which due to their intangible nature, which requires direct contact of the consumer and service provider.

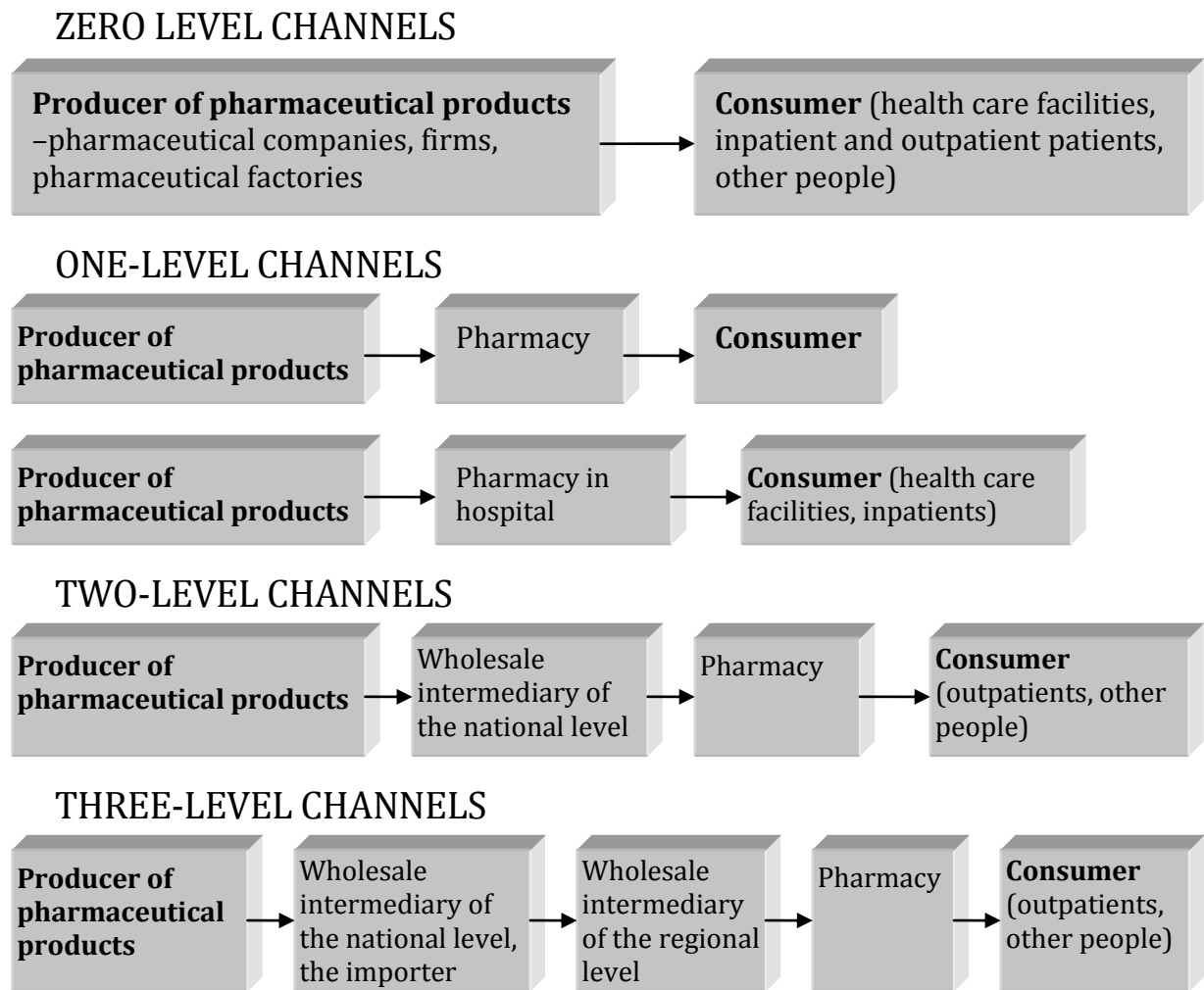


Figure 7.1 – Channels of distribution of pharmaceutical products

Selecting the number of intermediaries at each level of distribution channel is based on one of three approaches to determining the degree of intensity of use of the channel.

Intensive distribution – is provided for goods of daily demand and requires a large number of wholesalers and retailers. The purpose of the company is in finding wide market coverage and getting high profits by quickly selling the goods.

Distribution of the rights of exclusivity (exclusive) is when a limited number of wholesalers and retailers are granted the exclusive right to sell the goods within the firm's sales territories. This approach promotes responsible mediator, as well as an image in the eyes of the consumer product that allows you to make it higher margins and thus obtain a significant profit.

Selective distribution or targeted distribution – is the average between the previous two. In this case, the number of intermediaries involved more than one but less than the total number of available take the sale of goods. This allows us to establish of business relationship with specially se-

lected intermediaries and expect from them efforts respect sales at a level above the average, to achieve the required coverage of the market with more stringent control and cost less than in the case of intensive marketing.

Pharmaceutical manufacturers are choosing distribution channels accordingly to one or another approach to the distribution. So, Ukrainian producers are using all possible channels, i.e. intensive approach to the allocation for the broadest representation of their products. However, this approach is acceptable to producers of OTC drugs, and to some extent this parapharmaceutical goods, because there are regulatory restrictions on the implementation of the prescription drugs from the pharmacy items and pharmacy kiosks. Intensive distribution of medicines is carried out in Ukraine, for example, JSC “Pharmaceutical company “Darnitsa”, “Pharmaceutical company “Zdorove”, Corporation “Arterium” (in five key segments of the OTC, dermatology, neurology, cardiology, for the treatment of diseases of the digestive system and antibacterial drugs had in 2006, 87% of income), foreign companies-GlaxoSmithKline, Bristol-Myers Squibb (UPSA), Asta Medica, Gedeon Richter, KRKA, LEK, and other foreign manufacturers, importing their products adhere to a selective approach when choosing a wholesale intermediaries, giving priority to certain partners is a major wholesale distribution company based on long-term agreements on the joint introduction of products on the market. Exclusive distribution takes place in the implementation, for example, narcotic or psychotropic drugs.

In the sales activities of producers use the services of various intermediaries who can be classified according to their relation to the sold goods (Fig. 7.2).

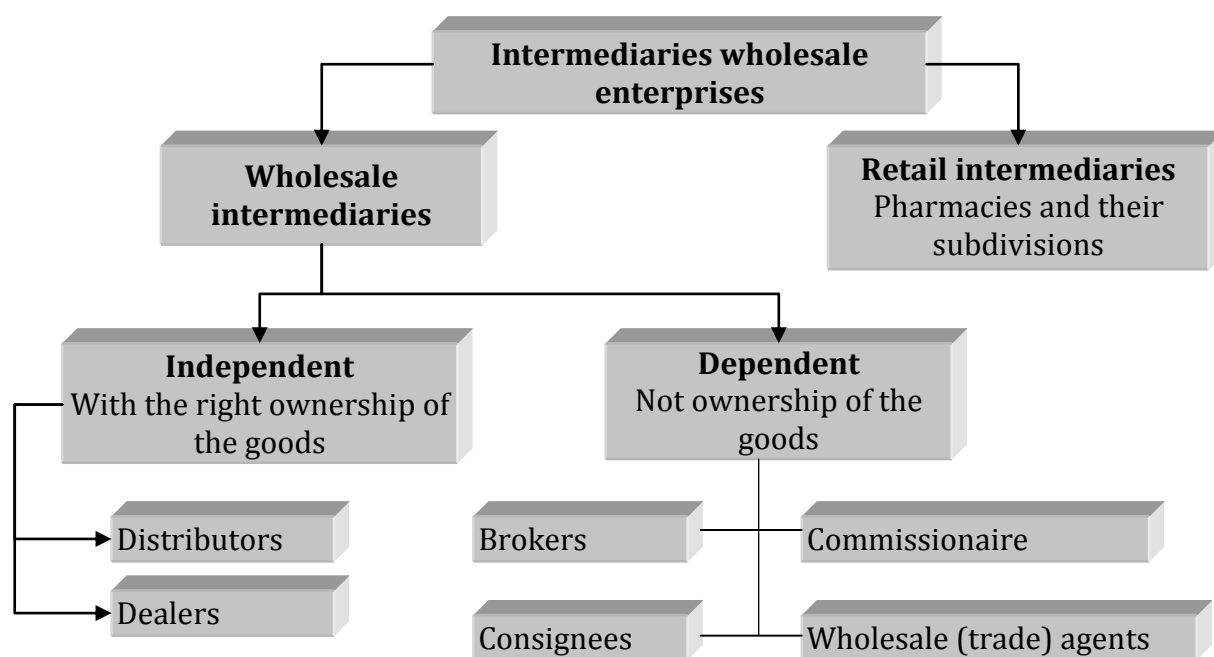


Figure 7.2 – Types of intermediaries in the pharmaceutical market

The first group consists of *intermediaries, who are the owners of the goods*. They are completely autonomous and independent from the manufacturer. Sell goods on their name and own expense. In the U.S., a group of independent brokers concentrates over 80% of warehouse space, about 80% of the total number of wholesale companies and serves more than 50% of total turnover. Profit and compensate their own costs by margins in the price of the goods. Representatives of this group of intermediaries are wholesalers and retailers, distributors, dealers, distributors.

Wholesaler – a legal or physical person who receives a significant amount of goods from different manufacturers and organize their movement in retail or direct distribution to consumers. Wholesaler is usually the owner of the goods, and his profit is formed due to the difference between the buying and selling price of the goods.

Distributor – is a company or person who performs mainly import operations and acts as a dealer under the contract on the basis of agreements with producers (sellers) and buyers of products. Distributor buys and sells goods on its own name and own expense, and is usually in the importing country.

Retailer – legal or natural person who directly sells a certain amount of goods to the final consumer, which gets him in the property or from the wholesaler or the manufacturer.

Dealer – is an independent intermediary specializing in the sale of durable goods in need of considerable after-sales service. Perform operations its own name and at his own expense. Dealers are also referred to as individuals or firms that resell the goods or stock brokers the members of stock exchanges, offering the resale of the securities.

The second group includes *intermediaries who do not have right of ownership on goods which sold*. This is a broker, commissionaire, consignees and wholesale agents.

Broker – is an individual or legal person who takes part in the sale of goods, bringing buyer and seller, and receives from the executed agreement commission (brokerage). To Broker provides special powers to enter into an agreement under which he operates. He does not buy goods from his own name and does not accept responsibility for them. These operations are carried out on the commodity exchanges.

Commissionaire – is an individual or legal person who has a warehouse and for a certain fee implements the goods in benefit and at the expense of the owner of the goods, but in his own name. The form of compen-

sation commissionaire is a percentage from the amount of the operation or the difference between the price designated by the principal, and the sale price.

Consignee – differs from the commission that takes on the warehouse owner's goods and sells them in the name of the owner, but at their own expense. Remuneration received as far as sale of goods from the warehouse, depending on the type of consignment (simple, partially used and returned).

Wholesaler agent – is a mediator who works with the manufacturer for a specific agreement, and has operations at its expense and on its behalf, while he may be granted the exclusive right of sale of goods firms in some regions. In other cases, agents work with restrictions (for example, on consignment basis), served by only one firm or individual customers. The amount of remuneration determines the principal agent, usually a percentage of the amount of the agreement.

Except as stated above, we should mention other types of intermediaries.

Sales representatives – is legal persons that enter into agreements and do business with several companies. Remuneration sales representatives depend on the volume of sales.

Trade syndicates organized through the removing department form the structure of the firm.

Trade houses is big wholesale and retail firms that are engaged not only in trade and brokering, and investment and capital in production, perform warehousing, insurance products, and organize retail and wholesale trade. Members of the trading houses are usually company-producers.

World experience shows that in the pharmaceutical industry, as in many other industries, the manufacturers as to bring their products directly to consumers, very rarely work without reseller.

The advantages of cooperation of producers with the intermediaries are:

1. Reduced time for implementation of its product, as there is no the need to find markets for their own, reducing the distance from the consumer.
2. Create a disadvantage by the manufacturer's own distribution channels, provides greater efficiency investments in the main business.
3. Financial stability due to an effective response to crises of intermediaries in a particular market segment.
4. Ability to provide intermediaries the range of products and pharmacy companies and finally – the consumers.

5. Reducing the number of contacts, producers and consumers, providing cost savings.

6. Operational study of the pharmaceutical market for the effective management of trade flows.

The feasibility of the intermediaries in the pharmaceutical market is also due to the complexity of direct purchases of goods from manufacturers and pharmacies medical institutions for several reasons:

- often the minimum amount of the contract and the lot is so large that, due to lack of funds cannot meet them;
- purchase of large quantities of drugs can cause a glut of pharmacies;
- the cost of direct purchase of goods pharmacies increase the amount of costs, which ultimately affects the price.

Now in Ukraine formed an extensive intermediary network, which creates conditions for increasing the effectiveness of drug supply at all stages of the distribution of pharmaceutical products. As resellers are:

- major distribution companies, which receive large quantities of products from foreign and domestic producers. In particular, according to the rating of the first half of 2007 leading resellers in this group identified the company CJSC "Alba Ukraine", JV "Optima-Pharm", "BaDM" LLC "VVS-LTD»;
- wholesale intermediaries who may receive a relatively small batch of products from foreign and domestic producers;
- wholesale intermediaries, who receive products from the major distribution companies;
- pharmacy warehouses regional associations "Pharmacy" and other management structures of the regional level, wholesale and retail businesses, "Pharmacy warehouse" receiving products either directly from manufacturers and distributors of large companies.

Retail pharmacies are intermediaries of state, communal, collective forms of property, private as well as pharmacies that are relevant to its own retail network of the manufacturer or wholesale broker.

7.3. MANAGEMENT OF DISTRIBUTION CHANNELS

The main areas of distribution channel management is defining the objectives of sales, development of alternative options for the structure of distribution channels, selecting of channel members, their motivation, evaluation and monitoring activities of intermediaries, the settlement of conflicts.

The objectives of distribution policy of the enterprise may be the expansion of market reach, penetration into new market segments, increasing market share, sales, profits, etc.

In the formation of an effective distribution channel, in addition to meeting the conditions examined, the firm **should consider the following factors**:

- characteristics of end-users their numbers, concentration, frequency of purchases, demand for services, etc.;
- the possibility of the company its objectives, resources, expertise, competitiveness, the scale of production;
- characteristics of a product or service price, complexity, technical specifications, conditions of storage and operation, etc.;
- competition – the number and concentration of competitors, the range of their products, their customers, the organization of markets;
- channels of distribution options depending on the structure of the functions, accessibility, legislation that restricts certain aspects of their organization.

Among other things, it is advisable to take into account the requirements of target customers, who tend to focus on:

- the size of the consignment;
- the waiting time of the order;
- convenience of the location of the firm-intermediary;
- diversity of goods, the width of the range;
- the possibility of providing additional services.

Creating an effective sales channel needs a reasoned choice of specific mediators, since it affects the marketing activities of firms in the market and the implementation of business in general. Therefore it is recommended:

- ensure that the chosen intermediary is not also a mediator of a competitor;
- under the same conditions to give preference to specialized intermediaries, as he has more experience in the sale of the goods;
- choose a well-known company that has an impeccable reputation in the market;
- identify sources of funding intermediary – whether it provides loans and how it is the bank;
- establish the extent of equipment logistics intermediary, skill level of employees;
- enter into short-term trial agreement for mediation, which allows in practice to see the opportunities and responsibilities of business intermediary firm;

- visit the intermediary company to ensure its reliability and competence;
- increase the number of intermediaries, in order to reduce business risk;
- take into account the location of the firm, intermediary, his field of expertise, marketing concept and the program;
- assess the scope of a particular product market.

On the market of drugs has a significant amount of drugs, analogs of the same active ingredient, dosage form, dosing, etc. Therefore, when choosing a supplier of producers of medicines by wholesale drug companies are important factors in selecting commercial components. In a situation where different manufacturers offer price discounts, payment terms are close; to wholesalers there is the problem of choosing the most appropriate provider of medicines according to several criteria. In order to select the supplier of wholesale firms in the case of similar conditions of options are developed and practically used the model of multi-choice and method of making the choice of suppliers of drugs.

In the subsequent success of the wholesale pharmaceutical company depends on the needs of pharmacies that make up the market for them. In a survey of managers of pharmacies found that the most significant criteria for service, they include: the price (prices, discounts, deferred payment, payment terms), temporal (time delivery, order processing), image (reputation of the pharmaceutical wholesale company, the number of pharmacy claims) information (correctness, time of delivery of information), as well as the completeness of the range, integrity (intact) drug delivery, additional services, etc.

For the qualitative performance of their duties intermediary's plays an important part of their motivation is based on the choice of means adequate to their expectations and effective for the purposes of the manufacturer.

Motivational effects may be based on three variants of the formation of relations between the producer and the intermediary.

Producer *co-operative* with the mediator, suggesting the use of a producer of powerful economic incentives, in particular, greater profit margins, the conclusion of agreements on specific conditions, cash bonuses, joint marketing campaigns, etc.

Partnership, when the manufacturer clearly defines the tasks intermediary (e.g., the degree of market coverage, quality service and maintenance, participation in the development of marketing, gathering and providing marketing information), on the results of which, the amount of com-

pensation. Partnerships motivating factors contribute to the formation of long-term cooperative relationship with the manufacturer's intermediaries and other participants in the distribution channel.

Planning for distribution when the manufacturer organizes special department for planning work with intermediaries, whose function is to identify their needs, develop programs to promote trade in order to improve its efficiency, determination, together with the intermediaries, commercial purposes, the required level of inventory, sales training requirements personnel, etc.

Each producer, depending on their goals, develops their own system of evaluation criteria of the participants in a distribution channel based on its findings on such indicators: profitability; volume of sales in cash and kind; the average level of stocks; execution time of delivery of goods to customers; attracting new customers; the level of customer service; participation in promotional programs; training and education personnel; the quality and reliability of market information provided by the manufacturer, etc.

These factors are incorporated in the so-called the concept of "3 C":

- costs – the costs of distribution;
- control – control over the distribution channel;
- coverage – coverage of the market.

The development of market relations and the associated improvement of market infrastructure, systems and methods for distribution of products have expanded the number of factors that determine the efficiency of the distribution channels. The modern version is known as the concept of "6 C":

- costs – the costs of distribution;
- control – control over the distribution channel;
- coverage – coverage of the market;
- capital – investments required for the formation of the channel distribution;
- character – the character of the channel, its product line with the requirements of producers and consumers;
- continuity – the stability of the channel (including VA Finance), focus on long-term cooperation.

A detailed cost analysis is the first stage, the objective is to establish depends on the implementation of various amounts of the costs associated with alternative distribution channels.

The analysis includes an assessment of the costs of direct distribution. In fact, the services of intermediaries may actually reduce the retail price, despite the fact that intermediaries make profits.

Each transaction in the way of production is related to the cost. By reducing the number of such transactions, intermediaries reduce the total amount of costs in the distribution of products.

One of the objectives is monitoring this alignment of the actual results of the intermediary with the expectations of the manufacturer. In addition, the task of monitoring is to establish trusted communications between the manufacturer and the intermediary.

An important element in forecasting sales volume is the coverage of the market distribution channel (the degree of market penetration), an indicator of which is the ratio of the number of users (customers) of a group of target segments that are in contact, or have purchased a product from an intermediary, with the total number of consumers (clients) in the group the target segment.

Management of distribution channels involves **identifying potential conflicts and preventing them**. Each channel of distribution there is a possibility of a conflict and competition. In the channel of distribution may be vertical, horizontal and multi-channel conflict.

Vertical conflicts occur between different levels of channel (manufacturer – wholesaler; wholesaler – retailer).

The causes of vertical conflicts in the pharmaceutical market can be as follows:

- “bypassing” the subject of another channel member and the selling or buying their own goods (for example, a manufacturer of pharmaceutical products may seek to bypass wholesalers, delivering drugs directly to the pharmacy);
- disagreement on the distribution of profits between the levels of the channel (so, in conditions of limited margins on drugs are due to the distribution of its share of conflicts may arise between wholesalers and pharmacies);
- the opinion of the manufacturer that wholesalers and pharmacies do not pay adequate attention to drugs;
- attempt to establish control over the intermediary market, pushing the process of the manufacturer.

Horizontal conflicts arise between the mediators of the same level.

The most common cause of horizontal conflict is the competition between pharmacies, especially between their associations and independent, working on their own. There is also competition among wholesalers, mostly working at the regional or local level (in conjunction with the release of intermediary beyond its segment, but also because of the widespread implementation of the pharmaceutical market of different intermediaries of the same types and brands of drugs or other goods).

Multi-channel conflict arises between multiple separate channels with different methods of distribution established by the manufacturer to service the market.

An example of multi-channel conflict in the pharmaceutical market can be emerging competition in the implementation of dietary supplements through pharmacies and through network marketing. In foreign countries, where implementation of the drug occurs in pharmacies and grocery stores (such as the U.S. and the UK) there are conflicts between them.

For conflict resolution channels are used such methods:

- appointing the head of the channel, which coordinates, supports and guides others. The head of the channel can be any of his subject;
- joint development by the members of distribution channel tasks and priority for all participants in the channel;
- joint membership in trade associations;
- selection of managers from a variety of distribution channels in the advisory council or board of directors of the manufacturer;
- exchange of staff (training) among firms participating channels;
- good planning and control channels;
- the use of diplomatic means;
- lawsuits and threats, which is a negative method of conflict resolution used in rare cases;
- creating marketing systems that support collaboration in the channels of distribution. Types of marketing systems are described in the next section.

As possible areas of conflict prevention act: setting consistent goals, moving employees from one channel to another level, participation in trade associations, etc.

7.4. METHODS AND SYSTEMS OF DISTRIBUTION. THE SYSTEM OF DISTRIBUTION OF PRODUCT PHARMACEUTICAL

Considered distribution channels include the use of three basic methods of distribution:

- **direct or immediate**, when the manufacturer of products does not resort to the services of intermediaries and passes the goods directly to consumers;

- **indirectly**, when the marketing of their products manufacturer uses the services of various kinds of intermediaries;

- **combined**, or **mixed**, when the intermediary is an organization with mixed capital, i.e. used as a tool manufacturer, and other independent companies.

It would seem that the direct method of distribution must be more convenient, since it provides cost savings, which are allocated for the services of intermediaries. In addition, it provides a direct contact of firm-producer with the consumer, which makes it possible to maintain complete control over the implementation of the trade. However, studies which carried out abroad, argue that the mediating link in the marketing activities of manufacturers, on the contrary, in most cases improves the efficiency of marketing operations. This is because the high professionalism of the mediator in the marketing and commercial sectors allows faster return on investment expenditure and the treatment means at the expense of large-scale, general-purpose and specialized operations, creates a comfortable environment for end users, provides a cost and time savings due to fewer business contacts (Fig. 7.3), etc.

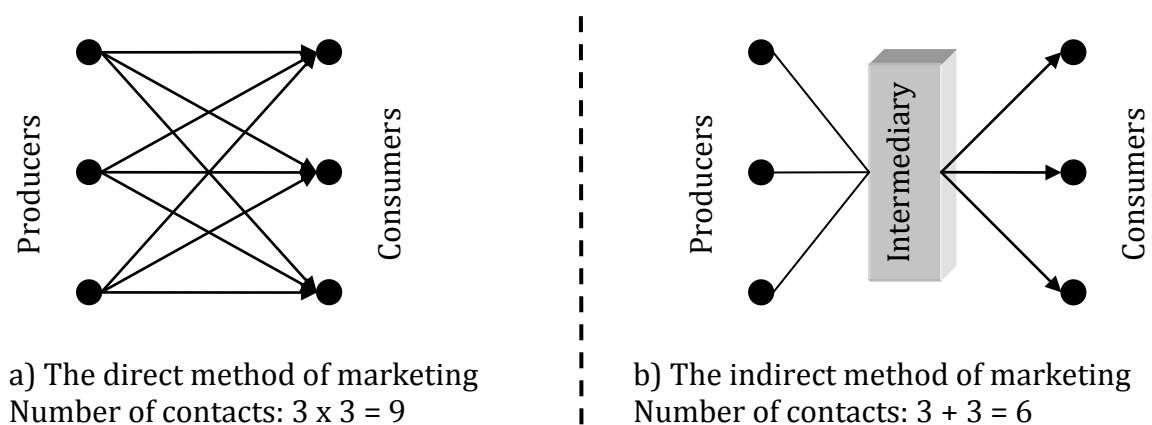


Figure 7.3 – Comparison of direct and indirect methods of distribution based on the number of contacts between producers and consumers

Therefore, a direct marketing method often used by manufacturers who want to control their entire marketing program, tend to close contact with customers and have a limited target market.

The indirect method of distribution is usually elected by the company-producers, who, seeking to expand their markets and sales volumes, agree to give up many marketing functions and costs, but, respectively, and a certain percentage of the control channels and contacts with consumers.

Given this, it should be noted that the choice of a method of organizing sales of the company depends on the specific market conditions, the volume of sales and strategy of the firm.

In the Table 7.2 are some general conditions that are appropriate to guide the choice of direct, indirect or combined methods of marketing.

Table 7.2 – Conditions for selection of distribution method

Method of distribution	Condition for selection
Direct	<ol style="list-style-type: none"> 1. The amount of selling goods is enough to justify the costs of the organization its own trade network 2. The number of users is small, and they are located on a relatively small area 3. Given product requires a highly skilled service 4. The volume of each batch of delivered goods corresponds to the so called "transit norm", i.e. batch of goods completely fills the container, car, etc., which excludes the cost of cargo handling in warehouses 5. There is a sufficient network of its own warehouse facilities in those markets where the firm trades 6. Is highly specialized on the purpose or customized goods 7. The goods are sold on a vertical market, that is, it is used although in some areas, but few consumers in each of them 8. Price of a product often varies, making the necessary adjustments to the pricing policy without the consent of the intermediary 9. Sale price far exceeds the cost of production, which covers the high cost of building its own sales network
Indirect	<ol style="list-style-type: none"> 1. The firm operates in a horizontal market, where there are many consumers in every sector of the economy, which requires a strong distribution network, the creation of which afford a large producers 2. The market dispersed geographically, and because of this direct contact with customers are unprofitable 3. Requires considerable savings on transportation costs, which is possible when selling for wholesalers 4. There is a need for frequent emergency supplies to numerous customers 5. There is little difference between the sale price and the cost of production, which does not cover the cost of maintaining their own distribution network

Table 7.2 (continues)

Method of distribution	Condition for selection
Combined	<ol style="list-style-type: none"> 1. When produced interconnected products, which at consumption complement each other, therefore purchase of one of them may have an impact on the purchase of others 2. When the methods and goals of associates are compatible 3. When producers have a common customer base, which allows, for example, reduce the cost of sales of products a small company and an additional load the existing distribution capacity for major manufacturer 4. Focus on the same foreign consumers, thereby reducing the cost of marketing research, marketing, advertising

One of the first producers of pharmaceutical products, which used a direct method of marketing through the establishment of regional branches in almost all regional centers of Ukraine, the company was JSC PF “Darnitsa”.

Recently, Ukraine has become a trend pharmaceutical companies opening their own retail network. An example might be proprietary pharmacy ZAO NPC Borschagovsky CPP, JSC “Lekhim-Kharkov”, JSC “Kiev Vitamin Plant”, JSC “Lubnyfarm”, OSC “Farmak”, etc.

In foreign countries, this method of marketing is quite widespread. Almost all major pharmaceutical companies create brand network of pharmacies, which significantly reduces the path of medicines to consumers, as well as an additional means to improve company image.

The indirect method is the most common and provides a consistent promotion of medicines to consumers through wholesalers and retail sales. The feasibility of this method is due to the division of functions between the data structures, which facilitates the rapid bringing medicines to patients.

Depending on the combination of methods and elements of the marketing of differentiate simple and complex distribution system (Fig. 7.4).

A simple system provides presence a supply chain, usually of two parts: the producer and consumer, that is, the virtual absence of special marketing organizations.

Complicated system is represented by multi-level units, which include its own distribution network, dependent and independent sales brokers, wholesalers and retailers.

It is often this kind of sophisticated marketing system as a dual system of distribution channels, where the manufacturer at the same market, using two independent or related sales channel.

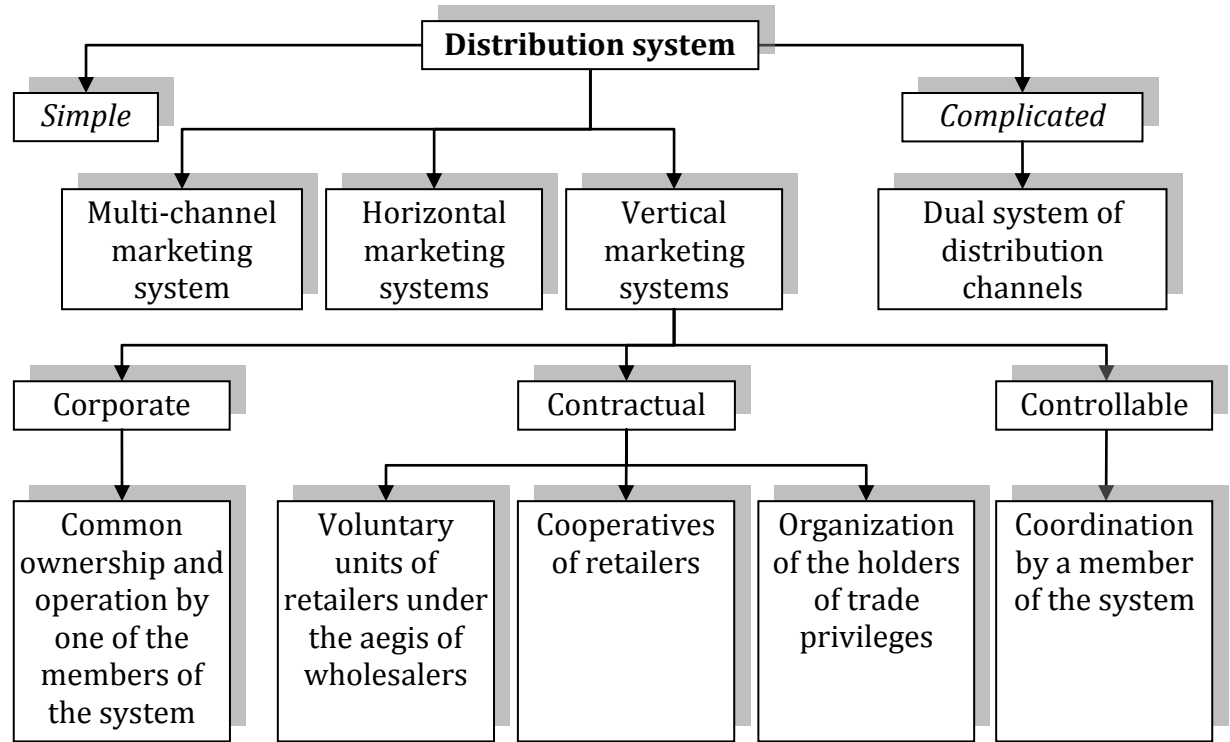


Figure 7.4 – Types of distribution systems

Considered distribution system based on the use of traditional channels of different level structure, width and length. All participants in a distribution system are independent and not subject to another, are aimed at maximize profits only on its stage, but not in the system of distribution in general.

Relatively new, but quite common in developed countries are the so-called **vertical distribution system or the vertical marketing system (VMS)**. From the traditional distribution system the VMS are different in that their members: the manufacturer of products, one or more wholesalers, one or more retailers – pursuing the same goals and interests and act as a single system. In this case, one member of the system the owner of the other, or provide them with trading privileges, or has the advantages that ensure their cooperation. VMS emerged as a means of controlling the behavior of the channel and resolve conflicts between its members, who are pursuing their own goals. Currently, the VMS cover more than 64% of the total market. Now there are three main types of the VMS (Fig. 7.4.).

Corporate (integrated) VMS. Within the corporate VMS successive stages of production and distribution are in ownership of a single of a member of the system which, as a rule, is a manufacturer of products. Such vertical integration often used by companies seeking greater control over distribution channels.

This system is able to effectively compete with other markets, to adapt quickly to market changes, saving the cost of production and marketing.

Contract VMS consist of independent firms which are linked by contract and coordinate their programs of activities to achieve greater overall economy or business results than would be possible to do it alone. At present it is the most common system. They are of three types:

1. Voluntary associations of retailers under the aegis of wholesalers. Traders form a voluntary association of independent retailers, In the interest of their benefits and discounts to the fastest selling products to consumers. At the same wholesaler is developing a program that provides for the standardization of trade practices of retailers and ensure efficiency of procurement.

2. Cooperative retailers. Retailers unite and create a company that provides procurement, and possibly the production of goods, organize joint advertising. The resulting profit is distributed to the members in proportion.

- organization of holders trading privileges (franchise), which, in turn, exist in such forms:

- system of retail holders of the privilege under the auspices of the manufacturer. The manufacturer creates a network of dealers or independent dealers, which provides a license to sell their products;

- system of wholesalers – the holders of privileges under the auspices of the manufacturer. The manufacturer provides wholesaler's license to trade his goods;

- system of retail holders of the privilege under the auspices of the firm to provide services. The company services form a comprehensive system to inform consumers about their services. Typically, these pyramid companies have their own service providers and customers.

Controlled VMS carry out coordination of the activities of successive stages of production and distribution of products with the advantages of one of the participants in the system, which in this case is not its owner. He is able to obtain from its sales network of exhibitions, fairs, presentations, provision of retail space in order to further strengthen its position. The participant's channels are endowed with initiative and independence.

Historically developed that the distribution of medicines, as well as their production was carried out and managed at the state level. Preparations advancing

from the manufacturer or importer to state enterprises is a wholesale pharmacy databases / warehouses, and from there to the public pharmacies and hospitals and, thus, to patients and consumers.

Present stage of development of the pharmaceutical industry in Ukraine, the market of medicines and health care system in general meets the complex system of distribution.

The distributions of pharmaceutical products are used as traditional distribution system, and some types of vertical marketing systems. An example is the VMS to implement the narcotic drug that combines pharmaceutical factory “Zdorove narodu”, SJSC “Liki Ukraine” and its regional offices, pharmacies, state and communal ownership.

The system of distribution of pharmaceutical products abroad is mainly based on the use of a network of distributors, who, receiving products from manufacturers at their own expense, take all risks associated with the storage and sale of products, as well as engaged in the sale of all pharmacies and hospitals.

Overseas experience of systems sales of pharmaceutical products is available to use and some types of VMS, particularly contractual – purchasing associations of retailers (cooperatives) and “voluntary units under the auspices of retailers wholesalers”.

The structure of the cooperative associations of retailers meet their desire to work together in business management, while providing the participants with various rights at general meetings and at a fraction of the cooperative proportionally to their turnover, which is carried out through the association. The strategy of these associations consists not in create a large pharmacy, but in more effectively use existing specific advantages, such as the location of pharmacies, facilities, competence of personnel, etc.

The initiators of associations by the type of "voluntary units" are the medium and small traders who are threatened by the development of large wholesale companies that own a network of branches. Such a structure is "voluntary chain" is an association of retailers (pharmacy owners) association of wholesalers and purchasing centre.

Thus, the associated allows members of trade association to resist the large businesses in economic terms and in economic management.

In parallel with the development of VMS are developing horizontal and multi-channel marketing system.

Horizontal marketing system (HMS) is an association of two or more companies at the same level of their resources and efforts for the joint development of marketing opportunities. The cooperation may be temporary or permanent as well can go towards the creation of a separate joint venture.

In some cases, retailers are trying to make a more economical distribution system for your self and reduce the cost of procurement of drugs, bypassing the wholesalers. One of these forms of organization of the distribution is the associated trade. Small traders enter into associations in order to increase competitiveness and profitability of their enterprises. Such associations can broaden the scope of trade transactions and to conduct a joint trade policy and the owners of pharmacies keep independence in managing their businesses. Associated trade is especially developed in the United States and Scandinavian countries.

Multi-channel marketing system (MMS) is creating in order to more comprehensive coverage of market specific products.

7.5. WHOLESALE. FEATURES OF THE WHOLESALE TRADE OF MEDICINES

Wholesale trade includes all activities for the sale of goods or services to those who acquire for resale, or professional use.

A characteristic feature of the wholesale trade is that, firstly, a wholesaler dealing primarily with professional clients and not with the end user, and secondly, the volume of wholesale trade area agreement, and the wholesaler is greater than the retailer.

Given that the wholesale covers essentially the totality commodity resources, which serve as a means of production, and as objects of consumption, it helps to reduce excess inventory of products at all levels and eliminate the trade deficit, is involved in the formation of regional and sectoral commodity markets.

Recently there has been increase in the scale wholesale trade, which is caused by such factors: the growth of large enterprises, remote from their major customers, increased production in reserve, rather than for specific orders, increasing the number of intermediate levels of producers and consumers need to adapt the number of exacerbation, packaging, variety of products to the needs of intermediate and final consumers.

Among the most important functions performed by wholesaler, we can determine the following:

- market research, supply and demand for products in benefit of production and commercial customers;
- timely, full and rhythmic provision of goods in the required range of intermediaries, retailers and consumers;
- organization of storage of inventory;

- organization of the smooth and rhythmic importation and exportation of goods;
- software for manufacturers selling their products in the field with a minimum of contact with customers;
- preparation of highly qualified sales personnel;
- ensuring the stability of the partnership with long-term, medium- and short-term agreements;
- widespread use of economic methods of management of the entire system of relationships between suppliers, intermediaries and consumers by reducing the total expenditure on sales promotion, payment for the goods at the time of their delivery, the provision of trade credit to retailers and the like;
- risk-taking due responsibility for theft, damage and aging stockpiles;
- providing advisory services.

Now existing next forms of wholesale trade: direct connections between producers and buyers of products; trade through intermediary organizations and enterprises; business contacts market participants.

Direct connections mean that the manufacturers of the products themselves fulfil all the wholesale function. This ensures that the parties in direct contact, allows determining the frequency of supply, determining the range of goods and the additional technical requirements. At the same time stimulate consumers to producers of high quality products and producers interested in selling products, provide some assistance and services to customers. Using a direct wholesale trade it is advisable for transit (wagon) supply shipments.

Wholesale trade through intermediary organizations and enterprises, however, prevails in the case of one-time buyers purchase products or in amounts less than the transit rules. In this case organizations provide wholesale services to a specific list of both parties, in particular, collect product range in a specific location, provide trade credit, store and deliver products, assist in their implementation and progress, conduct market research, etc. Wholesale kinds of organizations and companies covered in previous sections.

Commercial contacts of market participant's include wholesale trade through barter agreements, trade, auctions, commodity exchanges and wholesale trade fairs.

Barter agreements are usually based on barter, that is, delivery of a specific type of product from one company to another and vice versa.

The auction sale is intended, except for the sale of goods, the seller still get the greatest profit due to competition among buyers. Auctions conducted or producers or intermediaries who specialize in this kind of trade.

Commodity exchanges are institutionalized on a regular basis the existing market, which is exchanged for wholesale goods. Exchange operations are carried out in the form of sales contracts, supply, exchange or barter. In this case exchange acts as an intermediary, i.e., through its officers – brokers – reduces the side, and after agreement on a deal makes out.

Wholesale trade fairs are designed to establish direct business contacts between producers of products and potential buyers. The most common in the trade fair capital goods and agricultural products.

Management in the wholesale trade requires the adoption of certain marketing decisions:

- *selection of the target market* is determination of the most profitable customers for themselves and the development of attractive offers for them;
- *identification of assortment of the goods and services*, which must have a sufficient number of items of goods that meet the needs of customers and enables the immediate delivery;
- *pricing*, suggesting coordination of prices with manufacturers and retailers, policy discounts and markups;
- *promotion of goods*, including the organization of advertising, sales promotion, strengthening the company's image.

Use of resellers is an objective necessity of forming the pharmaceutical market under conditions when producer and consumer are separated from each other. In particular, the pharmaceutical producers using service of reseller allows to remove from a number of functions, namely:

- providing of trade services;
- product storage before the its implementation;
- support in promoting products and sales promotion;
- perform freight forwarding activities and insurance of goods in transit;
- reducing the overall size of distribution costs;
- short-term credit trading;
- allocation of risk, etc.

Wholesale trade of medicinal products is activity to purchase drugs from producers and other medicines subjects of management, storage and sale of drugs from the pharmacy stores (databases), others wholesale or retail drugs, obtaining the appropriate license for this, and directly health-care institutions and drug manufacturers.

Since the legislation of Ukraine approved the strategy of integration into the EU, in the pharmaceutical sector is taking measures to harmonize systems of standardization and certification of products in Ukraine with the standards and EU directives. One such measure is the observance of Good Practice distribution (GDP – Good distribution practice).

Good distribution practice (GDP) is requirements to the system of quality of distributor, including supply chain management, facilities, equipment, personnel, documentation, quality control, conducting self-inspections and the like, which take into account EU directives and recommendations of WHO. Compliance with these requirements ensures that the quality of medicines, guaranteed by the manufacturer, is supported within the framework of distribution in accordance with established quality standards, and medicines, without any changes in their properties to enter retail sale.

System of quality, according to which distributors operate medicines should ensure that:

- medicines that they buy and sell, are registered in accordance with current legislation of Ukraine;
- complied with the conditions of permanent storage of medicines, including during transportation;
- contamination of medications exclude other medicines and vice versa;
- there is a corresponding turnover of stored medicines;
- medicines are stored in a secure environment in protected areas.

In accordance with the GDP supply of medicines should be made only to other distributors who have a license for wholesale trade in medicinal products or business entities licensed to retail sale of drugs.

Pharmacy stores (databases) is the establishment of the health system, whose activities are carried out on the basis of a license to retail and wholesale distribution of medicinal products, medical products and other pharmaceutical products in accordance with the provisions of Ukrainian legislation and international standards for the GDP. They are the major companies to provide pharmacies, medical institutions and other organizations, drugs and medical products.

In accordance with the license conditions ... pharmacy database (warehouse) should be placed in a permanent building and occupy isolated areas with a separate entrance.

Placement of the pharmacy database (warehouse) in homes, sports facilities, schools, educational and day care centres, cultural institutions, sports, education and social services, hospitals, shops are allowed under normal use of the isolated buildings for other purposes.

Pharmacy database (warehouse) must necessarily have: production facilities (reception, storage, different groups of medicines according to their physico-chemical properties and action on these various environmental factors, packaging, assembly and release of goods (freight forwarding) service and utility rooms (room personnel, equipped with sink, storage space for household equipment, toilet). must be equipped with separate areas (zones) or storage space for medicines, with which to trade and

which require special storage conditions (potent, poisonous, narcotic, psychotropic, immunobiological, temperature-sensitive, flammable, explosive products, medicinal plant and other raw materials).

Production area shall be not less than 250 sq. m.

A business entity which carries out wholesale trade in medicinal products must have a sufficient number of skilled workers, but at least two experts. Should be allocated as an authorized person is an employee with higher pharmaceutical education and work experience of at least two years, which laid responsibility for the quality assurance of medicines and authorize the further implementation of the of medicines.

The functions of the pharmacy stores (databases) are:

- obtaining medical and pharmaceutical products from manufacturers and legal persons of different forms of ownership;
- implementation of export-import and goods exchange (barter) transactions;
- ensure quality control of medicines;
- creation of appropriate conditions of storage of pharmaceutical products based on physico-chemical properties and, accordingly, approved the rules, regulations and requirements;
- supply of medicines in pharmacies and health care institutions and other organizations and businesses;
- establishment of operational stocks of medicines and medical devices according to the established nomenclature;
- marketing and claim-related activities;
- providing transportation of goods, etc.

Depending on the volume of work and performed functions pharmacy stores (databases) have a certain organizational structure.

The major structural unit of a pharmaceutical warehouse receiving department, which provides quantitative and qualitative reception of medical and pharmaceutical products from suppliers, operational control of income cargo, cargo tracking down who did not arrive in time to stock transfer of goods in the relevant operational departments, the account received and transmitted to the medical and pharmaceutical products. Reception of received goods carries out by the selection committee the duties of which include: identification of good quality products; preparation of documents for admission; decision of questions for further action in cases if received defective goods; the transfer of received goods to the appropriate departments of storage; customs 'clearing' of goods received from foreign suppliers.

The order of reception of goods is defined by relevant documents that discuss admission procedures for the types of products and places of their arrival. The fact is confirmed by the reception of pharmaceutical products, "Foster act". If, in addition discrepancies in the quantity and quality of products that entered, and data documents accompanying it, then issued the "Act on the identification of discrepancies in the quantity and quality when receiving the goods". Further records of goods received to the warehouse, in special records.

Exercise of the functions of storage and packaging of medical and pharmaceutical goods entrusted to the operating (trade) department store. Their number is determined in accordance with the volume and range of medicines supplied. The results obtained in the prescribed manner from the receiving of goods kept in accordance with their physico-chemical properties and the existing rules. Items are placed on racks in a strict sequence of titles, series and shelf life.

In order to unify storage, reducing the time picking customers for each operational department identified a group of medical and pharmaceutical products that can be stored in it, and recycled. This approach is due to:

- passage of a pharmaceutical warehouse full range of assortment of medicines and medical devices that are permitted for use;
- supply a large number of pharmacy with different specialty and power;
- mechanism of interaction “store – pharmacy, or other buyer” when submitting the order and its execution, etc.

Sales of pharmaceuticals and medical products to pharmacies, health-care agencies and other organizations carried out by the orders through the department of the expedition. The functions of this department include packing of goods received from operational units, their distribution by recipients, and clearance of shipping documents and the transfer of goods to customers in case of ex works.

Export of goods from the territory of pharmacy warehouse provides transportation department in the presence of commodity-shipping documents and special permits, which is presented to the service of protection, and there remains.

The most commonly in a centralized delivery system (stock transport) is a form of container. Each pharmacy has its own container to collect the ordered items, which significantly reduces the time for loading and unloading.

It is important to choose the route conveying goods. The most common is using of linear and circular routes that are considered more rational.

In Figure 7.5 shows the general scheme of the movement of pharmaceutical products for the pharmaceutical warehouse.

Besides considered in the structure of the pharmacy stores enters department which are not directly connected with the promotion of products. This auxiliary units (packing, packaging, washing), as well as accounting, automated accounting department, legal and marketing services, etc.

An important link in the marketing of pharmaceutical products is **between the hospital pharmacies (BHP)**. Its role is to help drug-approximation inpatients. Therefore, the functions of the BHP primarily consists of:

- receiving orders from the offices of health care institutions;
- manufacturing and other extemporaneous infusion of medicines and the implementation of all types of control;
- equipment orders for departments and their delivery;
- replenishment of medicines and medical products using the services of all types of providers;
- information work among doctors, nurses, etc.

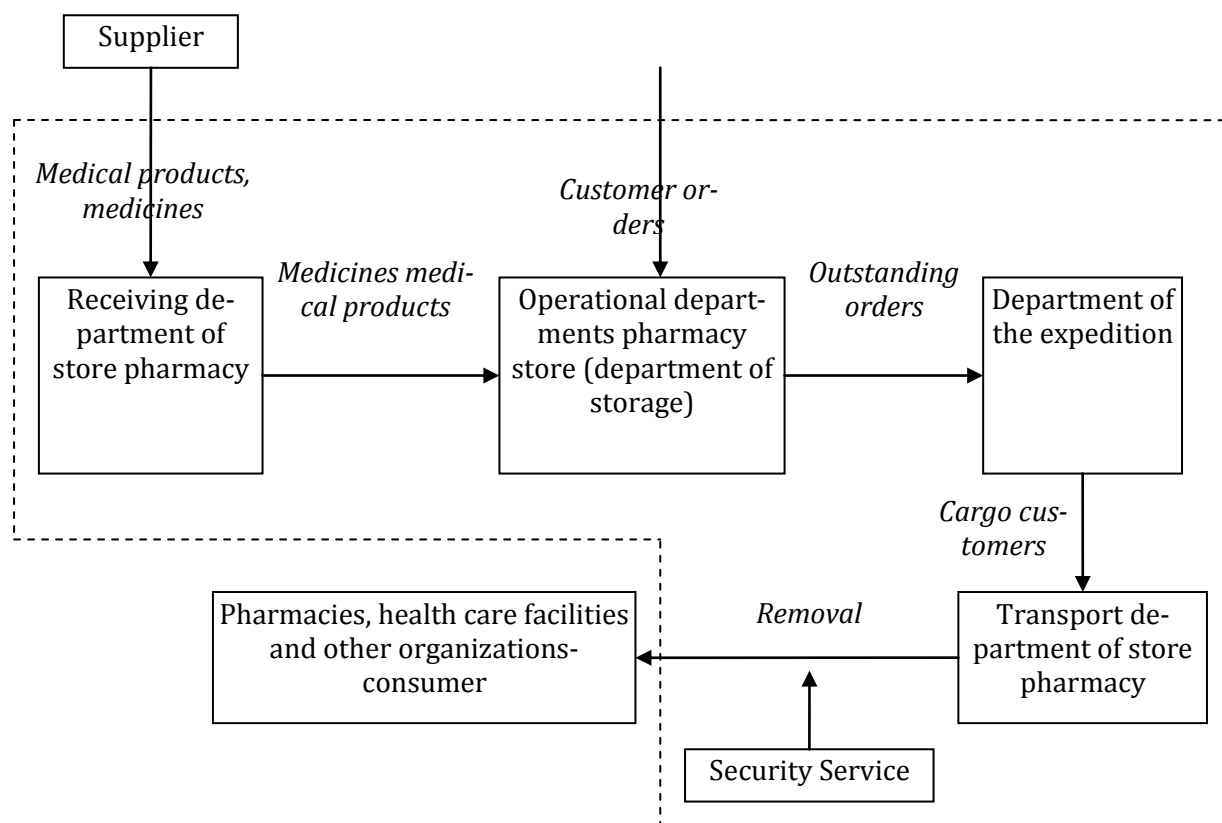


Figure 7.5 – Promotion of pharmaceutical products on pharmaceutical warehouse

BHP specialized depending on the profile of medical institutions, which they served. Now in Ukraine, along with multidisciplinary are operating BHP surgical, pediatric, cardiac, psychiatric profiles. This allows us to concentrate certain groups of medicines and rational use of them.

In recent years, except for inpatient care, the BHP shall retail sales of medicines and other pharmaceutical products assortment.

7.6. RETAIL TRADE. PHARMACIES AS RETAIL OUTLETS MEDICINES

In the process of promotion goods from producer to consumer final link in the system of economic relations is the retail trade.

Retail trade is any business activity related to the sale of goods and services to final consumers for personal, noncommercial use, if this population, and the collective use or household needs, if an organization or company.

Retail plays a significant role in the economy, since it is the dominant component of total turnover. In addition, it is an important area of employment from the extensive network of sales agencies, which need a lot of staff with different skills.

Functions which provide retail trade consist of:

- the study of conditions prevailing in the market;
- determining the supply and demand for specific types of goods;
- search for products that are required for the retail trade;
- conduct of sorting goods in the preparation of variety for sale;
- payment for goods received from suppliers;
- operations with the reception, storage, labelling product, the pricing;
- provide suppliers and customers of freight forwarding, consulting, advertising, information and other services.

In retail trade **marketing decisions** made by:

- the selection of target market;
- development of product lines;
- providing a range of services and create an atmosphere of good shopping facilities;
- the establishment of retail prices;
- development of measures to stimulate sales;
- advertisement and information, calculations in place of sales, merchandising.

Retail-specific customer service is divided into fixed, mobile, and of mail.

Stationary distribution network is the most common and includes such forms of trade, as shops, stalls, booths, etc. On assortment features are classified as specialized shops, department stores, supermarkets, convenience stores, supermarkets generalists, chain stores, shops, discount (for sale at reduced prices), exhibition halls, etc.

Mobile retail chain supports the approximation of the goods to the buyer and its operational service. Therefore, this type of trade exists in forms such as vending machines, trading in the dressing, direct sales at home.

Mail-order trade is used to provide the population, enterprises and organizations of certain products: books, stationery, audio, video, television, radios, etc. Retail sale of goods ordered through the mail or over the phone includes such forms: trade with the order by catalogue, direct marketing, “direct-mail” sell by phone, e-sales. According to the classification of organizations include corporate retail chain stores, retail cooperatives, consumer cooperatives, trading conglomerates, etc.

Retail trade of medicines an activity for the acquisition, storage and sale of finished medicinal products in the pharmacy and its subdivisions (including medicines, manufactured in pharmacies) directly to the citizens for their personal consumption, health care institutions (except pharmacies) as well as enterprises, institutions and organizations without their subsequent resale.

According to Ukrainian legislation this kind of activity can be engaged the enterprise (their associations), institutions and organizations irrespective of ownership, citizens-entrepreneurs who carry out business activities in Ukraine. It requires obtain in the Ministry of Health of Ukraine in the established order of the special permit (license) for the right to engage in retail sales of medicines.

Activity in the field of retail sale of medicines is regulated by the laws of Ukraine "About medical products", "About licensing Certain Types of Economic Activity", "Protection of Consumer Rights", "About maintenance of sanitary and epidemiological welfare of population", decrees of Cabinet of Ministers of Ukraine and normative documents of the Ministry of Health Ukraine.

Retail trade plays an important role in the implementation of pharmaceutical products, because it is in contact with the end user, and therefore has the opportunity to have a direct influence on him. Among all the participants in this level of the pharmaceutical market in the largest numbers are represented by pharmacies. Pharmacy is a health care institution, which operates under the authorization and control of public authorities, whose main tasks are to provide people, health institutions, enterprises, institutions and organizations, medicines and medical products, the organization of health education among the population, pharmaceutical care and information by doctors.

When opening a new pharmacy, along with demographic factors must be taken into account trends in the development of regional infrastructure, the level of competition, the type of trading zone, a functional location.

Pharmacies as the retail health care facilities shall comply with certain requirements. Pharmacy should occupy an isolated area with separate entrance and be located on the first floor. The total area of the pharmacy must be at least 50 square meters (for pharmacies that are engaged trade in medicines), in the countryside – not less than 40 square meters. Regardless of ownership pharmacy must have the conditions for storage and sale of drugs and the corresponding part of the production and support facilities. Thus, pharmacy on realization medicines (without the right to manufacture) must have hall service of the population, the area for storing medicines according to their physico-chemical properties, office manager, staff room, storage room for equipment and a toilet. For pharmacies with the right manufacturing of medicines needed more premises for manufacture of medicines, to obtain purified water for washing and sterilizing utensils. If pharmacies are allowed to manufacture medicines under aseptic conditions, except for the above premises, they should be organized in an aseptic block, sterilization, a room of pharmacist analytics, premises for obtaining water for injection and control markings and tight closure of medicines.

All premises are equipped with the functional assignments of special furniture, equipment and production equipment.

Mandatory for pharmacies is the existence of the State Pharmacopoeia, regulatory documents, reference books on the receiving, production and quality control, storage and dispensing of the order, as well as passport and pharmacy business unit.

To carry out the information from the packets of pharmacy reference books on various aspects of medications, marketing and office work, etc.

According to the legislation retail sales of medicines can be engaged persons who have the appropriate special education and respond common eligibility requirements. Staff of the specific pharmacy is formed according to its form, function and tasks. A business entity is responsible for the qualification level of specialists, their training and retraining. Further training of pharmaceutical personnel should be conducted at least once every five years in schools identified by Ministry of Health Ukraine.

Pharmacies can be created in accordance with established procedure separate structural units in the form of pharmaceutical items and pharmacy kiosks. They should have separate premises only in capital facilities. Thus, considering the appointment, pharmacy items organized with health care, pharmacy kiosks – in factories, railway stations, airports, shopping centres, etc. At the same time whose equipping them with the responsibility on the pharmacy.

7.7. CONCEPT AND TYPES OF LOGISTICS. FEATURES OF THE LOGISTIC APPROACH TO THE MANAGEMENT OF THE SUPPLY ACTIVITIES IN PHARMACY

The historical roots of logistics, as the science and practice associated with the use of logistics practices in the military sphere. The term "logistics" has been known since the IX century BC, from the time of the Byzantine Emperor Leo VI (866 – 912 years) and the designated coordinating the work of logistics for the army weapons, uniforms, food and other military equipment. Further development of the military logistics cover a wide range of issues related to planning, management, procurement, transport services the army and, etc., which have contributed significantly to scientific papers known military specialist early nineteenth century A. Jomini.

The successful application of logistics in the military sphere has led to the fact that it put at the service of the management of material flows in the economy.

Need to apply logistics in the economy explained for several reasons, chief among which are: the development of competition caused by the transition from the "seller's market" to a "buyer's market"; the energy crisis of the 70s. At present, logistics is considered as a science and as an economic activity.

Logistics as the science is an interdisciplinary research area directly related to the search for new opportunities to enhance the efficiency of material flows.

Logistics as the direction of economic activity is in the management of material flows in production and circulation.

This allows the use of logistics: reduce stocks on all way movement of material flow; reduce travel time of goods throughout the supply chain; reduce transport costs; reduce the cost of manual labour and associated costs for the operation of the cargo.

A wide range of logistics functions in economic activity leads to the feasibility of their division into three groups: basic, key and support.

To *basic logistics functions* include: supply; production; sales.

The *key logistics functions* are: maintenance of standards of customer service; management of procurement; transportation; management of stocks; management procedures of orders; management of production processes; pricing; physical distribution.

Supporting logistics functions include: warehousing; materials handling; protective package; ensuring the return of the goods; providing spare parts and service; collecting returnable waste; Information and computer support.

The basic principles upon which build the management of material flows are:

- the principle of systems, consisting in the organization and implementation of the procurement, storage, production, marketing and transportation as a single process;
- the principle of completeness involves the formation of all types of support for the implementation of traffic flow, coordination of all participants in the movement of resources and products, centralized control of logistics tasks structures of firms;
- the principle of scientism is the development and implementation of the methodology of payment transactions at all stages of the flow control;
- the principle of concreteness, which means a clear definition of specific objectives as a result of movement of the stream, the implementation of traffic at the lowest cost of all resources;
- the principle of constructive, consisting of dispatching of flow, rapid adjust its movement and the implementation of operations of logistics and transportation;
- the principle of security – the security and reliability of motion;
- the principle of variability, providing the flexibility respond of the firm on the oscillations of demand and purposeful creation of spare capacity.

The tasks of logistics could not be considered in isolation from the strategic goals of the organization or its “mission”. With the move from the “seller's market” to “consumer market” mission of firms (enterprises, companies) consist in fully meet the demands to the quality of products and services. Potential of logistics contributes to the mission that otherwise treat as a “six rules logistics”: the goods; quality; quantity; time; place; the costs.

Implementation of these six conditions can be generally formulated as “to ensure the availability of the desired product in the required quantity and required quality at the right place at the scheduled time at minimal cost”.

Effectiveness of logistics and possibility of controlling material flows caused by a number of quantitative characteristics of this flow.

1. *The average stock in the warehouse*, which is defined as in natural as well as in money terms according to the formula (7.1) of average chronological:

$$S_{av.} = \frac{S_b + S_e}{2}, \quad (7.1)$$

where S_{AV} – the average stock for the period; S_b – reserve at the beginning of the first period; S_e – reserve at the end of the first period.

2. *Commodities turnover* – is a characteristic of the process of renewal of stock, determined by such factors as the rate of turnover and the time of circulation of goods:

2.1. *The speed of turnover* (S_t) shows how many times during the same period sold and renewed the existing stock of commodity (7.2):

$$S_t = \frac{T}{S_{av.}}, \quad (7.2)$$

where T – turnover for the period.

2.2. *The time of turnover of commodities* (C) shows the duration of the period during which the stock is realized (7.3):

$$C = \frac{S_{av.} \times t}{T}, \quad (7.3)$$

where t – number of days in the period.

2.3. *The share of stocks in turnover* (S_s) by formula (7.4):

$$S_s = \frac{S_{av.}}{T} \times 100. \quad (7.4)$$

2.4. *Logistics costs per unit of turnover* (C_U) by formula (7.5):

$$C_U = \frac{C_L}{T} \times 100, \quad (7.5)$$

where C_L – logistics costs for the period.

To the other indicators includes: characterization of work of a warehouse, ready for delivery, characteristics of discipline of the delivery, etc.

A variety of areas of economic activity determines the specific types of logistics.

Procurement logistics – is the management of material flows in the process of enterprise resource material. The objectives of the procurement of logistics include:

- identification of needs for material resources;
- market research procurement;
- study of the method of procurement;
- selection of suppliers;
- signing contracts;
- realization of purchases;
- monitoring the quantity, quality and timing of deliveries;
- preparing budget of procurement;
- coordination and system interconnection procurement to production, sales, warehousing, transportation, as well as with suppliers.

Production logistic is considering the processes occurring in the sphere of material production. It helps: orientation of production to market; reduce downtime; partnerships with suppliers; improve the quality of products; reduce the production cycle.

In addition, the use of production logistics leads to minimize costs by: optimization of resources; reduce the number of auxiliary workers; reduce loss of materials; improve the use of industrial and warehouse space; reduce injuries.

Sales and distributing logistic is a complex of interrelated functions realized in the process of distribution of material flow between the various wholesale customers, i.e. in the process of wholesale.

Complex of tasks facing between logistics of distribution is solved on micro and macro level. At *the micro level*, i.e. at the enterprise level logistics tasks include: planning the implementation process; the organization receiving and processing orders; choice of packaging equipment products; organizing shipment of products; organization of delivery and monitoring of transportation; organization after selling service.

Tasks of distribution logistics *macro level* are related to: the choice of distribution scheme of material flow; determining the optimal number of distribution centres (warehouses) within the serving area; definition of the rational location of distribution centres.

Distribution (retail) logistics to a greater extent than other types of logistics, marketing touches. Because of the common object of study logistics of distribution and marketing are using the same concepts. This is particularly true distribution channels.

Logistics of stocks. The concept of safety permeates every sphere of material production and is a component of material flow. At the location of stocks are classified as:

- *production*, which are formed in enterprises of all branches of material production and are intended for industrial use in order to ensure its continuity;

- *commodities* which are in stock of finished goods manufacturers, organizations, and in the channels of the circulation. They are necessary for the uninterrupted supply of consumers with material resources.

Both types of stocks, in turn, are divided into:

- *current stocks* to ensure continuity of production or sales process between successive deliveries;

- *insurance stocks* are designed to ensure continuous production of goods or materials or sales process in the event of unforeseen circumstances: variations in the frequency and magnitude of the planned party supplies, changes in the intensity of consumption, delays in the supply path;

- *seasonal stocks* are formed by the seasonal nature of production, consumption and transportation.

In addition, there are the following types of material stocks:

- *passing* – the remnants of the material resources at the end of the reporting period;

- *preparation (buffer)* – is part industrial stocks that require additional training before they are used in the production process;

- *illiquid* – it is not used for long-term production or commodity stocks, generated as a result of deterioration of goods during storage and obsolescence;

- *stocks in a way* – this is stocks, which are at the time of registration in the course of transportation.

For effective management of stocks is necessary to determine the optimal size of the stock and the frequency of its repetition. The calculation is performed according to the formula of Wilson (7.6):

$$OS = \sqrt{\frac{2a \times S}{i}}, \quad (7.6)$$

where the OS – optimal size of the stock (units);

a – the cost of delivery of items ordered goods (monetary unit)

S – need for this product (units);

i – the cost on creation of a commodity stock (monetary unit).

The interval between the executions of orders is defined as (7.7):

$$I = \frac{N}{S \div OS}, \quad (7.7)$$

where I – the interval between orders (days); N – number of working days per year.

Management of resources of pharmaceutical companies are based on the same fundamental principles as the logistics in general. Distinguishing features of logistics in the same pharmacy due to specific medicines as commodities, the nature of their production and consumption. In this context, pharmaceutical logistics considers the following aspects are closely related to the functional purpose: purchasing, production and marketing. The nature of logistics practices during procurement of material resources due to the following factors:

- multinomenclature of substances and materials used in the production process;
- low-tonnage production and the related parties purchased small amount of substances and materials;
- limited shelf life and high quality requirements for substances and materials;
- the social significance of pharmaceutical products, the need to ensure affordability of medicines, and therefore special attention should be paid to minimizing the cost of procurement.

Therefore, to optimize the material flow of logistics are put forward front of purchase logistic the following tasks:

- assessing the need for material resources;
- procurement and market research, above all, opportunities, safety and attractiveness of the conditions of supplier firms, guarantees and risk in a particular market segment;
- procurement contract basis;
- control of supply, including the timeliness of deliveries; qualitative and quantitative characteristics of the purchased substances, primary and secondary materials, their compliance with the specifications, transportation, etc.;

- preparation of procurement budget, sufficient to cover all the costs that accompany the procurement process;
- coordination of procurement and the relationship with the subsequent production and marketing of finished products, their storage and transportation.

Production logistic also has distinctive features, because of the nature of pharmaceutical production:

- multistage of production process, which depends on the specific processes, both primary and auxiliary, as well as the sequence of their occurrence;
- the duration of the technological processes associated with their implementation of the multistage and time certain chemical processes;
- the need to stepwise quality control during production and subsequent stages of storage and sale of drugs;
- specific requirements for the organization of the movement of material flow, starting with the receipt of substances and materials in warehouses and ending with shipment of finished products to customers;
- high material and labour intensity of production;
- seasonality of production, due to the seasonality of both drug consumption and seasonal production of certain substances.

Assignment of medicines to consumer goods determines the characteristics of supply and distribution logistics. The challenges facing the logistics of supply, due to a variety of functions performed by the distribution system to effectively bringing pharmaceutical products to the consumer. They can be arbitrarily combined into the following groups: problems related to changes in market positioning of medicines, development of marketing policy; tasks to create marketing systems, organization of distribution channels, developing new markets; targets for the promotion of pharmaceutical products: advertising, consumer search, contracting, pre-sales product, service, transportation, etc.

Features of the organization and management of distribution channels of medicines considered in Section 7.2.

Tasks of supply logistics to a large extent depend on the latitude range of medicines produced by domestic pharmaceutical companies, as well as their physical and chemical properties. Therefore, the construction of the logistics system for pharmaceutical companies need to consider and questions such as: characteristics of the range of medicines: the width and depth, taking into account different forms of production, use of substances; seasonal variations in demand for certain groups of medicines; relatively limited shelf life and the need for special storage conditions of medicines (temperature, light, humidity, etc.); optimization of inventory.

Among other tasks of supply logistic considered questions of transport ensure of the delivery of medicines to consumers, taking into account the best routes, packing of goods, ensuring maximum safety of cargo and corresponding to physical and chemical properties of medicines, the accompanying documentation to support the quality and safety of products throughout the supply chain, timeliness and complete assortment of consumer order fulfilment (service and lack of rhythm outs), the speed of loading and unloading.

Questions for out-of-class work

1. Give the definition of “sale”.
2. What are the reasons for the existence and development of marketing activities?
3. What are the policy objectives of the distribution?
4. Give the definition of “distribution channel”.
5. What functions are performed by marketing channels?
6. What types of marketing channels to level structure?
7. Give examples of distribution channels for pharmaceutical products.
8. What approaches exist to the choice of the number of intermediaries at each level of distribution channel?
9. Which group is shared by their brokers to sold goods?
10. Name and describe intermediaries of ownership of the goods.
11. Name and describe intermediaries without ownership of the goods.
12. What factors are taken into account in the formation of channels of distribution?
13. What functions do the distribution channels?
14. Explain the criteria for selecting participants in a distribution channel.
15. Describe the main areas of channel management sales.
16. What kinds of conflicts occur in the channels of distribution?
17. What are some ways to resolve conflict in channels of distribution?
18. Describe the main methods of marketing.
19. What are the conditions to choose the method of marketing?
20. What are the reasons for using intermediaries in the pharmaceutical market?
21. Describe the existing of distribution system.
22. Name and describe the main types of vertical marketing systems.
23. What are the horizontal and multi-channel marketing systems?
24. List of types of marketing systems that are used in the distribution of pharmaceutical products.
25. What does the wholesale?
26. Specify the form of wholesale trade.
27. What marketing decisions are made by wholesalers?
28. What is the specific of the wholesale trade of medicines?
29. What is the purpose of the GDP?
30. That should guarantee the quality system, under which distributors are working?

31. *What are the criteria for certification of medicines distributors?*
32. *What functions are performed by pharmacy stores?*
33. *What are the requirements for the organization of the pharmacy stores?*
34. *Give an optimal organizational structure of pharmacy stores.*
35. *What is the function hospital pharmacy?*
36. *Expand the concept of "retail sale".*
37. *Please list features that provides retail trade.*
38. *What marketing decisions are made in retail trade?*
39. *How classified retail trade by type of and forms?*
40. *What are the features of the retail trade of medicines?*
41. *What are the requirements to pharmacies as retail establishments' medicines?*
42. *Name and describe the functions of logistics.*
43. *On what principles is based management of material flows?*
44. *List and describe the main types of logistics?*
45. *What are the characteristics of logistics of pharmaceutical companies?*

Tests

1. *Which meets the definition of the concept: "... this is an activity of the company to plan, organize and control the physical movement of materials and finished goods from their place of production to point of use in order to meet consumer needs and to obtain firm profits?"*

2. *The pharmaceutical company, developing its own distribution policy takes into account the prospects for its further development. Which policy tasks of distribution related to strategic?*
 - A. Planning of future sales channels
 - B. Search and selection of commercial offers for the supply of goods
 - C. The choice of systems and methods of marketing and related types of channels
 - D. Determination of distribution routes
 - E. Establish a network of wholesale and retail outlets, warehouses and so on

3. *To which concept corresponds the definition: "... is a set of firms or individuals who take for themselves or help to pass someone else the ownership of a particular product or service on their way from producer to consumer"?*

4. During choosing channels of distribution should take into account the main factors (highlight):

- A. The coverage of the market
- B. The number of consumers
- C. The objectives of the company
- D. The characteristics of the goods or services
- E. The speed of delivery
- F. The character of the pricing of competing firms
- G. The policy of promoting competing firms

5. Complete the list of functions performed by distribution channel:

- A. Information
- B. Promotion
- C. Establishment of contacts and negotiations
- D. ...
- E. The adaptation of products to customer requirements
- F. Physical movement
- G. ...

6. To which concept corresponds the definition: "... – it is any intermediary that performs a particular job on the approximation of the goods and property rights to it to the end user?"

7. Pharmaceutical company, implementing a policy of distribution of products, tries to control its marketing program. What is the sales channel will use the company?

- A. Long
- B. Short
- C. Wide
- D. Narrow
- E. Direct
- F. Indirect

8. Company produces vitamin preparations. Which of the approaches in selecting the number of intermediaries will use the company?

- A. Intensive distribution
- B. Exclusive distribution
- C. The selective distribution

9. Complete list of independent intermediaries:

- A. A wholesaler
- B. Retailer
- C. The distributor
- D. ...

10. What is the difference between channels of distribution goods for production purposes from the corresponding distribution channels of consumer goods?

- A. The end users of these products do not perform physical and legal persons
- B. Retail sale, are generally not used
- C. The number of combined channels exceeds the number of direct channels ("zero level")
- D. Are more commonly used channels "zero level"
- E. The number of trade agreements is less, and the volume of orders more

11. Pharmaceutical firm plans to enter on the foreign market. Which one of intermediaries may be entitled to the realization of the goods of the firm?

- A. The distributor
- B. A broker
- C. The dealer
- D. Consignee
- E. The sales agent

12. Which features can be characterized functions of the distributor?

- A. Assumes ownership of the goods
- B. Establish the level of prices
- C. Receive remuneration as a percentage of the amount of the contract
- D. Has a warehouse and inventory
- E. The type of service establishes a manufacturer

13. Complete list of the most common dependent intermediaries:

- A. The wholesale agent
- B. A broker
- C. The consignee
- D. ...

14. Which intermediaries characterized by the ownership on the goods?

- A. Wholesalers
- B. The dealer
- C. Distributors
- D. Commissioners
- E. The consignees
- F. Brokers
- G. The wholesale agents

15. Vertical marketing systems – is a union of:

- A. The several producers
- B. Wholesalers
- C. The producer and several retailers
- D. The producer and several distributors
- E. The wholesaler and manufacturer with several retailers

16. Enterprise that produces industrial refrigerators, intends to sell them by entering into sales contracts directly with the buyer. What are the factors to consider when choosing a method of direct marketing?

- A. Sufficient number of sold goods
- B. The goods market is scattered geographically
- C. A small number of customers, situated on a relatively small area
- D. The need of highly skilled service
- E. Vertical market product
- F. Exist the need for urgent supply of private goods to multiple consumers

17. On the regional pharmaceutical warehouse from the supplier arrived a container with of medicines. Employees of any department organize and carry out reception of the product in quantity and quality:

- A. The receiver
- B. The expedition
- C. Operational
- D. The supply and trade
- E. Marketing

18. Management of material flows at the enterprise based on the observance of certain principles. Complete a list of them:

- A. The systems
- B. Completeness
- C. Scientific
- D. Concrete
- E. Constructive
- F. ...

19. What is not among to the key factors of the six rules of logistics?

- A. Goods
- B. Quality
- C. The quantity
- D. Advertising
- E. Time
- F. The place
- G. Costs

20. Pharmaceutical company buys substances and materials for the production of medicines. Under what kind of logistics is undertaken this activity?

- A. Sales
- B. Production
- C. Procurement
- D. Logistics of stocks

21. Pharmaceutical company forms distribution channel of industrial products, select specific intermediaries concluding contracts and organizes delivery of products. What kind of logistics corresponds this activity?

- A. Sales
- B. Production
- C. Purchasing
- D. Logistics of stocks

CHAPTER 8

MARKETING COMMUNICATIONS POLICY

One of the most important tasks of marketing is to create demand and stimulate sales of goods in order to increase its implementation, efficiency and overall profitability.

This chapter provides specifications, selection criteria, planning, organizing, and determining the effectiveness of the components of marketing communications. The main elements of the goods promotion (promotion mix) on the market advertising, tools of sales promotion, direct sales, public relations, and others with the peculiarities of their use in the pharmaceutical market.

8.1. COMPLEX OF MARKETING COMMUNICATIONS AND ITS FORMATION

Along with the tasks of research market , consumer, commercial, pricing and marketing policy marketing involves active actions of producers and wholesale intermediaries to form of demand for goods and sales promotion, in other words to implement the policy of promotion.

Promotion is the creation and support term relations between the enterprise and the market in order to activate selling of goods and creating a positive image through information, persuasion and reminders about their activities.

Promotion policy is carried out in order to increase sales, enhance their efficiency and overall profitability of business.

Last years along with the increasing role of marketing has increased the role of marketing communications that allow for transmission of messages to consumers in order to create attractive products and Services Company for the target audience.

Companies various kinds of activities are constantly engaged in promoting their products or services, striving to achieve several purposes:

- to inform prospective customers about the goods, services, terms of sale;
- to convince the buyer to give preference to these products, go shopping in these retail establishments;

- to make the buyer to act to direct his behaviour to the fact that the market offers at the moment and not to delay the purchase for the future;
- to form loyalty to this brand;
- to stimulate process of acquiring of goods and others.

The major and so-called synthetic elements of promoting complex or a complex of marketing communications (also known as integrated marketing communications "marketing mix", the communications mix) are: advertising; the means of sales promotion; direct or personal selling; public relations (pr); exhibitions and fairs; branding; trademark, trade style, packaging; advertising in local sales and merchandising; service policy; direct marketing; work with the media and others.

The elements of marketing communications are presented in Fig. 8.1.

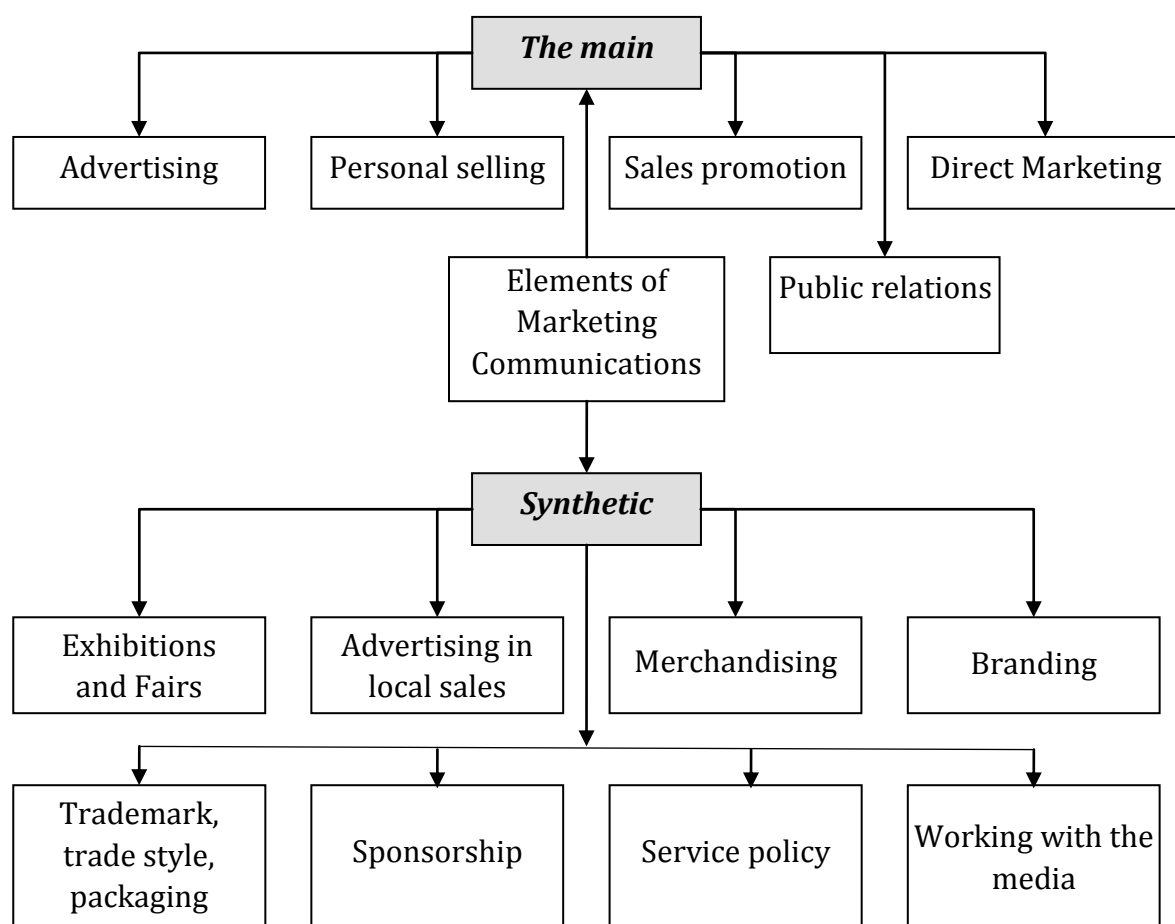


Figure 8.1 – Elements of Marketing Communications

As a rule there are four main components of the above list: advertising, personal selling, public relations and sales promotion.

Previously, a set of elements and activities to promote was called the system of demand generation and sales promotion, which actually points on two main objectives of enterprises activity.

Using elements of the marketing mix is the task of marketing communications policy of the company.

Marketing policy communications is promising course of action which aims to ensure interaction with all subjects of the marketing system to meet the needs of customers and profit.

Effectiveness of marketing communications can only be achieved through integrated use of all of them (why they are called integrated), which is achieved by management.

Management of the promotion or marketing communications is a complex of coordination of various elements of promotion; setting goals which might to be achieved through the use of these elements, estimating costs, sufficient for achieve these objectives, the development of special programs, evaluation of work and taking corrective action if the results are not consistent with the purposes.

Management of marketing communications includes functions of planning, organization, motivation of participants to promote and monitor the effectiveness of the measures (Fig. 8.2).

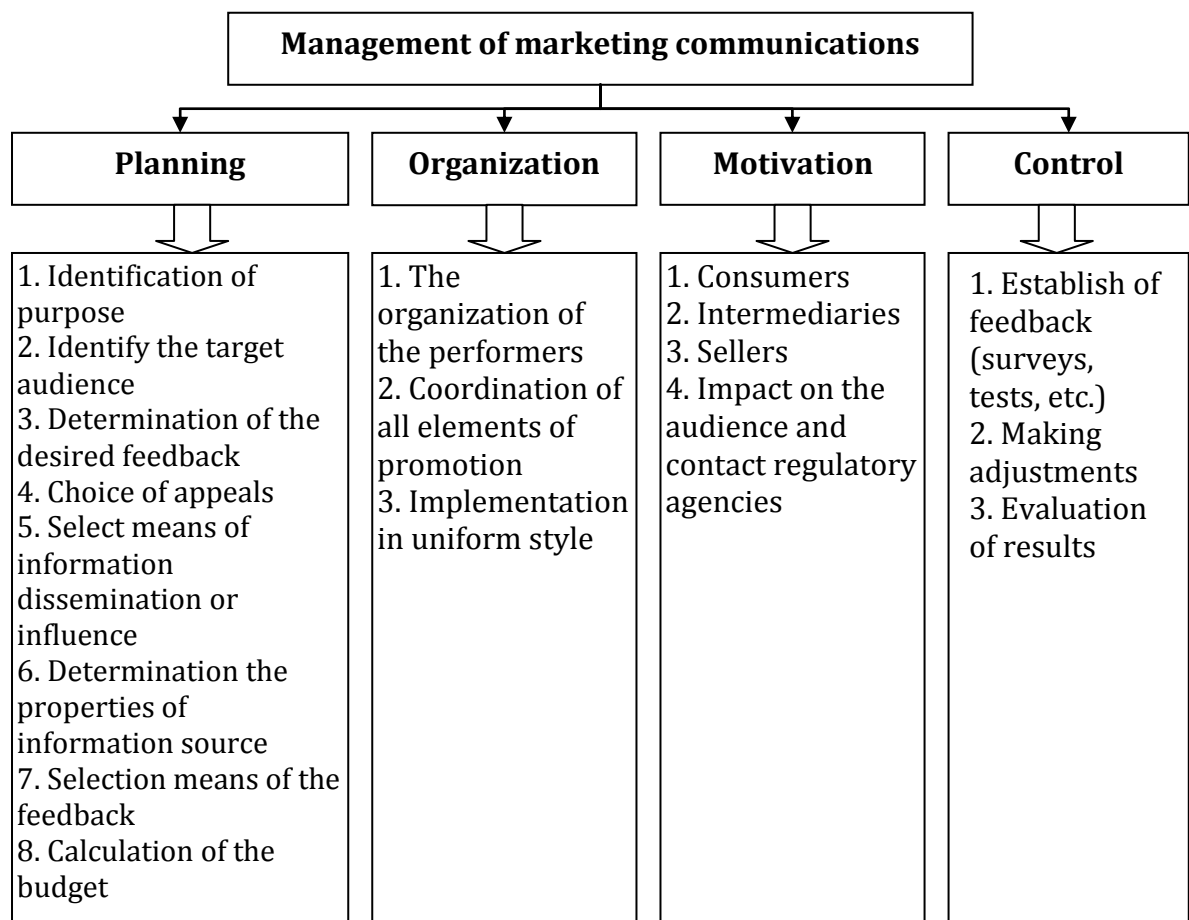


Figure 8.2 – System management of marketing communications

During planning a marketing communications communicator (company, informant) must:

1. Define the purpose of complex of marketing communications
2. Identify their target audience
3. Determine the feedback
4. Select an appeal
5. Choose the tools of dissemination of information
6. Select the properties which characterize the source of information
7. Collect the information received through the feedback
8. Calculate the budget.

The initial stage of formation of complex of marketing communications is to define its purposes. These include the formation of demand, increase sales, improve the image of the company and its goods, the provision of market penetration, sales promotion, etc.

Purpose and tasks of marketing communications of pharmaceutical companies often are:

1. Becoming familiar with the medicinal product or brand and attract the attention of specialists
2. Providing information about the properties and benefits of the medication
3. Achieving by medical prescription of prescription medication (or OTC recommendations of pharmacists)
4. Neutralization of advertising competing companies
5. Creation of brand image of the medication and the trust in it by the experts
6. Formation of the prerequisites for launching into the market by the pharmaceutical company new medicines, etc.

Defining goal the company must rely on available resources, possible barriers and the state of the target audience. It requires study and analysis of market conditions, including:

1. Analysis of the market (capacity, trends, consumers (their disease, ability to pay; profile and the number of health care institutions those financing, etc.)
2. Pharmaceutical products (, the presence of analogues, the level of market newness of medicine, its efficacy and safety, benefits, etc.)
3. Distribution system (existing distribution channels, the types of intermediaries, the skills of managers and specialists of wholesale companies, etc.)
4. Communication systems (media, those accessibility, professionalism, size of useful audience, methods of marketing communications, etc.).

Target audiences consist from existing and potential buyers firm's goods. The audience may consist of individuals, groups, specific contact audiences or general public.

Typically, the target audience affect on the decision about what to say, how to tell when to say, where to say and on whose behalf.

The target audience of pharmaceutical companies can constitute specialists, physicians, pharmacists, pharmacy managers, researchers working in the field of medicine and pharmacy, patient of health care institutions, visitors (customers) pharmacy managers and specialists of wholesale intermediary pharmaceutical companies and others.

In the formation of target audience follows take into account its specificity, strength, interest in medicinal products, the possible degree of influence on the implementation of the preparation, etc. Thus, during the formation of audience of medical studies which physicians positively react on information messages, the current nature of the prescription, and the availability of a physician for medical sales representatives? Is suitable grouping of physicians by function and specializations, from the intensity of prescriptions (often of prescriptions with an average or low frequency of prescriptions for the first time prescribers not to prescribe Medication Company or firm).

By the reaction of physicians on the factor "risk destination" they can be classified as follows:

Innovators – the doctors who know as much about the new medication, as well as colleagues, but due to the nature of the innovator prescribe this medication first;

Adepts – the doctors, who are beginning the appointment of a new medication under the influence of his own "I" after a careful analysis of advertising and informational data and result of using the drug by physician innovator;

Early imitators – the doctors who prescribed medicine after several years of convincing success of the medication;

Later imitators – the doctors who are beginning to use the preparation after a successful long-term use of colleagues;

Conservatives – doctors, which are characterized by stereotyped thinking and begin to prescribe medicine after it becomes a tradition.

The maximum favourable *reaction of audience* detected in the making a purchase. Necessary before start working with audience have to know in what condition it is and what condition it is necessary to translate.

Types of consumer conditions willingness might be: awareness, knowledge, disposition, preference, conviction, making a purchase. When forming the content of the treatment is important the choice of one of the reasons:

1. Rational motives (quality, cost, value, performance parameters)
2. Emotional reasons the awakening of a sense of guilt, fear, joy, pride, etc.)
3. Moral motives (appeal to the sense of fairness and decency of the audience).

The structure of the treatment must be provided: whether in treatment to make a clear conclusion or provide it a target audience; explain whether only the arguments "for" or bilateral; result in a significant argument in the beginning or end. The form of the treatment depends on the means of communication. As a means of information dissemination is used:

1. Channels of personal communication
2. Non-personal communication channels (print, radio, television, creating a certain environment, events – press conferences, ceremonies, opening, etc.)
3. Opinion leaders.

When you select the properties that characterize the source of information, is important the choice of informants which trustworthy (well-known physicians to deal with drug addiction – former drug addicts, etc.). Factors that ensure the credibility of the source of information are: professionalism, integrity, appeal.

Feedback is established by interviewing the target audience.

The final stage of forming complex of marketing communications is to calculate the required budget to cover projected costs. For this may be used such approaches:

1. At the level of past allocations, taking into account the relevant increases
2. At the level of competition or advantage over them
3. Percentage of sales
4. According to the calculation of expenditure for all planned activities.

When forming demand for medicines for the action on separate target audience using different directions of work and means of marketing communications:

1. For Physicians and Pharmacists:
 - mailing the newsletter of the medication;
 - seminars and symposia;
 - establishing good business relations with leading experts in the field, supporting the methodology promoted by the drug treatment;
 - information campaign in specialized medical media.
2. For wholesalers, pharmacy managers:
 - mailing the newsletter of the medication;
 - information-sales presentations;
 - regular (monthly) newsletter;
 - information campaign in the media that covers the target subgroup;
 - information of the widespread ongoing or planned information campaign.

3. For individual customers (patients, clients of pharmacies):

- information campaigns in the media that cover the selected target audience;
- dissemination of information materials for patients and visitors to health care facilities and pharmacies;
- holding special PR-events.

Producers of pharmaceuticals and medical products are widely used labour of medical (pharmaceutical) representatives.

Medical (pharmaceutical) representative is the post of representative of pharmaceutical companies relating to the promotion of medications on the market. Today, distinguished such positions as medical representative on the promotion of prescription medications; pharmaceutical representative for the promotion of OTC medications; medical representative with the functions of a sales representative. To the functional responsibilities of the medical representative enters raising awareness among health professionals (physicians, pharmacists, wholesalers, etc.), the holding of individual visits, presentations and round table discussions, participation in conferences, seminars, exhibitions, control the sale of medicines in pharmacies and appointments physicians providing merchandising at the pharmacy. The tasks of medical representatives is to inform about new pharmaceuticals company, a reminder of the known medication, discussion of the medication use in treatment regimens, the positioning of medicines, fixing in the minds of professional benefits of medicines, encouraging doctors to prescribe and pharmacists to recommend the drug to customers, analysis of competitors, the establishment and / or support the company's image. Using the labor of medical representatives is the most effective means of communication policy of manufacturer, especially for prescription medications. As a rule, medical representatives are working on specific medications or groups of selected areas and on customers (wholesalers, pharmacies, health facilities, categories of patients). Activities of medical representatives are monitored by regional managers and product managers. They plan the activities of medical representatives, carry out and participate in the learning process in the double visits, analyze weekly reports. Controls indicators of medical representatives are follows: the volume and dynamics of selling products, control of movement throughout, work planning, control the distribution of time between major and minor clients, the number of visits during the month to customers appropriate category, spending control of promotional materials, the use of corporate finance, machinery, equipment, time to provide information on request to the head, development of skills of medical representatives. Requirements for the qualification of the medical representative usually a medical or pharmaceutical education, work experience in the market and market knowledge, communication skills, the availability of driver's license. The main selection criteria for the post of medical representative are: communication and presentation skills, result orientation, responsibility, loyalty, teamwork. Pharmaceutical companies are trying to constantly improve the skill level of medical representatives, which provide training, which is the subject of medications companies, conducting effective presentations, planning of work, mastery of difficult negotiations, the work with the objections, etc.

The ideal *organization of the complex of promote* is case when all forms of communication are realized from a single point of view, and the consumer receives from the manufacturer or supplier all messages, stored in the same tone, that is, various elements of marketing communications should be well coordinated, even taking into account the fact that certain items are created by different agencies and organizations (PR-firms, agencies, direct marketing, sales promotion firms, advertising agencies, companies, customers, etc.).

Proved that all means of marketing communication at the same time should try to achieve their goals and cause some action (such as a second or first trial).

The structure and nature of the use of marketing communications depend on such factors:

1. Goals and objectives require different means of promotion.
2. Type of product or market is a property of the goods that affect on the choice of means, the target audience, cost, and size, the nature of the segment or niche market.
3. The nature of product promotion strategy (Fig. 8.3): strategy of pushing; strategy to pull.

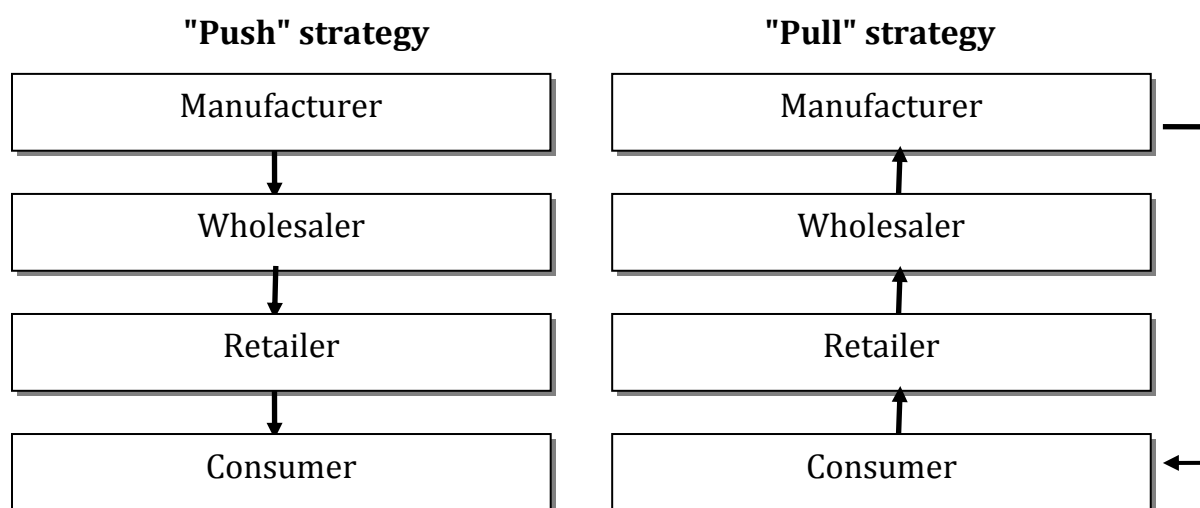


Figure 8.3 – Promotion strategies

The strategy of pushing the product involves the use of sales staff and promotion of the sphere of trade to push the product through the channels of commodity promotion. Producer is focusing on how to get the wholesale and retail firms to purchase his goods. In this case, the set of elements dominated by promoting personal selling and sales promotion activities targeted at mediators.

The strategy of attracting customers (pull strategy) to the product provides the high cost of advertising and promotion of consumers in order to create demand from their side. With this approach, the consumer during the promotion acquainted with the product and then turns them over to the retail network, which in turn orders the goods from distributors, or directly from the manufacturer.

4. The target audience determines the choice of marketing communications. So, if for effect on intermediaries (wholesalers and retailers) prefer stimulation through a system of discounts for the implementation of a new product, for participation in its advertising, etc., to end-users are usually directed advertising in mass media, direct sales, means of stimulating sales.

5. Stage of product life cycle. At the stage of introduction the goods to the market the main purpose is to inform consumers about the new product, as a means of stimulating sales, depending on the chosen communication strategy aimed on the buyers, or (increasingly) on intermediaries. At this stage, sales may hinder the following factors:

5.1. The sales staff is not immediately supporter the goods, sellers sometimes recommend that a new product to customers in the last turn. Therefore, stimulation methods are justified and special measures to convince the sales staff in the value of a new product.

During introduction of a new medication to the pharmaceutical market sales promotion methods are used to encourage doctors to approbation new medications, and pharmacists to implement it. Individual work is carried out with the doctors to believe in the desirability of appointing a new medication, its features and benefits.

5.2. Representatives of the trade are reluctant to risk associated with the sale of new goods.

The above described categories of physicians in the degree of response to the risk of appointing a new drug. Just enter cautiously, and pharmacy staff, waiting during medication firmly established in the market.

5.3. Consumers are showing restraint when buying a new product. Sales growth contributes to the application of special trial price, offer samples, payment on credit, etc. Ability to test the new product makes it easy to get acquainted with the consumer.

Distribution of prototypes of a new medicinal product or other pharmaceutical product assortment practiced in the pharmaceutical market (mainly for medical and pharmaceutical workers, which subsequently may themselves become advocates of a new medicinal product, cosmetic or sanitary facilities, etc.). However, WHO does not recommend the use of prototypes intake distribution of drugs.

At the stage of growth there is a change of targets: advertising from the information goes to the persuasive, aggressive, and sales promotion is limited.

At the stage of maturity of the campaign becomes less intense, it is reminiscent of the character, as consumers are already familiar with the product. To revive interest in the product using various techniques holidays, the introduction of new packaging, etc.

By the end of the maturity phase, saturation, and then decline at this stage is mainly a sales promotion is terminated, in order not to interfere with the removal of goods from circulation. However, sometimes the use of sales promotion helps to avoid a complete reduction in demand, and even extend the product life cycle.

6. Volume of the market and its concentration: if the market is small, and consumers are geographically concentrated, then preference is given to personal sales if not, advertising and direct marketing.

7. Resource availability and cost of promotion. Select one or more of marketing communications is determined by the financial capabilities of a company.

Among the elements of marketing communications directed on formation consumer demand for goods, the most important role is played by advertising.

8.2. ADVERTISING AND ITS ROLE IN THE COMMUNICATION POLICY OF THE ENTERPRISES

Information about advertising practice, there are even documents in the first written stories. The forerunners of modern advertising were painting the walls, rocks, street broadcasters, branded products to the artisan.

Turning point in the history of advertising was the invention of Gutenberg's printing press in 1450, and the first print ad appeared in English in 1478 contributed to the further development of the commercial release of the first English-language newspapers.

The highest level of development advertising reached in the U.S. at XVIII century. Father of American advertising is Benjamin Franklin. The development of advertising in America was due to certain circumstances. First, the American industry led the industry with the introduction of mechanization; the result was a surplus of goods and there need to con-

vince buyers to purchase more goods. Second, the creation of a network of waterways and roads made of real delivery of goods and means of advertising to rural areas. Thirdly, the introduction in 1813 of compulsory primary education increased literacy rate and helped to increase the number of newspapers and magazines. The greatest impetus subsequent development was the invention of radio advertising, and later – television.

Advertising is the best tool for the business enterprise in an attempt to influence the behaviour of consumers draw their attention to the production company, to create a positive image of the company to show it to the public good.

Advertising appears in four roles: marketing, communication, economic and social.

The marketing role consists in influence on a target market through each of the elements of marketing, because it includes a mechanism for the transfer of customer information, in turn, advertising is a component of marketing communications.

The communicative role is that advertising is a form of mass communication. It transmits various types of marketing information to achieve understanding between buyers and sellers in the market.

On economic role of the system, there are two views concerning the impact of advertising on the economy. From the position of the first (school market power) advertising it is the communicative tools of persuasion used by market professionals to distract consumers from the price, in terms of the second (school market competition) advertising is seen as a source of information, which increases the sensitivity of consumers to price and stimulate competition. At the enterprise level economic or commercial role of advertising appears to increase the sales of goods or profit.

The social role of advertising:

1. Advertising informs about the new and improved products
2. Facilitates comparison of products, enabling the buyer to make a decision on the purchase
3. Advertising has an impact on people
4. Development of advertising is to some extent an indicator of social development.

Advertising can be viewed as a form of communication that attempts to translate the quality of goods and services on the language of consumers.

Advertising is tool convincing information about a product or company, the commercial promotion of consumer goods and the good qualities of the company, the tool that prepares an active and potential customer to purchase. Or advertising it is a paid, non-personalized communication is carried out by an identified sponsor in the media to persuade (to something) or affect (somehow) to the audience.

Advertising is particularly important in the highly competitive environment. Almost all sectors of the economy, no company or enterprise cannot do in one way or another without advertising.

Advertising can be viewed in three ways:

1. In-house advertising;
2. Advertising to create the company's prestige in the community (public relations);
3. Advertising to increase sales.

One of the main objectives is to educate in-house advertising staff have confidence in his own company, the birth of their sense of close relationship with his fate.

By means of in-house advertising are: the appropriate level of organizational structure and good relations between management and employees; social benefits for employees; intra-daily; the proper conduct of leadership in society, etc.

If the employees feel the pleasure of working in the enterprise, they become carriers of active promotion and advertising of the firm in society.

Prestigious or advertising in order to create the company's prestige in the community (public relations) is in close connection with the advertising in-house. In order to implement the use of such means of advertising:

- contacts with the press, because every article that reminds firm, is an advertisement;
- information in the press about the achievement of the enterprise;
- participation of heads of enterprises in public life.

A more thorough public relations described in a separate section.

Advertising to increase sales is the main area of advertising companies. It is closely related to the coordination of all the interrelated factors that affect the sale of goods.

From the perspective of marketing communications division of the fundamental importance of goods into two large groups: individual consumer products; industrial goods.

Methods of advertising effect on consumers of each category are very different.

As the subject of advertising of pharmaceutical marketing is medicines and pharmaceutical products range, we consider the means of marketing communications for a group of individual consumption goods.

To successfully enter on the market the company, focusing on the chosen target market segment or target market, which is given precedence, shall: a) report the existence of a particular product, b) information and psychological effect on consumers, offer an attractive way for a good market of novelty. This is facilitated by the use of commercial advertising.

Commodity advertising is any form of non-personal reference to potential customers to their convictions to purchase goods or services.

The task of the activities of the demand is to reach in order to potential customers about a product judged on the basis of accurate knowledge, contributing to overcome the "barrier of caution." To reduce this barrier, and even better to eliminate possible only when there is in the mind "image" of goods: one that attracts, causes positive emotions and well remembered. For advertising and other means of creating demand to illustrate the product from the standpoint of the consumer, the product is viewed as if through his eyes.

In addition to the prestigious, in-house and commercial advertising, advertising division is used for direct (immediate) and indirect.

Direct (immediate) advertising is carried out on commercial terms and defines the advertiser directly performing the function of advertising (in relation to a specific product or a particular firm).

By direct advertising include:

1. Direct promotional work is work of advertising agents, which includes personal contact with the audience, or individuals
2. Distribution of promotional materials through mail, as well as the transfer of telephone, telegraphs, facsimile.

Indirect advertising performs the function of advertising is not so straightforward, but in a veiled form, without using of direct distribution channels and advertising media and are not just defining the advertiser.

There are even advertising information, monitory, reminding and supportive (one that reminds and informs), depending on the nature, characteristics of promotional material and product life cycle stages.

In the implementation of advertising may be a slight exaggeration of positive qualities of the goods, concealing its negative characteristics, but are not allowed to outright deception of the consumer, which falls under

the concept of **unfair advertising**. Advertising, which has caused material damage or harm to the prestige of competing firms, is also considered unfair. How unfair advertising determined using of unauthorized techniques and methods of disseminating promotional information, for example, over-frequent frame that is fixed in the subconscious of a person, etc.

The multiplicity of tasks and a significant advertising generates a variety of species means of distribution options for its creation, and other elements, of which advertising is compiled as a system.

Accordingly, the classified ads to: the object; the customer; the subject; temporary parameter (the product life cycle); breadth of product coverage; fixed assets (channels) available; source of funding costs, which is shown in Fig. 8.4.

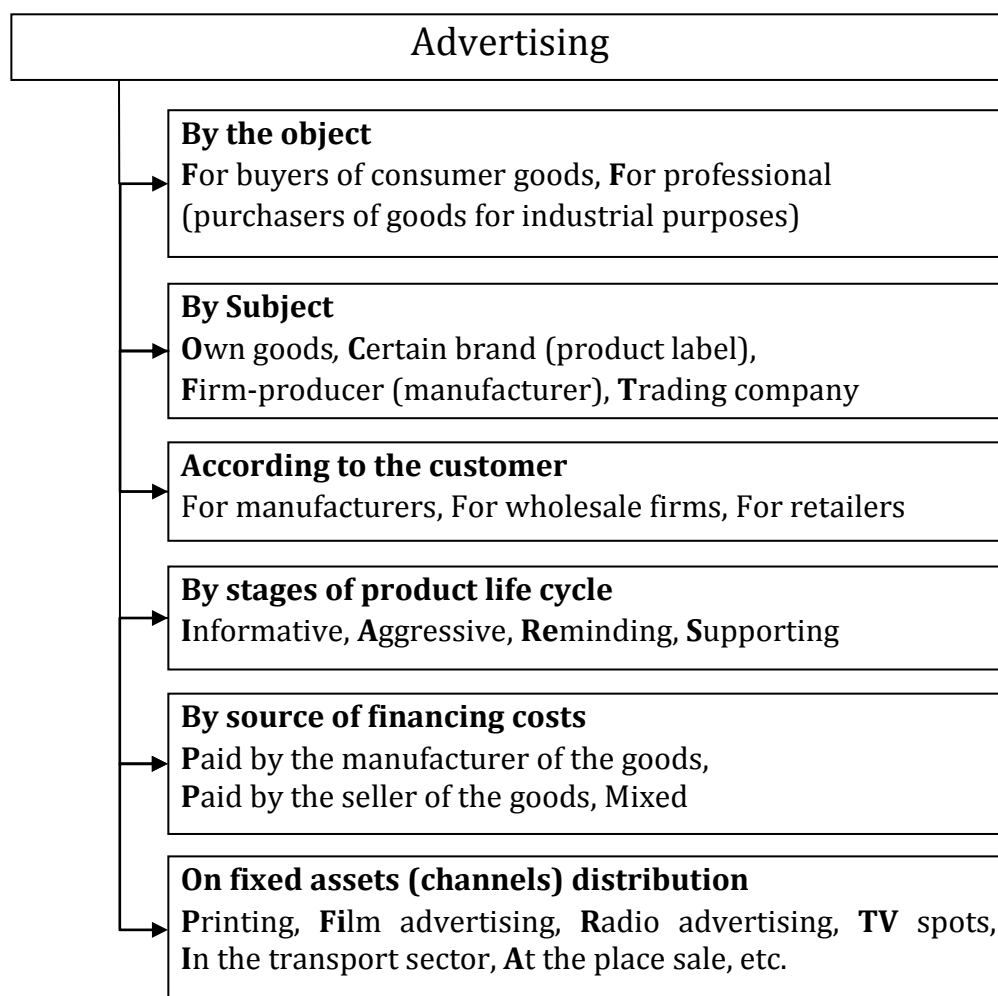


Figure 8.4 – Classification of advertisements

By advertising presented a number of general requirements:

- based advertising is a good creative concept (the idea must be original);

- advertising must be strategic;
- must be picked up a decision of advertising (print advertising design, casting, colours, sound, etc.);
- must be relevant;
- the original, relatively new;
- the idea of advertising to influence consumers.

8.3. THE COMPONENTS OF THE PROCESS OF ADVERTISING

Advertising as a process typically involves four components:

1. Advertisers (clients).
2. Advertising agencies.
3. Means of advertising (advertising package).
4. Consumers (advertising audience) goods and services.

The advertiser (customer) is a company or person who makes an order for advertising. In what form and what content will be advertising this question advertiser decides which advertising agency, or elected representatives of the means of advertising. The advertiser typically pays for all advertising services it, but there may be options.

Advertising agency is an organization that performs the full range of advertising services, or some of their views. Advertising agency can be specialized by industry advertisers, or by type of advertising. Advertising agency operates only within a given territory or country, or out on the world market. In addition to independent advertising agencies, there are many such organizations within the activities of large industries, publishing companies, consulting and commercial centers. Typically, in developed countries are published annually with a list of directories of companies that provide advertising services.

Means of advertising (advertising package) include the full range of promotional services provided by this agency (from strategy to analysis of an advertising campaign of its real value for). They can vary in composition, the volume of each service and, therefore, cost. By means of advertising still involve the media, as carriers are delivering real appeal to the audience.

Consumers (advertising audience) are all potential targets of advertising, which she designed. Depending on the size of the advertising campaign, the audience can be divided on regional, urban and other territorial features, on the temporal parameters of receiving advertising on the socio-demographic characteristics, etc. During the various surveys of audi-

ences are measured dynamics of the individuals who are apprehended or other pieces of advertising appeal, their attitude and response to advertising and other elements. Accordingly, the indicators can be calculated the popularity of advertising in a certain specific type of audience.

The carriers of advertising are primarily media, the so-called impersonal mass media. They are:

1. Press advertising (newspapers, magazines, directories)
2. Audio-visual advertising (radio, television, film, split screen)
3. Publishing advertisements (print) books, pamphlets, brochures, pamphlets, souvenirs, which are delivered, distributed, distributed at fairs, in shops
4. Outdoor advertising (billboards, ads). For external advertisements are:
 - large posters and electrified panels with the use of computer programs, spatial design, etc.;
 - advertising on vehicles (the inscription on the outer surface of the vehicle, print ads in salons, shop with goods at railway stations, subways);
 - the point of sale advertising products (windows, signs in the sales rooms, packaging).
5. Souvenir advertising (calendars, souvenirs and distributed free of charge).

The advertising message may contain information about a specific product, service or idea, a trademark, on the sale of seasonal goods.

You should be aware that the package, the quality marks, the trademark is not considered advertising, despite the fact that the package does contain some features of advertising (name, symbol, slogan, pictures).

In order to rationally choose a distribution channel for marketing communications, should be a special work on the analysis of media channels on the following criteria:

- coverage, that is, to what possible number of recipients able to convey information under normal average conditions;
- availability, in other words, whether the company take advantage of these channels at any time, and if not, how emerging constraints will reduce the effectiveness of advertising;
- cost, that is, total cost per publication (transfer) of the advertising message, the cost of an advertising contract with a view of edition (the number of viewers, listeners);

- handling, that is, whether the company is to pass this message to the channel to the target group, which is required;
- credibility, or whether the channel is well respected by potential and existing customers;
- service, that is, whether or not to submit advertising message in a completely finished form for publication or transmission, whether you can count on the fact that professionals will carry out the preparation of the text, create video film, etc.

Through various activities to generate demand and, above all, commercial advertising in the minds of potential customers created a positive "image" of the goods. This image plays a major role in deciding on a purchase.

8.4. THE FUNCTIONS OF ADVERTISING OF MEDICINES

Advertising of drugs aimed at different target groups: doctors, patients, wholesalers and distributors, etc. During promoting of prescription drugs on the market more advertising aimed at doctors, advertising of OTC drugs at consumer (patient visits the pharmacy). The basis of effective advertising are attention – interest – use (or communication) – desire – action. Advertising message should generate demand for medicinal product of potential customers, in particular on this directed the first two or three element of model of the influence on advertising. The last step (action) is the key because if there is no action, the advertising does not work.

The function of advertising of pharmaceuticals should be carried out in three areas:

1. To provide most current advertising market.
2. To expand the scope of a particular drug.
3. To expand the market.

Advertising of medicines is particularly associated with the characteristics of this market. These features are:

- consumer of advertising often is not a consumer of product;
- advertising of the merits of the company (a prestigious advertising) is more important in the market of drugs than many others;
- due to the nature of products is often confused with advertising information science. On the one hand, advertising can make the results of studies on the other – positive research reports in prestigious journals may promote the sale of products;
- doctor is a person who takes a rational decision, because the emotional appeals of advertising may be unacceptable to the consumer;

- number of readers of drug advertising is largely dependent on the availability and reputation of the magazine, which published an advertisement: a positive attitude toward advertising may be the result of confidence in the magazine itself;
- large firms that advertise drugs, should trust the media, where advertising is placed;
- the development of drug advertising, which are released on a medical prescription, due to the appearance of a large number of different ways to promote the product on the market;
- advertising of medicines is unique because it provides information both about the advantages and disadvantages of the drug.

Advertising of medicines is necessary to both consumers and businesses, manufacturers, wholesale and retail firms. Skilful use of advertising allows the enterprise (company) to hold the position in the market, maintain a positive image of stability and level of demand for products.

Advertising in the pharmacy can be used for a multitude of tasks, namely:

- promote recognition of the drug, to strengthen its credibility, enhance company image;
- ensuring that the perception of product wholesalers, retailers and consumers, and thereby contribute to the optimization of the distribution;
- raise awareness and belief in the benefits of a pharmaceutical product seller;
- confrontation with similar drugs of competitors;
- carrying out maintenance of advertising in the period of declining demand due to seasonality of the drug;
- reduction of the launch of a new drug to market;
- promoting an entirely new idea or method of treatment;
- ensure the growth of sales and related benefits increased or mass production;
- stimulate of request and partial or complete ordering the collection of orders;
- the announcement of favourable discounts or offers;
- growth of retail trade and the intensification of the use of funds invested in inventory;
- improvements or changes reputation or general idea;
- encourage potential buyers to visit the company, pharmacy, exhibitions, etc.

Thus, advertising has many functions, but before making a decision about its use in one form or another, the employer must as possible to pinpoint the main reasons for such action on its part and clearly imagine what exactly the results it seeks to achieve.

Advertising can construct demand and market and control them. On what are the challenges facing it, depends on the choice of forms and means of advertising, but in the end the effectiveness of advertising campaigns and the justification for investing in its implementation.

For drugs that are prescribed, are used:

- advertising: magazines, posting promotional materials, etc.;
- individual sale;
- sampling (limited range of drugs that doctors give for distribution);
- promotion of the drug: the sale, calendars, pens, and other reminders of the drug;
- TV-radio-communication facilities.

Due to the fact that a very high throughout the world is the fate of the people themselves used drugs, methods of promotion of pharmaceutical products intended for individual consumers, are extremely important factor in increasing consumer demand.

Advertising of OTC drugs, addressed to the public, takes place on the television, press, radio, in the subway, at least in the form of outdoor advertising on vehicles and billboards in major cities. Note that the television advertising, which acts on the vision and hearing, and also has a large number of advertising contacts (the audience), is the most effective means of advertising effects on consumers of information. View of this the cost structure of foreign companies in the promotion of OTC drugs make up the largest part of the cost of TV advertising. Next on the number of investment followed by a variety of promotional methods designed for medical conferences, workshops, promotions, advertising mail is a "direct mail". The role of physicians in shaping the demand for OTC medicines is also quite substantial, although not the most important, as in the case of prescription drugs. This is due to the fact that doctors not only prescribe OTC medications for patients in different treatment regimens and their recommendations are perceived positive population, but also with the fact that the authority of doctors is important in combating the negative information is often exaggerated, relative risk of one or other drugs.

Among the forms of information and advertising of medicines are important print media: brochures, pamphlets and annotations (package inserts) package. Leaflets on drugs differ in the content of comprehensive information: the full list of side effects, pharmacokinetics, dosing (except for the dose for adults and children can be given the initial dose, supporting, and dose of Gerontology), a warning about taking medication adherence by certain categories of patients, treatment, information about the effects of the drug in pregnant women and women who are, may be given information about the interaction with other drugs, the influence of alcohol or nicotine, the symptoms of overdose and treatment, and sometimes the circuits of the drug in comparison with existing analogues, charts, and tables illustrate the influence on of the drug on life processes.

Effective influence on the consumer has packaging and package inserts. The main task of packing is to draw attention to the consumer product and to provide information about it. This encourages the purchase of goods and distinguishes among the many other similar with the trademark, shape, or colour registration. Positive perception of the drug contributes colour and surrounds processing, as well as the quality of the material of construction of the packaging.

Another element is a pharmaceutical advertising leaflet. The information contained in this leaflet is different from the information on the packaging volume and quality and approaches to information that is presented in the prospectus.

During promoting pharmaceutical products on the market recognition of its corporate identity is ensured by a manufacturer.

Among the components of corporate identity the most important means of attracting attention to the drug is a trademark. A trademark is a calling card company, the developer or manufacturer. The sign remained unchanged for many years and is used as an essential arm of advertising, which is one of the major functions of trade marks and is characterized by brevity, aesthetic, associative, novel ideas, manufacturability, pronounceable, coupled with the place of origin, and adaptability.

The important role played by psychological basis of trademarks. It promotes the advertising of goods, and the scope of the spread of trademarks should be as broad.

Trademarks of medical purpose often advertised in specialist publications, focusing on doctors, pharmacists, pharmacists, however, this does not preclude their placement in other editions, designed for all potential buyers.

In the early stages of the production of the primary function of trademarks has been informative. On the trademark placed the name of a person – the author of articles, and in the future company name of the manufacturer. This feature is customization of goods preserved to this day. In many cases, trademarks are a key tool, which allows the buyer to find the difference between similar products. At the same time the trademark has to be informative and thus, it is easy decrypted.

Trademark and retains its quality assurance function of the goods. Once the connection is broken the trademark and product quality becomes a tool that pushes the consumer from this product.

To mark a means of advertising, he has become a subject that is used in various visual forms: the containers and packaging, on signs, souvenirs, in printed form. The role of the advertising function of a trademark becomes more important under conditions of expanding the product range and improves its quality.

8.5. REGULATION OF DRUG PROMOTION

Certain restrictions on advertising of medicines, regulation of content for certain categories of consumers have a place in almost all countries.

WHO in 1985 has been revised strategy with respect to drugs, which included, along with other aspects of the establishment of ethical criteria for medicinal drug promotion on the market. The latter were taken in 1988, Forty-first World Health Assembly.

The main objective of ethical criteria for medicinal drug promotion is the implementation of market support and assistance to improve health care through the rational use of medicines. Ethical criteria for medicinal drug promotion on the market are designed to lay the foundation for a correct approach to the advertising of medicines, which is based on the principles of honesty and integrity. They deal with drugs, prescription and without a doctor's prescription, can be applied to the means of traditional medicine, used by the pharmaceutical industry (manufacturers and wholesalers), information and advertising agencies, health care workers associated with the appointment, release, delivery and distribution of medicines facilities, educational institutions, professional associations, patient groups and consumers, by means of special and general information.

In accordance with the ethical criteria for medicinal drug promotion definitions and illustrations in *advertisements intended for health professionals*, should fully meet the scientific data on the medical and biological properties of specific drugs. Promotional materials, along with other data, must contain the following information:

1. The name of the active component (s) with the use of international nonproprietary names or agreed common name drug, trade name
2. Content of active component (s) in the dose or order of admission
3. The name of the other components, which are known, they can cause adverse indirect effects
4. Approved therapeutic indications
5. Dispensing or receiving order
6. Side effects and major adverse effects of drugs
7. Means of precaution, contraindications and warnings
8. The major interactions between drugs
9. The name and address of the manufacturer or wholesale company
10. Reference to scientific literature on this drug

If advertising material is not intended to promote drugs on the market (in the case of advertising, reminders), it must contain at least the brand name, international nonproprietary name or approved by the common name, the name of each active ingredient and the name and address of the manufacturer or wholesale company in order to obtain additional information.

Advertising to the general public should help people make intelligent decisions on the use of medicines sold without prescription. You cannot promote drugs, prescription or doctor applied under the severe conditions that can be treated only by a qualified physician. In some countries approved lists of such diseases and conditions. In order to combat drug abuse and drug addiction should not be widely advertised drugs and psychotropic drugs.

Advertising messages for the public should contain the following information:

1. The name (s) of the active component (s) with the use of international nonproprietary names or agreed common name of the medicinal product
2. Corporate name
3. The main indications for use

4. Plant and equipment precautions, contraindications, and warnings
5. The name and address of the manufacturer or wholesale company.

Consumers should be given accurate and truthful information about the price.

According to the WHO criteria for ethical promotion of medicines to the market *medical representatives* should have the necessary health education and be trained in a certain way. They should possess sufficient medical and technical knowledge and integrity differ when providing information on products, as well as accurately and responsibly carry out promotional activities. Employers are responsible for basic training and advanced training of their representatives.

Medical representatives should make available to persons, prescribers and pharmacists complete and objective information for each facility. Medical representatives must not encourage their prescribers and pharmacists. In turn, the latter must not attempt to receive promotional incentives. To prevent excessive advertising, the main part of the remuneration of medical representatives should not be directly related to the volume of sales of drugs to which they contributed.

In different countries there are different practices spread among the population of free samples of medicines sold without prescription. In some countries this practice is allowed, in others not. In any country where such a practice exists, it should be as limited.

Continuation of the study drug after entering on the market (post-marketing studies) is of great importance for their rational use. It is assumed that the relevant health authorities have always been aware of any clinical trials of drugs approved and that the relevant committees on scientific and ethical issues confirm the validity of scientific research, may be useful cross-national and regional cooperation in such studies.

The study and control of medicines after they are selling should not become a disguised form of advertising.

Sound information about the risks associated with drugs, should be reported to the appropriate national health authorities as a priority and as soon as possible to spread internationally.

Because accurate information ensures the rational use of drugs, *packaging and labels* must contain information that meets the data, an approved body for the control of medicines a particular country. Each statement and illustration on the packaging and labelling must comply with the principles of ethical criteria.

In the case when requires that the drug was accompanied by a *leaflet or instructions* for use, manufacturers or wholesalers to provide a reflection of only that information which was adopted by the authority control over drugs given country. If package inserts or instructions for use are used for promotional purposes, they must meet ethical criteria.

In EU countries there are strict legislative framework governing the advertising of medicines. Advertising must comply with the provisions of the Directive Council of the EU 92/28/EES "On the advertising of medicinal products for human use" provisions of which were introduced into national legislation of EU member states.

Under the advertising of medicines in the EU Council Directive 92/28/EES means any form of providing information on their sales agents in conducting population-based surveys, as well as the use of incentives to encourage the appointment, supply, sale and consumption of drugs. These forms, in particular, include:

1. Advertising of medicines to the public
2. Advertising of medicinal products to persons authorized to prescribe or supply medicinal products
3. Visiting by agents from promotion of persons authorized to prescribe drugs
4. Provide samples of products
5. Use incentives to encourage the appointment or supply of drugs in the form of gifts, offers or promises of profits or remuneration in cash or in the glove terms, except in cases where their real cost is minimal
6. Financial support for activities to promote the sale of products, with the participation of persons qualified to prescribe or supply medicinal products
7. Financial support for scientific conferences, which bring together the persons authorized to prescribe or supply medicinal products, in particular, payment of travel expenses and accommodation.

In the states of the EU is prohibited any advertising of medicinal products for which marketing authorization is issued in accordance with EU legislation.

Advertising of the drug in accordance with the provisions of EU Council Directive 92/28/EES:

1. Must promote its rational use by providing objective information, without exaggeration, the properties of the drug
2. Must not be misleading.

In the states of the EU prohibited the advertising of those drugs to the population that are:

1. Dispensed by prescription only, in accordance with Directive 92/26/EES;
2. Contain psychotropic or narcotic substances, the relevant definitions of international conventions;
3. Due to the peculiarities of the composition and actions designed and intended for use without medical intervention, if necessary, on the advice of a pharmacist, for example, for diagnostic purposes, treatment, or monitor them.

In the states of the EU prohibited advertising for public mention of the following conditions:

- Tuberculosis;
- Sexually Transmitted Diseases;
- Other dangerous infectious diseases;
- Cancer;
- Chronic insomnia;
- Diabetes and other metabolic diseases.

Any advertising of medicinal products must:

1. Be conducted in such a way as to make it clear that the message is an advertisement and that the advertised product is identified as a drug.

2. Contain the following minimum information:

- the name of the drug, its common name, if the drug has only one active ingredient;
- the information necessary for the proper use of the drug;
- a clear recommendation to carefully read the instructions on the package inserts annotations or the secondary packaging.

Any advertising of medicinal products to persons qualified to prescribe or supply such products shall include:

- basic information relevant to a brief characterization of the drug;
- the category of a drug holiday.

In the EU countries is allowed include in such advertising the sale price or the price of different packages of drugs, as well as information about the conditions for reimbursement of the drug by social security bodies.

In Ukraine, the advertising of medicines is regulated by the laws of Ukraine "On Medicines" and "On Advertising", separate by-laws and Regulations of the Ministry of Health.

The information content of advertisements for medical facilities and doctors, regardless of its form, must be based on science-based materials. Advertisements should contain a full, clear and understandable professional information that meets the properties of the drug contained in his succinct description of the instructions for medical use, but does not exceed its volumes. Advertising should be aimed at promoting the rational use of medicines, to represent it objectively and without exaggerating positive qualities. Do not allow limitations on information on medicinal products for medical and pharmaceutical workers, except as permitted by applicable law.

Advertising of medicines intended for hospitals and physicians carried out only through specialized print media, designed for medical and pharmaceutical professionals. Health Ministry of Ukraine provides information to medical institutions and doctors registered on the drugs and those that are removed from the State register of medicines in Ukraine. Peculiarities of regulation of medicines and other medical goods and services listed in the article 21 of the Law "On Advertising" (2005). Here is the content.

1. Allowed advertising:

Only such medicines, medical equipment, methods of prevention, diagnosis, treatment and rehabilitation in the prescribed manner permitted by the specially authorized central executive authority in the health sector for use in Ukraine;

Only those medicines that are dispensed without a prescription (prescription) doctor, and only such medical equipment, methods of prevention, diagnosis, treatment and rehabilitation, the use of which does not require special knowledge and training.

2. Prohibited to advertise of medicines consumed, and distributed only by prescription (prescription) doctor.

3. Prohibited to advertise of doping substances and / or methods for their use in sport.

4. Advertising of medicines, medical equipment and methods of prevention, diagnosis, treatment and rehabilitation should include:

objective information about medicinal and implemented so as to make it clear that the above message is an advertisement and what the advertised product is a drug;
full pharmacological name of the drug and the manufacturer's name;
general reservations on the use of medicines, medical equipment, methods of prevention, diagnosis, treatment and rehabilitation;
recommendation for a mandatory reference to the instructions for use supplied with the medicines.

5. Advertising of medicines, medical equipment and methods of prevention, diagnosis, treatment and rehabilitation cannot contain references to the therapeutic effects with respect to diseases that are not susceptible or difficult to treat.

6. In the advertisement of medicines, medical equipment, methods of prevention, diagnosis, treatment and rehabilitation placement be prohibited:

information that might give the impression that if the drug use or application of medical technology consulting with a specialist is not necessary;

information that the therapeutic effect of drug use or application of medical technology is guaranteed;

changes in the human body image or parts of it due to illness, injury;

allegations giving rise to fear or development of disease or worsen their health due to the fact that they will not be applied advertised medicines, medical equipment and medical services;

statements that promote opportunities for self-diagnosis of diseases, pathological conditions and their rights of self-treatment with the use of medical goods advertised;

references to drugs, medical equipment, methods of prevention, diagnosis, treatment and rehabilitation as the most effective, most secure, exclusive to the lack of side effects;

comparisons with other drugs, medical equipment, methods of prevention, diagnosis, treatment and rehabilitation in order to enhance the advertising effect;

references to specific cases of successful use of medicines, medical equipment, methods of prevention, diagnosis, treatment and rehabilitation;

advice or reference to the recommendations of health professionals, researchers, medical institutions and organizations on the advertised goods or services;

special expression of gratitude, appreciation, letters, excerpts from them with recommendations on the use of stories and the results of the advertised goods or services from individuals;

images and references to the names of popular people, the heroes of the film, television and animated films, reputable organizations;

information that may mislead consumers about the composition, origin, performance, protection of patent medicine.

7. In the advertisement of medicines, medical equipment, methods of prevention, diagnosis, treatment and rehabilitation of prohibited participation of physicians and other medical professionals, as well as those which simulates the appearance of the appearance of the doctors.

8. Not allowed to put in the advertising of medicines information, which allows the possibility that the drug is a foodstuff, cosmetic or other consumer product, or that the safety or effectiveness of this tool due to its natural origin.

9. In advertising, cosmetics, food, vitamins and other nutritional supplements are prohibited reference to the fact that these products have medicinal properties if such properties have not been confirmed in the manner prescribed by law by the specially authorized central body of executive health.

10. Advertising of therapeutic sessions and other events with the use of hypnosis and other methods of contact, the influence of mental or bioenergy.

11. Advertising of diagnosis or treatment, this is not based on direct contact with the patient's physician.

12. The provisions of this Article shall not apply to advertising of medicines, medical equipment and methods of prevention, diagnosis and treatment and rehabilitation programs, placed in specialized publications for medical institutions and physicians, as well as distributed at seminars, conferences, symposia on medical topics.

Advertising of medicines for children and adolescents is based on the resolution of Health Ministry of Ukraine after the previous examination and approval of advertising information from experts GP "National centre of expertise".

Unfair advertising of drugs is prohibited. Unfair advertising of medicines is considered to be advertising, which is due to inaccuracy, ambiguity, exaggeration, silence, or enters information may mislead the consumer advertising, carrying a threat to their health.

As unfair regarded also advertising, content of which is not consistent at all, notify the applicant of the rejection of advertising (submitted a letter of refusal), or found a deviation from the contents of the already agreed advertising materials relating to the caveats identified by Ministry of Ukraine.

The procedure for recognition of the misleading advertising of medicines is carried out in such cases:

- if the Ministry of Health received a complaint from a consumer drug advertising on the fact of its causing harm to health;
- if in the process of conducting surveillance of drug advertising found violations of the requirements of Ministry of Health to the content of information that can be included in the advertising of medicines.

The decision on the recognition of the misleading advertising of medicines takes Health Ministry of Ukraine on the basis of relevant expertise conclusion of GP "National centre of expertise". Ministry of Health of Ukraine may withdraw permission for promotion of medicines, if it does not meet legislative requirements or considered unfair.

8.6. PLANNING AND ORGANIZATION OF ADVERTISING CAMPAIGNS

Marketing includes advertising campaigns, which should focus on strategic marketing planning purposes. The relationship of all parts of is the foundation of a unified marketing strategy and tactics of advertising in

the marketing system. For this reason, the development and implementing the Plan of the advertising campaign must first agree on the objectives and principles of marketing to the general plan of the company or enterprise.

During planning advertising activities for specific product should be taking into account the stage of the life cycle, which he experienced in the market.

Advertising plan of action must be based on an analysis of customer requirements, market segmentation and positioning of goods. The development plan should provide for variety and optimum combination of various types and forms of advertising.

In the planning advertising campaigns of medicines identified a number of stages:

1. An object is determined by the advertising (a drug company)
2. Determined by the subject or target advertising, then there is a group of consumers (patients, physicians, pharmacists) that need to give information about the pharmaceutical product
3. Determined the motive of advertising, that is on what should be focus of the advertisement (information) in order to attract consumers' attention
4. Elected by the types of advertising media
5. Prepared an ad – formulated title, ad text, illustrations, determined, if necessary chosen character, media advertising
6. A schedule advertising presentations – promotional activities are coordinated in time (months, weeks, days, hours, etc.), by type of media advertising and its distribution
7. Prepared cost estimates for the promotional activities
8. Determined in advance of advertising effectiveness.

Justification of the majority of these steps must take into account the characteristics of drug advertising and its regulation, set out above. Here we should pay attention to the preparation of budgets for advertising and pre-determine the effectiveness of advertising.

Planning of advertising budget provides for the determination of the total funds required for the purposes of advertising and the volume of their use. Perhaps the use of these methods:

1. Calculation of the advertising budget with the percentage of the previous or prospective sales volume:

$$P = \frac{\text{Advertising accocations}}{\text{Volume of sales}} \times 100.$$

2. Taking into account the practice and the level of advertising expenditures of competing firms and the market share of the firm (the method of parity with its competitors).

3. The method of residual funds in which the firm allocates the remaining amount on advertising funds after distribution of all other marketing purposes.

4. The total amount of the required advertising costs calculated on the basis of estimated costs for each of the scheduled species and forms of advertising (e.g., publication of advertisements in trade publications, advertising on television, etc.).

5. Calculation of the advertising budget by using mathematical models that considers the influence of several factors, such as the stage of product life cycle, market share, the level of demand, etc.

In determining the advertising budget, it is necessary not only to calculate the total amount spent on advertising, but also to distribute them on the functions of advertising (e.g., advertising research, production of advertising), the markets, advertising media and the advertised goods.

Advertising campaigns are constantly compounded, increasing their cost. Due to the continued growth of advertising costs for any advertiser is desirable to maximize the return on money spent. Therefore, is necessary **to determine the effectiveness promotional activities.**

It is necessary to distinguish between economic or commercial advertising effectiveness and efficiency of psychological or communicative impact of individual elements of advertising on the minds of consumers. It should be noted that the psychological impact of advertising is most effective if it is accompanied by the decision to purchase the goods. In turn, from this depends largely on cost-effectiveness of advertising.

Evaluating the effectiveness of advertising is carried out during and after the campaign. For a preliminary evaluation using a comparison of tasks that were set before advertising, and the results obtained, the deviations are determined and analyzed the reasons for these deviations.

Cost-effectiveness of advertising is calculated by determining its effect on the increase in sales. The most accurate, such an effect can be studied only if the growth in sales is just after publicity.

To evaluate the effectiveness of advertising and other promotional activities of pharmaceutical product indicators analyzes:

1. Awareness of the brand (as determined by questionnaire)
2. The level of the single use of the drug
3. Number of multiple-level brand.

To quantify the promotional activities of pharmaceutical product using the conversion factors:

- percentage of consumers who carried out the purchase of a brand identity to the number of consumers who were aware of the brand. Factor of 50% is considered high. If it is lower than the competition, analyze price, image, brand, packaging and quality of the advertising message;

- percentage of the number of customers engaged in multiple purchases brand to the number of customers that have implemented a unit purchase. This ratio indicates the degree of customer satisfaction brand, the perception of their relationship "quality – price."

To analyze the cost effectiveness of advertising can be used and the method of expert evaluations.

8.7. SALES PROMOTION OF PHARMACEUTICAL GOODS

Sales promotion is a combination of techniques used throughout the product life cycle for the three participants in the market (consumer, wholesaler, dealer), for short-term increase in sales and increase the number of new customers. Sales promotion in contrast to other means of marketing communications, you can quickly affect on the supply and demand immediate change consumer behaviour.

The choice depends on the purpose of promoting the object of the upcoming impact, i.e. the target audience. Thus, the *objectives of stimulating consumers* with the highest importance, are increasing the number of customers, and increase the quantity of goods purchased by the same buyer.

To tools of sales promotion for buyers include:

1. Financial
2. The credit
3. Distribution or delivery free samples (sampling)
4. Premium sales, coupons
5. Competitions and lotteries among buyers
6. The use of packaging
7. An expanded sales campaigns of goods
8. Service policy.

The most important tools for promoting markets are financial, in particular, in the world used a large number of discounts: general (simple) complex, "Skonto" bonus, progressive, seasonal, export, special, hidden, confidential, and others (Fig. 8.5).

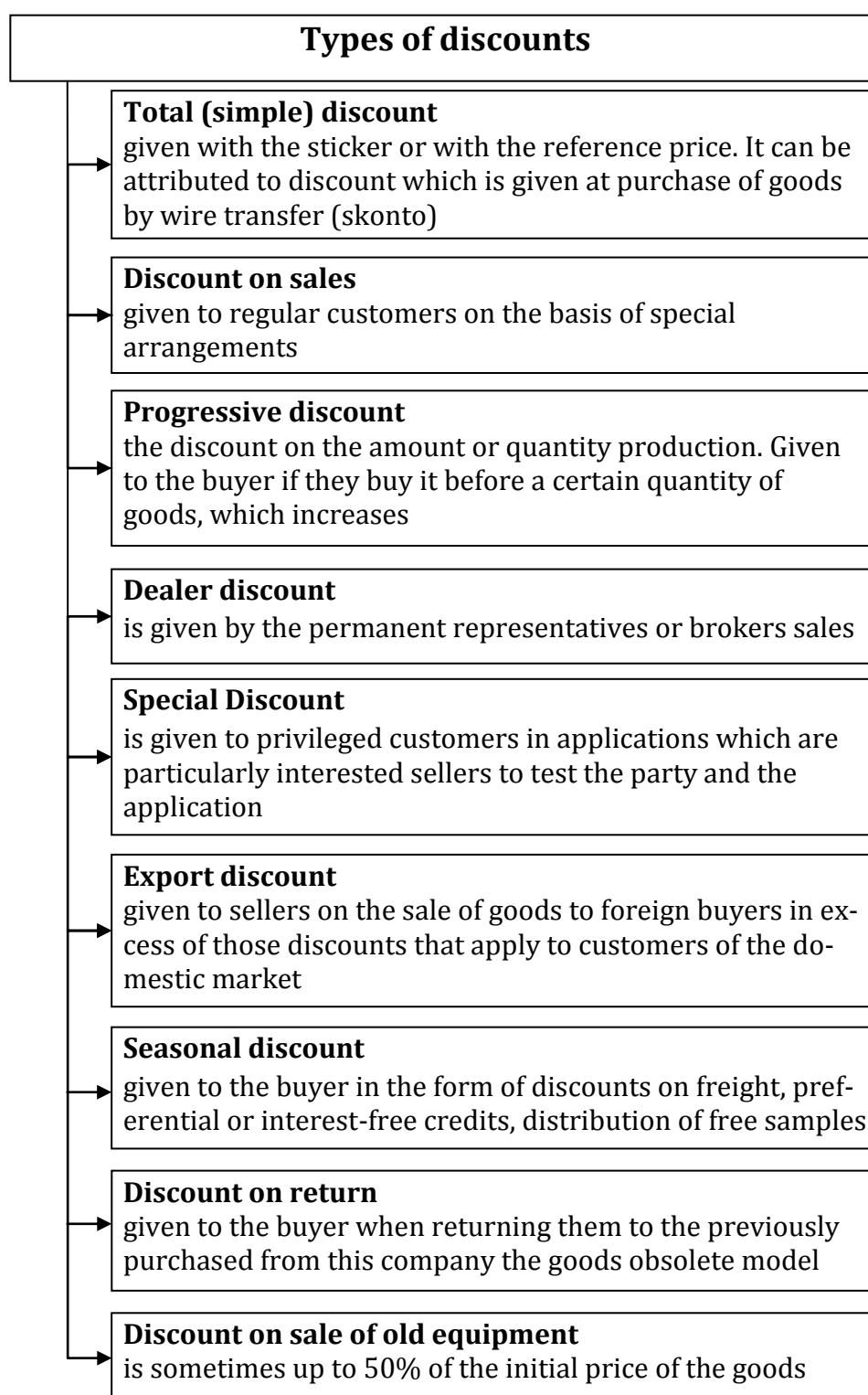


Figure 8.5 – Types of discounts in the sales promotion

Effective means of sales promotion is credit: short, medium and long term. Credit stimulates an increase in sales volume is not only expensive, but cheap goods. Now get a large spread of credit cards for electronic payments, which are actively stimulating sales.

Tool of sales promotion can be a *guarantor of money back* in case of dissatisfaction with the quality of the buyer or the consumer properties of goods.

Increased interest of customers helps the *distribution or sending free samples*. This method can be used to explore the views of consumers on the goods-samples.

Premium sale is set as a gift or a free delivery of additional quantities of the goods if the buyer becomes necessary for this quantity.

Often, to advertisements, or packaging of products are added coupons that give holders the right to purchase goods more cheaply. *Coupons* may also apply through the press or delivered to your home.

Distributions acquire various *competitions and lotteries*, which are held among customers.

Sales promotion contributes to the development of such *packages*, which can be used repeatedly.

Important means of sales promotion campaigns are expanded *sales of goods*, which are often organized in connection with the end of the season. In this case, with skilful marketing approach to the display of goods may be sold not only reduced-price products, but also those that are sold at regular prices.

Service policy provides for the maintenance of sold products and services are providing to the buyer with respect to different service delivery and transportation of goods.

Reseller (wholesale and retail) is a specific object of promoting, performing regulatory functions to promote the product. Aims to promote a product to give a certain image, to make it easily recognizable, to increase the amount of goods entering the retail (pharmacy) network; the greater interest of the intermediary in the active marketing of a particular brand of goods.

Means of stimulating mediators are:

- discount (with the large volume of the consignment for sales volumes and re-acquisition, the purchase of a new product);
- commodity credits, deferred payment;
- award in the form of prizes and competitions for professionals;
- commission payments for long-term effective contacts;
- organization of congresses, education and training of dealers;
- ad on-site sale of goods;
- aid in the design of retail space, the provision of intermediary free shop equipment and tools necessary for the implementation of certain goods, etc.

The objectives of stimulating **sales staff (the seller)** are:

- the transformation of an inert and indifferent to the product in a highly motivated seller enthusiast;
- an increase in sales of goods;
- promoting skills, exchange of experience between them.

To the tools stimulating sales applies: awards; awarding of gifts; additional leave; organization of competitions to award the winners of specialists; conferencing vendors; the allocation of permits for recreation and tourist travel; use of moral incentives (diplomas, congratulations, thanks).

Control and evaluation of sales promotion are carried out using different approaches: a preliminary assessment (including laboratory and market testing); the final assessment. In order to use the pre-assessment test plan, testing ways to encourage (including, for example, the choice of prizes for awarding winners) experiment, during which compares the various options for sales promotion, market testing of the real buyers in specific commercial enterprises or large-scale test program to stimulate sales in a representative region of the national market.

Final evaluation of the results of sales promotion can be carried out on such indicators:

- the number and percentage of purchases as a result of the action;
- the percentage of used coupons;
- the amount of the costs of promotion unit of the commodity;
- profits and profitability of the activities.

8.8. PERSONAL SELLING. NETWORK AND DIRECT MARKETING. BRANDING

Personal selling as an element of marketing communications is the process of creating by the seller favourable conditions for complete the purchase potential buyer. The advantage of this form of sales promotion are the direct sellers' contact with end users, individual work with them, that stimulates the sale of products to suit your individual customers. In addition, personal selling is an important source of market information and a channel of direct and inverse relationships between sellers and buyers.

The main steps in the process of effective selling. Deal with private sales may be varying degrees of complexity may be a few minutes or for several years. In any case, there are all stages of the planned sales process (Fig. 8.6).

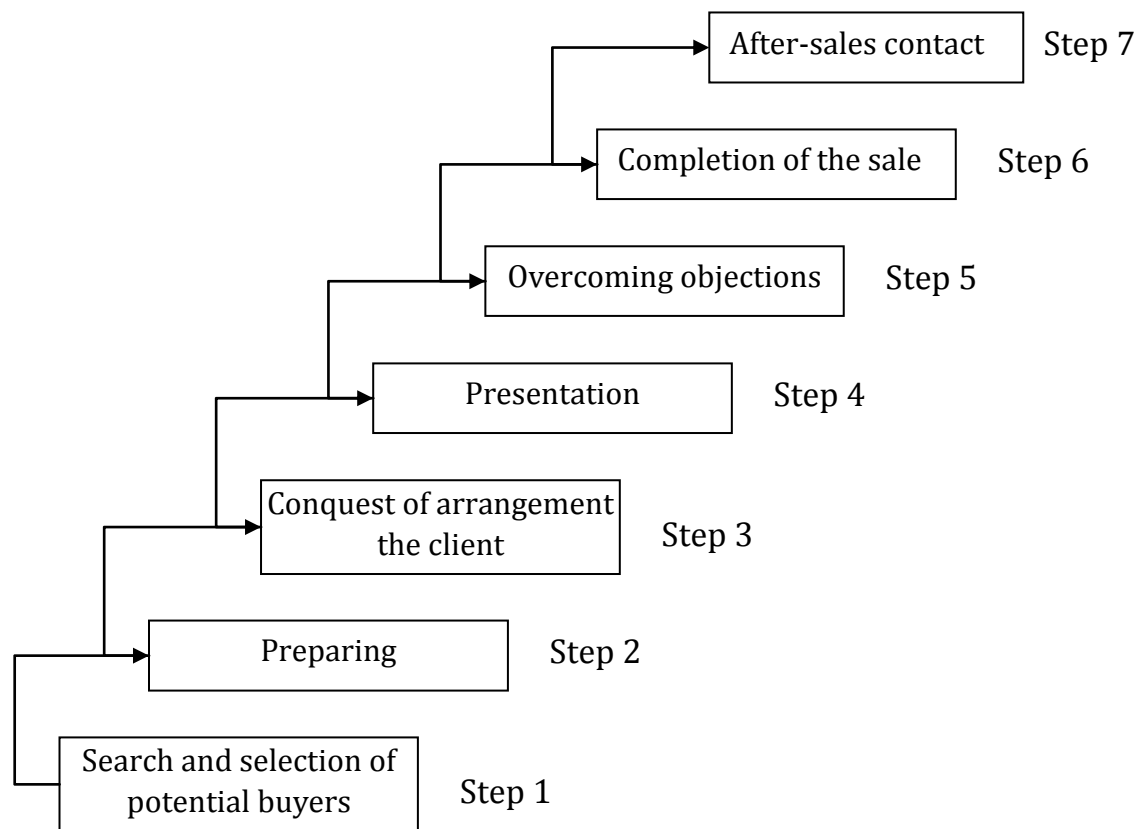


Figure 8.6 – The process of effective sales

Stage of selection of potential buyers of the drug includes the formation of long-term portfolio sales (the list of pharmaceutical wholesalers, pharmacies, which could be potential buyers) and to identify those customers who show a desire to buy a product vendor, the selection of potential customers – managers or specialists who have the authority to transaction.

Preparing begins with collecting information about a possible buyer (including the names of key employees of the firm or wholesale pharmacy, information about their role in decision-making, motivation buying existing suppliers, financial capabilities and etc.). Chosen approach to the client defines the objectives of the visit (for example, to obtain an order or simply to convince the company to become a potential customer). Is also carried out prepare a presentation.

Conquest of arrangement the client to a large extent depends on the first positive impression on the client: appearance, attitude and behaviour of the seller's opening statement. Conducting presentations is the most important stage of personal selling, which aims to establish a personal contact with potential clients and to submit such information about the drugs that would be persuaded to buy or make an order (or get a prescription drug). Used two methods of presentation: a mechanical approach (often used by beginners, involves retelling of memorized information about the properties and advantages of the drug) and the targeted approach (used by professionals: medical sales representative, or identify specific needs and provides a potential buyer for his presentation address).

The task of any presentation is the attention, interest, desire, action (AIDA).

The basic principles of the presentation:

1. Avoid exaggeration, use of superlatives, buzz words
2. Efforts to turn weaknesses into strengths pharmaceutical product
3. Think about the tactics of behaviour in relation to competitors
4. To raise the subjects of interest or concern a client to demonstrate their value
5. Surrounded by his company and its product an aura of recommendations
6. To prove anything that is put forward as an argument
7. Do not abuse the special and technical terms (the client is not convinced that we say and what he understands)
8. Be creative in describing the use of the goods; use the technique of involvement
9. The main part of the presentation should not take more than 17 minutes.

The next step is to overcome personal sales objections. Objections are usually considered as an indication of interest of the client as an opportunity to develop new ideas. There are three approaches to overcoming objections: 1) seller (sales representative) gives a counter-question, 2) responding to customer objections, and 3) said that the issue requires careful consideration and it will be back later.

Stage of completion of the sale is to take a customer buying decisions.

It is important to support after-sales contacts, providing verification of the results of the contract (delivery of the drug, the purpose of his doctors and satisfaction with the mediation firm, pharmacy or physician).

Foreign companies spend more on direct sales than advertising. Personal or direct sales are flexible and adaptable, and costs of its implementation are more effective than advertising costs.

Sales agents, as well as wholesale firms are intermediaries whose work promotes the marketing of products. In contrast to the wholesalers, who purchase the rights on the product (becomes its owner) and then sell it to retailers and consumer organizations, trade agents, the manufacturer will never own the rights on goods they sell. The manufacturer retains these rights for themselves, paying agent fees (a fixed percentage of monetary agreements). One of the most common types of trading agents it is sales representatives.

During this infancy period and initial development of the pharmaceutical market manufacturing companies, foreign representatives of pharmaceutical companies preferred medical representatives, acting as informants' audiences. Their work is aimed at building demand. Recently, in order to increase sales firms use labour of medical (pharmaceutical) representatives from the commercial functions.

The firm, which employs sales representatives, shall have a system of recruitment, selection and training, monitoring system performance and evaluation system of sales representatives or agents.

Among the sales representatives who achieve great success, there are people with different personal qualities: some are open, friendly, aggressive and energetic, while others are shy, polite and not energetic. Because, as a rule, it is difficult to establish a specific list of criteria for selection of sales representatives. However, it is considered that useful for a company sales representative should possess at least two main features: 1) a sense of empathy, that is, the ability to feel the feelings of the client, 2) commitment, a significant need for the implementation of personal selling.

Educational training programs for sales representatives have several objectives:

1. Introduce a sales representative with the company and training him identify with her. We study the history of the company, its tasks, organization, management, financial structure, production capacity, major products and information on the volume of sales

2. Introduce a sales representative with the goods of the company

3. Introducing a sales representative with the peculiarities of customers and competitors

4. Training of sales representative conduct effective sales presentations

5. Introducing a sales representative with the peculiarities of his work and related duties.

Functions of employees who are engaged in personal selling may differ depending on the particular type of product and market. In general, sellers can be divided into three categories in accordance with the terms of duties performed by them: 1) the sellers are "mined" the order; 2) sellers who accept the order; 3) vendors who provide support for the sale.

"Getter" of orders is responsible for attracting new customers and increasing sales to regular customers. Sometimes obtaining of orders referred to as the creative selling especially when the seller has to spend considerable time identifying the needs of consumers and to develop strategies that would induce the client to implement the purchase.

Acceptors of orders rarely use creative methods of sale, and their functions are reduced to a simple order fulfilment, but they play a significant role in the sale.

Staff support the sale is usually not involved in direct selling of goods, but facilitates the efforts of the sale, provides a variety of services. The duties of these workers may include the study of demand and customer needs, providing comprehensive information to potential and existing customers, creating a favourable attitude toward the company and after-sales service. The three most common categories of employees who provide support to sales are sales representatives, technical and sales agents.

Sales representatives of manufacturers disseminate information on new products to existing customers (of course wholesalers and retailers) and convince them to purchase these goods for the implementation of its customers.

Manufacturers of pharmaceutical and medical goods entrusted to its trade (medical) representatives to attend the leaders of wholesalers and pharmacies, physicians and pharmacists (pharmacists). Representatives of the samples allowed them to provide information, answer their questions and trying to persuade doctors to prescribe drugs that produce their businesses.

Important for the formation of the demand for drugs has active cooperation of the medical representatives of pharmaceutical companies with employees of pharmacies and physicians, the organization of scientific and practical workshops and conferences, publication of research results in scientific journals industry, publishing instructional guidelines.

Stimulating factors of distribution are also a means of direct advertising (see the instructions on the use, leaflets, postcards, posters, advertisements in professional journals, exhibitions) and indirect (non-fiction transmit radio and television) advertising activities.

In the area of drug supply an increasing population has self-development, which requires greater attention to the visitors of pharmacies by pharmacists. As a rule, they are not just retailers or sellers of drugs, and consultants. The pharmacist (chemist), gives the patient background information and advises on the choice of drug, conducts advocacy on the impact of self-medication.

Reviewing the activities of pharmacy products wholesalers (intermediaries) and producers should be aware of their importance as a connecting link between the enterprise and consumers (and physicians, and patients) drugs. The pharmacist at this point acts as a marketer, who plays an expert in the study of the demand for drugs, the requirements for their quality, packaging, price, etc., helps to identify market niches, new product development, advertising and implementation of information activities to promote medicines, and sometimes collects and summarizes information on clinical trials of drugs or consumer reaction on the introduction of new medicines.

One of the most dynamic areas of modern business strategy is to network marketing. This is a unique and highly effective approach to sales promotion and sales. **Network marketing** is a combination of the traditional method of direct sales to the distribution of goods over networks. The use of network marketing enables companies to expand their sales in traditional markets and successfully open new markets around the world.

Network marketing is through their channels of high quality products and services that cannot be acquired by traditional methods.

In the pharmaceutical market network marketing is a form of promotion of special supplements, and is used along with the implementation of a pharmaceutical company (institution).

The high quality of service in network marketing provides a high level of culture and training of distributors who deliver the goods directly to consumers. According to the rules of network marketing distributors are able to purchase goods at wholesale prices and receive a discount for repeat sales. A special award provides for attracting new customers through recommendations of products and services and through personal example of their use.

Different firms coordinate the work of their sales representatives with different levels of requirements. As a rule, standard of the desired number of visits, how long they should take to find new customers, effective use of time.

Most sales representatives for work with full dedication and needed some encouragement, and specific incentives. Therefore, the firm's management may affect their morale and productivity by creating a favourable climate in the organization, establishing norms sale, use of positive incentives. Among the latter, there are trade meetings, which enable commercial (medical) representatives communicate with each other, to meet with company management, to feel involved in a large organization. In addition, the company organizes competitions sales, use such incentives as awards, honours, to participate in the profits. Of primary importance is the system of payment of sales personnel. The total amount of payments consists of several elements: the fixed payments, variable payments, reimbursement of expenses and additional payments. Fixed payments provide a steady income sales representative, variable payments are provided in the form of commissions, bonuses, dividends, additional payment a payment for the holidays, help due to illness, retirement, insurance.

Direct marketing is a marketing communications tool that provides immediate interactivity seller or manufacturer of the goods to the ultimate consumer of the product, designed for a specific response or transaction. In this definition the emphasis is on “specific response”, which is typically an order from the buyer. Therefore, direct marketing, sometimes called “*direct marketing of orders*”.

Direct marketing is a form of retailing. It is used for the sale of goods and individuals, and organizations to consumers.

Forms of direct marketing are:

1. Implementation of the goods after the buyer pre-selection in the catalogue
2. Order by mail
3. Trade-based newsletters, advertising inserts, brochures, leaflets, television and radio advertising (direct mail)
4. The sale by telephone
5. Sales through vending machines
6. Internet Marketing
7. Advertising with direct withdrawal (a response on the attached coupon, or on a "call now").

Direct marketing was developed in the 90s of last century as a consequence of moving away from mass marketing. Shopping at home contributed to the high cost of operation of the automobile, traffic congestion, difficulty in parking the car, lack of time for shopping, etc.

Direct marketing is used for making medicines, medical devices, due to the complexities of pharmacy visits because of illness or old age buyer, sometimes due to time constraints. With the use of forms of direct marketing of pharmaceutical products sold range of health-care and other institutions.

Branding is an activity for the formation and implementation of brand and management. Branding is seen as a process of integrated brand, product and business to create long-term positive relationship with the consumer. In the process of branding involves all areas of marketing: market research, target market selection, product development, pricing policies, marketing products, their promotion and planning of marketing activities. Branding is especially important for complex promotion: advertising, sales promotion, personal selling, the formation of public opinion.

When making decisions related to branding, it is necessary to observe the following principles:

- strategic direction and long term;
- a sequence is interconnected with the previous actions of branding;
- the complexity is the use of all of the marketing program for branding;
- a systematic account of the relationship between aspects of the brand;
- a combination of tradition and innovation;
- integrated marketing-oriented as a commodity and the consumer.

The process of forming brand includes the following stages: 1) brand positioning; 2) creating brand strategy; 3) developing the idea of a brand; 4) search for a name brand; 5) testing the brand.

Branding can be applied to various products, including those for pharmaceuticals. The value of branding in the pharmacy due to the fact that drugs are high-tech goods, consumers are generally unable to independently understanding the drug, there are risks and uncertainties in the sale and consumption of drugs.

8.9. PUBLIC RELATIONS

Public relations (PR) are a long-planned effort to create and maintain goodwill and mutual understanding between an organization and the public. There is another definition, according to which the public relations – the art and science of analyzing trends, predicting their consequences, giving advice to management of organizations and programs of action in the interests of organizations and society.

The purpose of public relations is to establish two-way communication for the manifestation of the general ideas and common interests and mutual understanding based on truth, knowledge and full awareness.

The functions of the public relations include:

- establishment of mutual understanding and trust between the organization and society;
- creation of a "positive image" of the organization;
- preserve the reputation of the organization;
- creating a sense of responsibility in your organization and interest in the affairs of the enterprise;
- expanding the sphere of influence of the organization through appropriate promotion and advertising.

Any public relations activities consist of four distinct but interrelated parts:

1. Analysis, research and formulation of the problem.
2. Development program and budget activities.
3. Implementation of the program.
4. The study results, the evaluation and possible revision.

These components are sometimes referred to as system RACE: Research, Action, Communication, Evaluation (assessment).

The *tools of public relations* include:

- communication with the media is the press conferences and briefings, the direction of press releases in the media, interviewed managers and company representatives in the media, preparation of reports with the company on television and radio, etc.;
- a printed edition of the annual reports of large companies about their activities, the publication of corporate (company), magazines, pamphlets;
- the participation of enterprises in conferences, industry congresses, associations, social organizations;
- contacts with the government is lobbying for the interests of the company, invited the heads of government to participate in various activities of the company, in the presentation of new products, etc.;
- Public Relations on the Internet is a WEB-page placement of the company, sending e-mail press releases, participate in online conferences, etc.;
- other means of public relations is a presentation, open house, photo exhibitions, film and photo tools.

Advertising is also an integral part of public relations as it affects the image of the company in the public eye. Moreover, the only commercial product, even a high quality, there is not enough, if the manufacturer conducts an inefficient social policy or incorrectly perceived by the public. It is essential that the company had a sufficient level, and the public know about the benefits that it brings.

That is what the aim of the prestigious or institutional advertising is. There are two types of prestigious advertising: the first has set itself the task to inform the public about the contribution that the firm makes to the welfare of the country, the second type of advertising is limited to providing information on matters of interest to the public, and only remember the name of the company.

An integral part of marketing strategy, which identifies the individual firm, is sponsoring. *Sponsorship* is defined as a type of business, whose main objective is to work for the benefit of both the sponsor and the recipient of its aid.

Public relations are an integral part of management and marketing. At present, management in the business pays considerable attention to public opinion about the organization of its activities. In this regard, experts in public relations managers are perceived as professionals can help in dealing with public opinion. It is important to public relations specialist had access to senior management, since it is only through the company's management is possible to perform the tasks facing the organization in the field of public relations.

Public relations as a component of marketing contributes to solving its problems: sales promotion, product quality improvement, to achieve compliance with the consumer properties of the product requirements of enterprise customers, improves service.

8.10. EXHIBITIONS AND TRADE FAIRS

Participation in trade fairs and exhibitions of products helps companies promote their markets and increase sales. Fairs and exhibitions allow you to:

- see the goods in the nature and effect;
- get answers to questions that are interested, on the consumer properties of the product and its operation;
- read the brochures and other promotional literature;
- engage direct contact that is to perform a significant advertising and marketing of products enabling the function.

In recent times the difference between the exhibitions and fairs are erased. Previously the difference between them was that the exhibition was informative, but contained a fair commercial aspect. At the present time and at exhibitions and fairs concluded contracts. However, certain features are preserved. For example, occur periodically in the fair at the same time, same place.

Mainly predominates exhibitions an increasing number of specialized, thematic exhibitions. There are also universal, multidisciplinary, exhibition of consumer goods.

At exhibitions and trade fairs is a great business and advocacy work:

- negotiations are held;
- distribute promotional items;
- demonstrate advertising films;
- organizes thematic conferences, press conferences, seminars;
- carried out radio and television advertising.

The company when planning participation in exhibitions or fairs, should decide in which exhibitions and fairs it is expedient to take part and why. Main objectives of participation in exhibitions are:

- search for new customers;
- contracts of sale;
- formation (or support) a favourable image of the company (firm);
- the search for new intermediaries;
- demonstration of goods;
- collecting information about competitors and others.

In Ukraine, special exhibitions in the field of medicine and pharmacy held in the capital, and regional levels. The main annual event in the exhibition business, the industry is the international exhibition “Health”. It submitted medical equipment and appliances, laboratory and diagnostic equipment, medicines, Para pharmaceutical products, pharmaceutical engineering, equipment and medicines for stomatology, ophthalmology, optical components, laser and electro-optical technologies, etc., equipment, technology and radiological monitoring techniques, special dietary supplements.

Each year, organized a cycle of international specialized exhibitions medicines “Pharmacology”, focused exclusively on the exhibitors, manufacturers of medicines. Participation in the exhibition provides a pharmaceutical company gradual preparation for it (Fig. 8.7).

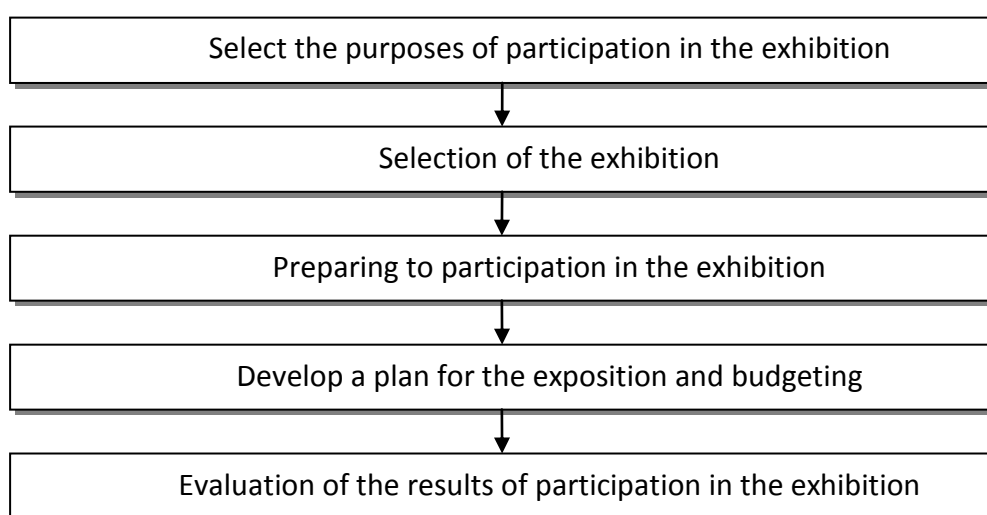


Figure 8.7 –Block diagram of the phase of preparation for participation in the exhibition

The first stage of preparation for the exhibition provides selection of the purposes of participation in the exhibition (support company image in the market, the promotion of new drugs, etc.), assessment, whether it is the one market in which the interested firm.

The second phase includes: selection of the level: the capital or regional; analysis of the time and place of the exhibition, the rating of its organizers and sponsors information.

Preparing to participation in the exhibition is in the selection of personnel, determining the necessary exhibition space, the development plans of commercial work in the exhibition, advertising and other activities during the exhibition, signing contracts for services, exhibitions, etc.

In the selection and training of personnel for the exhibition draws attention to the professional qualifications and personal qualities of workers, in particular the high level of professionalism and ability to communicate and adapt to circumstances, creativity, language training, work experience at trade shows, etc.

As part of preparation for the exhibition allocated the selection of facilities which effect on visitors. Traditional forms of drawing attention to the stands and winning the favour of potential customers and partners are branded bags, pens, calendars, brochures, folders, flyers, etc. Among the original forms of work with the visitors can select the free distribution of OTC drugs of its own production, the holding of the exhibition scientific seminars, production of original promotional brochures and posters.

The next step is to develop a plan for the exposition and budgeting, that is:

1. Identification of the exhibition stand and a plan, choosing an advertising agency for its design. It should be remembered that the exhibition stand is a communicative role in its design to be displayed corporate identity.
2. Prepare a list of partners to be invited to the exhibition on behalf of the company
3. Allocation of responsibilities between the performers.

The major component of the preparation phase is to calculate the estimates, which must take into account these cost items: the cost of renting exhibition space; the cost of manufacturing, assembly and design of the stand; cost of acquisition (lease) of exhibition equipment; the cost of the work with visitors to the exhibition; the cost of training and maintenance personnel; other costs.

In evaluating the results of the participation of pharmaceutical companies (firms) in the exhibition can be used criteria: the objectives of participation in the exhibition; the number of new clients interested in the information of the company; the number of new intermediaries, which have concluded agreements; the volume of orders received in cash; the number of visitors to stand firm (including potential buyers); received information about customers and others.

In general, fairs and exhibitions contribute to the formation of the commodity market, the rationalization of economic relations. The main purpose of trade fairs and exhibitions is in advertising and familiarize potential customers with new products in order to determine the actual supply and demand.

8.11. ADVERTISING ON POINT OF SELLING. MERCHANDISING IN PHARMACIES ENTERPRISES AND INSTITUTIONS

POS (point of selling) is characterized today as an integrated marketing communications at the point of sale which require elements and techniques of advertising, sales promotion, personal selling, public relishing and other means of marketing communication at points of sale of goods.

Integrated marketing communications in the place of sale shall be considered and as part of merchandising.

The main methods and tools of advertising on the point of sales are:

- external – signs, shop windows, light boards, etc.;
- internal – ways and means to promote products that are sold directly on the trading floor (promotional goods calculations, billboards, posters, showroom, shop, etc.).

Determination and characterization of merchandising, there are different approaches. From the standpoint of a merchandising approach is a model to increase sales, aimed at increasing the profits of the pharmaceutical market, offering a basic grouping of rules in four sections. The first section consists of rules that can be summarized as follows: the optimal availability of the necessary range of quality goods. The second section includes rules that promote the efficient and optimal location of the goods. Rules of third division relating to professional providing information about the product and its properties. The fourth section is common to all of the previous three sections, and it describes the use of instruments of control necessary to comply with its rules. Since the principles of variety, information services and consumer marketing surveillance are described in the relevant sections of the textbook, there will be a speech about the merchandising activities primarily as a product placement.

Merchandising is a component of the marketing activities aimed at ensuring the most effective product promotion at the retail level, promotion of activities in the field of trade. Or, merchandising – is marketing in the retail point, consisting of equipment for product placement, design and layout of promotional materials at point of purchase.

Common law defines merchandising favourable conditions of sale: products with a corresponding name of the respective prices must be available in the right place at the appropriate time and appropriate promotional support.

Merchandising helps to increase the so-called spontaneous purchases under the influence of incentive items, including: attracting attention; the emergence of interest; motivation of purchase; expression of willingness to act.

Found that 30% of buyers make a planned purchase, and 60% are unplanned, including impulsive.

The main rule of effective merchandising is that it must be the result of joint efforts of producers, distributors and pharmacies.

Because the pharmacy enterprises (institutions) and their structural units combine the functions of the pharmaceutical trade visitor services, and medicines and other pharmaceutical products have their own specific range, usually in pharmacies using common principles, laws and rules of merchandising with a certain branch of adaptation.

Registration of pharmacy and trading hall. Merchandising begins with the design of the facade pharmacy, its front windows and signage. This takes into account the fact that the flow of pedestrians on the right side of the stronger pavement. Analyze the placing of public transportation stops, parking places, large commercial and cultural centres, offices and businesses.

Visitors should bring to the pharmacy a modern and comfortable interior design, style, layout, lighting sales area, cleanliness, lack of foreign smells and sounds, the concentration of product placement and sales departments. The orientation of the buyer in the sales area must go 20-25 sec., so must have appropriate labels. For example, the "Prescription department", "Department of OTC", "Medicinal Plants", "Beauty", "Help", "Cash", etc..

Registration of pharmacy taking into account the features of merchandising, contributes to the minimal cost of time a visitor for the purchase of drugs, therefore, they becomes regular customer.

In planning and implementing *calculations of pharmaceutical product* take into account the form of implementation: the traditional sale of over the counter or through the open sale of self-service with professional advice. More effective to use merchandising in the second case. It should be borne in mind that most visitors to the pharmacy with the open form of implementation:

- prefer to go straight, without turning to the right or left, but it is preferable considering the goods from left to right, take it to the right;
- when traversing direction of the pharmacy is usually counter-clockwise is right to left;
- stop passing one-third of the space the pharmacy;
- avoid close, dark and poorly lit areas of the shop floor;
- seek to find the necessary drugs and other pharmaceutical products range without going long distances and not turning back.

Based on these provisions can be identified strengths and weaknesses for the location of the goods. "Strong" places are shelves on the right side in the direction of buyer, the intersection of rows of shelves with a good overview of the front, the space near the cash register and freestanding counters with shelves. "Weak" is a place

shelves on the left side in the course of buyers, the corners of the room service and location near the entrance to the pharmacy.

Principles for placing a pharmaceutical product in shop windows and shelves.

The principles calculations of OTC medicines and other pharmaceutical products should be well thought out method of computation must be simple enough to provide review, accessibility, attractiveness and convenience for the customer. As a result of long-term observations of American marketers identified a number of basic principles of product placement that contribute to stimulating purchases and increasing sales:

1. Placing of goods on the shelves should be directly proportional to consumer demand: the goods should occupy as much space as there is demand for it, how it is sold. It is important that the demand should be measured in monetary terms, but not in the number of packages sold.

2. Product placement near the top-selling type of products increases the volume of its sales, since the goods immediately attracted a well-known view of the buyer.

3. The optimum is to place the goods on the shelves at the level of the waist (women of average height) to the eye (120-170 cm). This level is most convenient to read. Research has established that the movement of goods from the bottom shelf at the level of the waist increases the volume of its sales by more than 40%. If you move it from eye level to the bottom shelf, the volume of sales will decreased by 80%.

4. Product placement on a shelf near the label increases the volume of its sales.

5. Recommended that the principle of asymmetry is not to put the goods on display accurately and precisely symmetrical. Showcase, where goods are ordered, gives the impression of a successful sales associate with a lively trade.

This principle is acceptable for a small pharmacy where the rules must be respected pharmaceutical order, but the computation parapharmaceutical products can be used.

6. The principle of "left-right": the goods are most packaging must be placed on the right, as a man looks at everything from left to right.

Provided are a number of rules and recommendations merchandising:

1. Overly large windows with drugs adversely affect the buyer's impulse to buy something

2. Spontaneously purchased products should be set in locations where the flux density of customers, the highest

3. A variety of packages (dosage form, dosage) promotes effective sales:

- 2 variants package increase turnover by 15%;
- 3 variants – up to 30%;
- 4 variants – up to 60%;
- 5 variants – more than 100%.

4. Due to the fact that the range of drugs is very broad and restricted the ability to represent them in the shop windows and shelves, consumers should take into account the contingent and its price category (low-price, mainstream or high-price). Classically, it is recommended to focus on the mainstream group of customers with high-price goods interspersed

5. The buyer should be easy to find the product in a particular place. In this regard, the pharmacy priority groups (categories) of OTC medicines (antipyretic, Cough, pain relievers, vitamins, etc.) should be laid so as to constantly remind myself

6. For quick and easy orientation of the buyer of one category of drugs should be placed horizontally on one line, symmetrically with respect to each other

7. Pharmacy must respond to advertising campaigns and make appropriate changes in the calculations of the widely advertised drug is in high demand

8. The price must be indicated on each package of the drug exposed or parapharmaceuticals

9. Must comply with the rule of "castle walls": the best selling drugs of one company of the manufacturer shall be in the form of the castle walls at the edges (as if they have same type used and combined dosage forms)

10. Appropriate to respect the rules of corporate power. For this purpose, can be used by additional features such as a mobile shelving or stand, display, and other structures that allow the manufacturer to submit their products

11. It is recommended usually overlap: lead sales medicinal products should occupy an area two times larger than the other positions

12. Must be complied with the order of the brands

13. The most profitable and sold drugs to be placed on a priority

14. All items posted must be provided with at least three day supply.

At increasing in sales of OTC drugs affect the seasonality of their calculations on the shop windows and shelves. Studies conducted in France showed that this contributes to the realization on 20%. Thus, the fall in the computation shall be given preference for these groups of drugs: anthelmintic, antiparasitic, Cough, antibacterial for the treatment of respiratory diseases, the funds for use in ophthalmology, otolaryngology, anti-cold. In winter, the windows dominate Cough, vitamins and minerals, an antiviral, antibacterial, to treat respiratory, anti-cold. In the spring of preferred tools for weight loss, tonic, hypotensive, dermatoprotektory, Cough, antibacterial, antiparasitic, for the treatment of respiratory, allergy, anti-cold, vitamins and minerals. In the summer a prominent place in the calculations must take antidiarrheal, antifungal, anti-allergic.

Placement of promotional materials in the pharmacy is one of the methods of merchandising. The main purpose of placing this effect on the buyer, therefore, should be provided with access available in the drugstore advertising products and ordered its storage performance. It is considered unacceptable presence of the table on the trading floor with booklets and leaflets, as it is difficult to maintain a permanent procedure. More appropriate to lay a pile of leaflets about the desktop or a pharmacist in the course of the queue, if there is a possibility.

Other promotional materials: posters, flags, stripes to attract attention, stands with information about a product, etc. are placed in traditional locations and additional calculations of the goods. However, the specific solution calculations of promotional materials on the trading floor pharmacy depends on the spatial features pharmacies, the intensity of cooperation with enterprises-producers, the frequency of visits by medical representatives, etc.

Questions for out-of-class work

1. *What is sales promotion?*
2. *What purpose has the promotion policy?*
3. *What are the elements of marketing communications?*
4. *Which involves the management of the promotion?*
5. *What are the main stages of the planning of marketing communications?*
6. *What are the aims and objectives of marketing communications pharmaceutical companies?*
7. *What are the characteristics of the target audience of pharmaceutical manufacturing and wholesale and retail businesses?*
8. *What are the recommendations to the choice of form and structure of informational messages?*
9. *What areas of work and means of marketing communication is used for influence on the target audience at the promotion of drugs?*
10. *What are the objectives of the demand for drugs?*
11. *What approaches are used when planning the budget for marketing communications?*
12. *What involves the organization of marketing communications?*
13. *Which factors affect on the structure and nature of marketing communications?*
14. *What are the difference existing strategies of product promotion?*
15. *What tools of marketing communications is preferred at different stages of life cycle product?*
16. *What is the value of advertising?*
17. *What are the main areas of advertising?*
18. *What is the intra-firm advertising?*
19. *What tools are used prestigious advertising?*
20. *What are the objectives of commodity advertising?*
21. *What is the difference between direct and indirect advertising?*
22. *What types of advertising are used depending on the stage of product life cycle?*
23. *What is unfair advertising?*
24. *How classified advertising?*
25. *Describe the components of the process of advertising.*
26. *What is media advertising?*
27. *What criteria should be considered when selecting channels of distribution of advertising messages?*
28. *What are the characteristics of drug advertising?*

29. *What are the objectives of advertising in the pharmacy?*
30. *What means of advertising of medicines intended for physicians?*
31. *What is the advertising of OTC drugs?*
32. *What is the specific of the use of print media and advertising – brochures, pamphlets, abstracts?*
33. *What is branding?*
34. *What is the value of a trademark?*
35. *What are the main ethical criteria for medicinal drug promotion, WHO?*
36. *What are the requirements of WHO representatives to medical companies?*
37. *What are the requirements for the advertising of medicines to the public and health professionals are presented in the EU?*
38. *What legislation is regulated advertising of medicines in Ukraine?*
39. *What is the procedure for examination of drug advertising is set in the Ukraine?*
40. *What are the limits of drug advertising in Ukraine?*
41. *List the stages of planning advertising campaign medicines.*
42. *What planning techniques used by companies advertising budget?*
43. *How is the effectiveness of advertising campaigns?*
44. *List the sales promotion tools for consumers of pharmaceutical products.*
45. *What means of stimulating mediators are used?*
46. *What is referred to means of stimulating sales?*
47. *What is the advantage of personal selling?*
48. *Describe the stages of personal selling.*
49. *What are the principles of the presentation?*
50. *How organize the work of sales representatives?*
51. *What is Network Marketing?*
52. *Which forms of direct marketing are used?*
53. *What is branding? What is included in the process of branding?*
54. *Expand the concept of public relations.*
55. *Describe the methods of public relations.*
56. *Describe the exhibition of pharmaceutical products as a means of advertising.*
57. *What distinguishes the POS?*
58. *How and what is the merchandising is its significance?*
59. *What are the computations of pharmaceutical product?*
60. *What are the principles of the placement of pharmaceutical goods in shop windows and on the shelves?*

Tests

1. Align the main and synthetic elements of the complex marketing communications:

- A. Main
- B. Synthetic
- C. Advertising
- D. Direct marketing
- E. Advertising at point of sale
- F. Exhibitions, fairs
- G. Means of sales promotion
- H. Branding
- I. Public relations (PR)
- J. The trade mark, trade dress, packaging
- K. Direct or personal selling
- L. Service policy
- M. Work with the media information's

2. Pharmaceutical Company to create their own positive image and its product is involved in regional programs of Health, environmental protection, etc. Which element of marketing communications is the activity?

- A. Advertising
- B. Work with private information onto the media
- C. Public relations (PR)
- D. Direct marketing

3. Medical representative of a pharmaceutical company committed group of physicians health facilities, which begin the appointment of a new drug based on own experience, a thorough analysis of promotional materials, the results of using this drug counterparts. How is this target audience?

- A. Innovators
- B. Followers
- C. The earliest imitators
- D. Later imitators
- E. The conservatives

4. Pharmaceutical company with formation of advertising appeal focuses on the quality, safety, convenience and price of the drug. What are the motives of consumer behaviour influences (oriented) company?

- A. Moral
- B. Emotional
- C. Reasonable

5. The pharmaceutical company has launched a new drug, unique on the market yet. What type of advertising should be used at this stage of life cycle?

- A. Monitory
- B. Informative
- C. Reminding
- D. Supports

6. That does not apply to the directions of the functions of advertising of medicinal products?

- A. Provision of information most of the existing market
- B. Promoting the competitiveness of the medicinal product
- C. Expanding the scope of a particular drug
- D. Expanding the range of drugs
- E. The expansion of the market

7. Advertising as a means to influence on consumer behaviour in the roles:

- A. Cultural
- B. Marketing
- C. Communicative
- D. Political
- E. Economic
- F. Social

8. In order to improve the communicative impact of advertising as a process should include the components:

- A. Advertisers
- B. Advertising agencies
- C. A means of advertising
- D. Intermediaries
- E. Consumers

9. Pharmaceutical company in order to recognizing the products developed its own corporate identity. Which of the elements of corporate identity is important?

- A. The corporate colour
- B. The logo
- C. The signature constants
- D. The trademark
- E. The signature font set

10. Which of the above combinations meets the objectives of the presentation?

- A. Knowledge – favour – preference – conviction – action
- B. Attention – interest – desire – action
- C. Purpose – the target audience – the desired response – treatment choice – a choice source of information

11. The pharmaceutical company that manufactures, except for medicines, and even cosmetic products, uses for its active promotion direct marketing. Complete the list of forms of direct marketing:

- A. Implementation of the catalogue
- B. An order by mail
- C. Direct mail
- D. ...
- E. ...
- F. ...
- G. Advertising direct review

12. Choose from the above definitions, one that captures the essence of the concept of “public relations”:

- A. Short-term incentive measures to encourage the purchase of goods or services
- B. Any paid form of non-personal presentation and promotion of ideas, goods or services on behalf of the well-known sponsor
- C. Long-term planning efforts to create and maintain goodwill and mutual understanding between an organization and the public

13. The pharmaceutical company, planning to participate in a regional exhibition provides selection of the appropriate professional qualifications of staff, developing business plans, advertising and contract work. Which stage of the data corresponds to the event?

- A. Choice of the purposes of participation in the exhibition
- B. Selection of the exhibition
- C. Preparation for participation in the exhibition
- D. Develop a plan for the exposition and budgeting
- E. The evaluation of participation in the exhibition

14. Which of these expressions corresponds to the notion of “merchandising”?

- A Direct marketing
- B. Marketing in the retail point
- C. Personal selling

15. Which of these statements contradict the principles of merchandising?

- A. The asymmetric arrangement of goods in shop windows
- B. In accordance with the principle of “left-right” products to a greater packing should be placed on the left
- C. The placement of goods on the shelves should be directly proportional to the demand
- D. Is optimal placement of goods in the windows at 120-170 cm from the floor

CHAPTER 9

MARKETING CONTROL

This chapter describes how to control the marketing as a component of marketing management, which allows determining the effectiveness of marketing activities and their impact on the overall operations of the enterprise.

Control as one of the functions of management, completing the process of marketing activities and determine how effective work the firm. First of all this is a form purposeful action on staff of the company, systematic monitoring of his activities, a comparison of the actual state of the established norms.

Control (audit) marketing is a deep the analytical work as the result of which the management of company fined new methods of marketing management, tools, and mechanisms of action or adaptation to the factors of internal and external environment. Control of marketing includes evaluation of the implementation of marketing strategies and implementing corrective actions to achieve their goals.

The basic parameters of control are volume sales, profit margins and costs, consumer response on new products and services, compliance with the planned and actual results of industrial and commercial activities. Marketing control allows the company to determine the effectiveness of marketing opportunities. Controlling must meet the requirements of adequacy and timeliness. The components of the marketing system of control shown on Fig. 9.1.

As part of the enterprise marketing management controls should be carried out in such directions:

1. Compliance with the planned indicators of actual results.
2. Control of profitability production and commercial enterprises activities.
3. Strategic control and auditing of marketing.

Analysis of sales based on quantitative indicators will assess the feasibility of using a marketing strategy. Main data sources are accounts that contain information about the consumer, the number of ordered goods, paid the price, terms of purchase, region, date of purchase, conditions of transportation.

3. The fragmentation of marketing costs on selected products, methods and forms of implementation, market segments, distribution channels, customers, etc.

Functions for control the efficiency (profitability) of operations are usually carried out internal revision service of company, which is often called internal audit. It is important for the company is to control the behaviour of consumers, in particular, to establish the level of satisfaction of customer needs, monitoring the behaviour of competitors, the extent of their impact on the state of the enterprise market.

At present, these and other indicators, which are used to control marketing, described as **non-economic**. Their list includes:

- number of new customers;
- lost customers;
- number of dissatisfied customers;
- quality products compared to competitors;
- competitive products;
- commitment of the consumer to the brand;
- consumer information about the brand;
- company's image.

Strategic control and auditing of marketing provide a regular, periodic or episodic inspection of marketing activities firm. Strategic control (marketing audit and strategic control of the marketing system) includes an assessment of the main tasks, strategies, marketing activities, marketing organization in order to identify problems and positive outlook for the supply and the scientific and technical activities of the company and recommendations on the content of future plans to improve it.

The main purpose of the marketing audit is to formulate questions that should be made for future planning activities and to identify weaknesses, shortcomings. This study provides firm marketing objectives, strategies, methods, implementation and management. **Revision of marketing (marketing audit)** is a complex, systematic and regular study of marketing environment the firm, its tasks strategies and operational and commercial activities in order to identify emerging problems and future opportunities for the development of recommendations for improving the marketing of the company. The components of revision or audit of marketing are shown in Fig. 9.2.

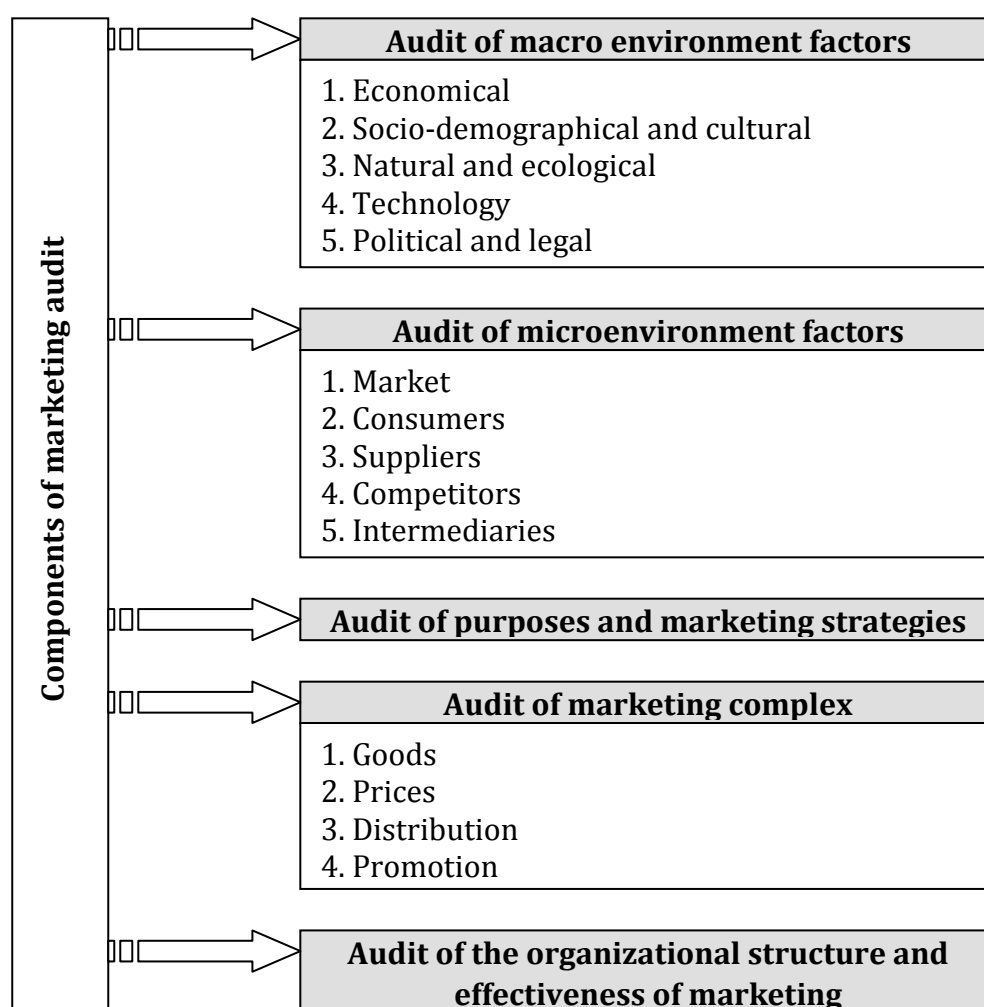


Figure 9.2 – Components of marketing audit

Audit of macro environment aims to get answers to questions about current trends, threats for economic entities, the possibilities to reduce the negative impact on enterprises, etc.

Suitable for pharmaceutical companies suitable research and analysis of economic factors: the expected growth of prices, negative changes in the economy that may affect on development of the pharmaceutical market and demand, economic changes in foreign countries in the markets where the company works, etc.

On the production of medicines significantly influenced the technological factors: advances in technology and changes in production costs as a consequence, the impact of new technologies on the demand for medications; a radical change of pharmaceutical technology. Of particular importance is the tracking and analysis of political and legal factors affecting on the pharmaceutical business, processes, sales advertising and other marketing communications.

Audit of microenvironment studies the actual market, customers, suppliers, competitors, intermediaries.

Subjects of the pharmaceutical market requires knowledge and analyze trends distribution of medicinal products, the market capacity in the monetary and physical terms, market saturation, average per capita consumption of medicines, seasonality of sales, the availability of analogy and the appearance of new products, etc.

During analysis of consumer of pharmaceutical companies or pharmacies important to obtain answers to questions:

1. Who is a consumer of medications, who influence on purchase of medications
2. What are the main indications for using of medicines of this company
3. What is the frequency, periodicity, seasonality acquisition certain medicines
4. If all possible market segments covered by the enterprise
5. Whether there is a market niche for the products of the company
6. What elements of marketing (price, advertising, service, image) is positively valued by the consumer.

Collaboration with suppliers has a significant impact on the operation of enterprises. Important security of supply, quality of raw materials, finished products, the prospects for stable cooperation.

Unquestionably the value of competitor analysis is an analysis of their positions, benefits, market share, strategy and tactics of behaviour, trademark image and financial resources, the possible of penetration on market of other competitors, etc.

As part of the analysis intermediaries contains questions: what proportion of each sales channel; which trends of changes in each of them; what are the characteristics of the range of intermediaries; which segments of consumers serves a specific sales channel; which trade margins in each channel; which marketing services are provided by brokers etc.

Audit of purposes and strategies allows to determine how clearly defined the mission of companies, general and marketing purposes, their compliance with resources and opportunities, adequacy of marketing budget, the effectiveness of commodity marketing, pricing, marketing and communication policy.

Audit of marketing complex provides an analysis of products, prices, distribution and promotion.

For pharmaceutical companies are important trends in sales of pharmaceutical products, their profitability, the stages of life cycle, consumer preferences, the development of new medicines, the comparison with competitive products, performance of product assortment, level of quality, packing efficiency the conformity of service with requirements of the consumer market, etc.

Analyzed trends of average prices, the impact of prices on sales volumes, the ratio of prices given companies with prices of competitors, the corresponding system of discounts and reduced prices, etc.

Producers of pharmaceutical products are studying a network of wholesalers and pharmaceutical companies, the volume of their realization, distribution channels and their level of work, are projected the possible changes in the structure of intermediaries, analyzes the efficiency of ways to motivate participants in channels.

Analyzed and the efficiency of complex of marketing communications. Are established purpose and intensity of advertising, structure of spending on it, the impact of advertising on sales and market share, the effectiveness of sales promotion, compliance of promotion costs. Considerable attention is paid to the analysis of the effectiveness of trade (medical) representatives. The main task of the medical representative is to implement of the sales plan, but the main parameter of evaluation of the medical representative on the promotion of prescription medications is a fact and the frequency of visits to doctors, and the resulting measure is the appointment or non appointment by a physician of the medications.

Audit of marketing department organizational structure at the enterprise allows determining its optimality, taking into account peculiarities of the goods, consumer segments and activities at different regions. Estimated terms of authority of the head of marketing department, efficiency of interaction it's – with other departments of companies, ways to motivate staff of marketing, their qualification part etc.

The process of marketing revision is carried out in several stages:

- determined the group of experts which will conduct audits;
- set the time and frequency of audits;
- determine the direction of the audit;
- studied the sources of information, fills relevant documents;
- issued material to the top management.

To implement a marketing control the company themselves can conduct internal audits, or invite independent experts. In the first case, it's provides the speed, efficiency, low cost of the audit, the possibility of using any kind of information, even confidential. However, our co-workers, who are accustomed to the inside of his environment, cannot pay attention to some shortcomings in marketing efforts.

Attracting professional staff consultative organizations provide the deeper study of company marketing activities and development of recommendations for its improvement.

In the management of the supply activities of the company play significant role public relations services. The objectives of this service are the influence of variables on the environmental factors: the behaviour of buyers (consumers) action of commercial brokers, sales staff, branch manag-

ers, departments and representative offices in the country and abroad. Communicative system the company is responsible for the accuracy of the wording and uniqueness of the interpretation of management information by those to whom it is intended.

The organization of marketing control through the feedback is based on the implementation of information and communication functions, shown in Fig. 9.3.

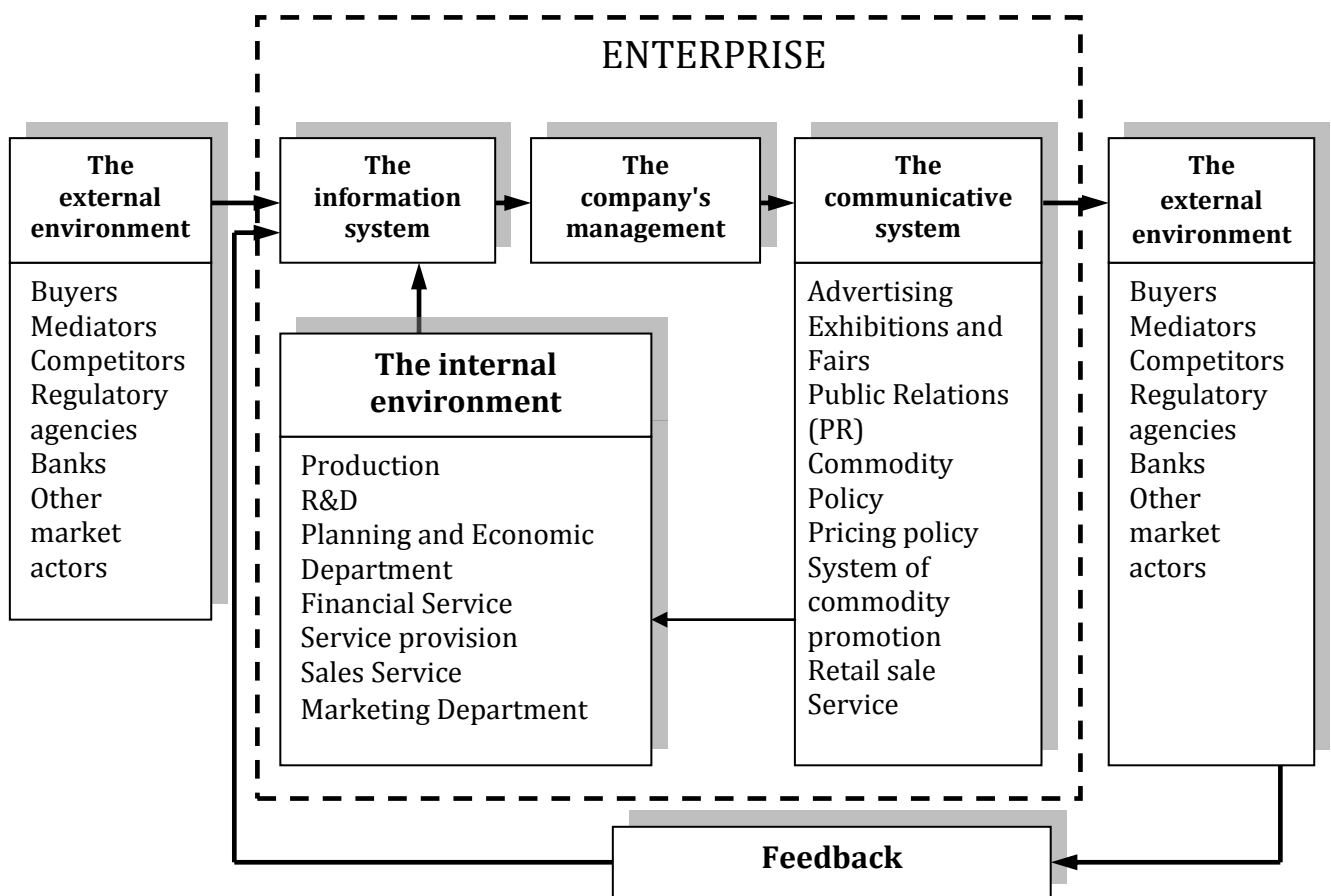


Figure 9.3 – The relationship of information and communication systems in the marketing of the company

Feedback control system in the marketing makes it possible to determine the success or failure of the advertising campaign, pricing and product policy and other activities to generate demand and sales promotion. Objective criteria for this activity are the increase or decrease in sales and profits, expansion or contraction commodity markets, etc. The relationship between information and communication systems should provide the company's management by objective data on the effectiveness of the cost of carrying out various marketing activities.

The control in the management system is closely related to accounting and reporting: on the basis of credentials is not only the outcome, but also current control. The data used for monitoring the process of situational management.

Questions for out-of-class work

1. What significance has marketing system of control at the enterprise?
2. What are the main targets of the marketing control?
3. What purposes set itself the marketing control?
4. What is the monitoring of compliance with the planned targets actual-parameter results of industrial and commercial activities of an enterprise?
5. Which directions and stages are distinguished in the control of profitability and analysis of marketing costs?
6. Which indicators for monitoring marketing referred to as non-economic?
7. What is the purpose of strategic control and auditing of marketing?
8. Which areas of marketing audit is isolated?
9. What is the audit of the macro?
10. Which features of micro-audit of pharmaceutical manufacturing and wholesale businesses?
11. What information is most important in the analysis of consumer medication?
12. What is the significance has audit of objectives and business strategy?
13. What involves an audit of marketing complex?
14. What tasks of audit of the organizational structure of marketing department at the enterprise?
15. What are the stages of the marketing audit (audit).
16. What is the difference in the internal and external audit of marketing activity of the company?

Tests

1. The top and middle level management of the company monitors the variations of indicators sales volumes of products and services, income and profits and profitability. Which marketing control direction corresponds to this work?

- A. Compliance with the planned indicators to actual results
- B. Monitoring the profitability of industrial and commercial activity of the enterprise
- C. Strategic control and revision of marketing

2. Monitoring and analysis of the profitability of the enterprise marketing costs is carried out in three stages:

- A. Analysis of the production program of the enterprise
- B. Examination of financial statements
- C. The analysis of capacities of the enterprise
- D. Allocation of costs of the functions of marketing
- E. Fragmentation of marketing costs on selected products, market segments, distribution channels, consumers

3. Which of the following indicators along which carry out of marketing control, related to non-economic?

- A. The number of new customers
- B. The number of lost customers
- C. The competitiveness of products
- D. The market share
- E. The company's image
- F. Human resources of the enterprise
- G. Commitment of the consumer to the trade mark
- H. The informed of consumers about a trade mark

4. Analysis of which factors provide an audit of macro enterprise?

- A. Manufacturing
- B. Economic
- C. Motivation of consumers
- D. Socio-demographic and cultural
- E. Natural and ecological
- F. Market
- G. Technology
- H. Political and legal

5. Audit of microenvironment of enterprise is aimed at studying and analyzing:

- A. Goods
- B. The market
- C. Consumers
- D. Marketing systems
- E. Suppliers
- F. Competitors
- G. Intermediaries
- H. Image of the enterprise

6. At the enterprise under the marketing revision investigated subject products, prices, goods distribution system, promotion system, or marketing communications. What kind of audit meets this direction of research?

- A. An audit of macroenvironment factors
- B. An audit of microenvironment factors
- C. An audit of purposes and marketing strategies
- D. An audit of marketing complex
- E. An audit of the organizational structure and effectiveness of marketing

7. If during the marketing revision assessed terms of reference of the head of marketing department, the effectiveness of the interaction of marketing department with other departments, methods of motivate employees, their qualification structure, this audit of:

- A. Macroenvironment
- B. Microenvironment
- C. Purposes and marketing strategies
- D. Marketing complex
- E. The organizational structure and effectiveness of marketing

8. That does not apply to the stages of the process marketing revision?

- A. Determination of the composition of the audit team
- B. Development of the budget marketing revision
- C. Define marketing revision
- D. Timing and frequency of audits
- E. The study of information sources
- F. Preparation of material for top management
- G. Assessment of the effectiveness of marketing revision

CHAPTER 10

THE INTERNATIONAL MARKETING

Chapter is devoted the international marketing where characterized the subject of international marketing, international marketing environment, international firms and their organizational forms. Considerable attention is paid to developing an international marketing strategy during the output of national, including pharmaceuticals, companies in foreign markets.

10.1. ESSENCE AND SPECIFICITY OF INTERNATIONAL MARKETING

Under development of international economic relations through inter-national trade; the export of capital; scientific and industrial cooperation increases the importance of international marketing. **International marketing** usually defined as the marketing of goods and services provided by firms, the scope of which extends to foreign countries.

Basis for the formation of international marketing are important changes in the development of productive forces and production relations in the second half of the twentieth century. They are:

1. Internationalization of economic activity, transnationalization of the largest companies
2. Impact of scientific and technological progress on economic processes
3. Significant changes in properties of goods which are supplied to foreign markets, the intense movement of "know-how", licensing, scientific developments
4. Reduce the life cycle of many products, while increasing customer demands for innovation, quality, design and other parameters of goods
5. Increased competition in world markets, etc.

International marketing activities are is an effective way of improving the quality and assortment of goods and services provided to foreign markets; extending the boundaries of sales, increase profits from sale and establishing after-sales service, etc. The implementation of marketing activi-

ties in foreign markets improves the competitive position of firms. At the same time disregard of international marketing may lead to negative consequences, such as the loss in competitive struggle with foreign companies on the domestic market.

International marketing is considered as a basis for planning, aimed at creating conditions for maximum use of resources and production output with the specified parameters on an international scale.

Main functions of international marketing are presented in Fig. 10.1. They are:

1. Analytical which includes:
 - analyses of the causes which impel domestic companies carry out international marketing;
 - environmental analysis of international marketing;
 - analysis of the factors that influence on the choice of marketing strategy in international business;
2. Production which provides: organization of production of goods that best meets the needs of the external market in comparison with goods-analogues of other manufacturers.
3. Marketing aimed at:
 - sales promotion by international marketing channels;
 - realization of marketing communication at international markets;
4. Research, which assumes:
 - study factors that influence on methods of penetrating on foreign markets;
 - study and evaluation of strategies for entering on foreign markets;
 - study and evaluation of the possible level of standardization or adaptation of the strategic decisions to the external market conditions;
5. Management, which includes:
 - control the activity of enterprises (firms) at international market;
 - development of concept internationalization of the company (firm);
6. Control is the control of marketing activities in international markets.

It should be noted that the fundamental position of marketing is setting marketing tasks, selection of target markets; marketing positioning; formation of marketing mix and implementation of marketing controls are fully maintained and used during the output of subject of economic activity at the international level.

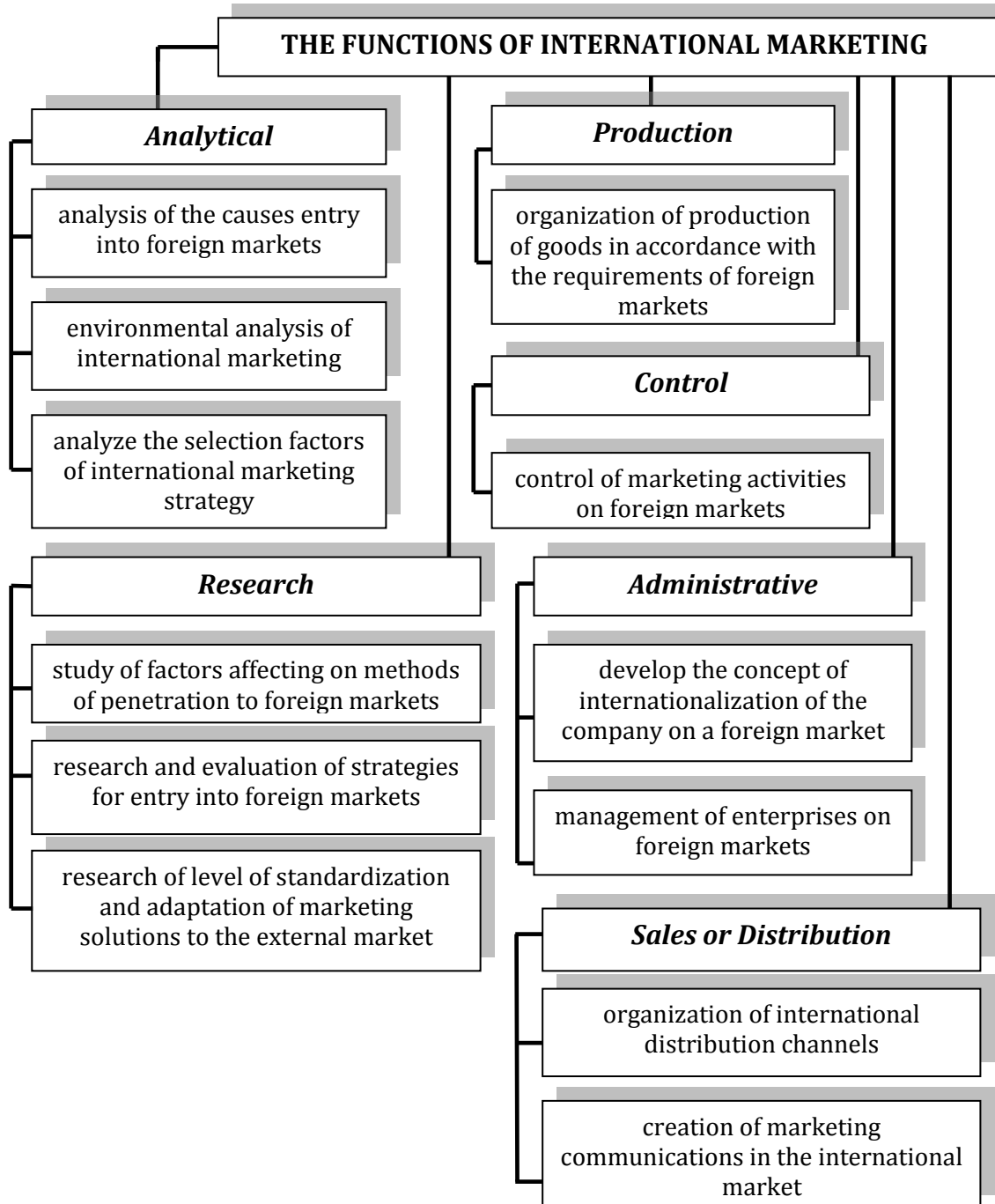


Figure 10.1 – The main functions of international marketing and content

Marketing activities on the foreign market in the pharmaceutical field is aimed at solving the following objectives:

- collection, analysis of qualitative, reliable, timely, primary and secondary information about external pharmaceutical markets, their structure and dynamics of demand and consumer preferences;
- development and commercial production "goods of market innovation";
- compliance with the terms of sales, which are accepted in countries of export, as well as monitoring their implementation in order to effectively impact on consumer demand and the market as a whole;
- creative and flexible use of various marketing procedures.

The specialty of international marketing. To be successful on foreign markets necessary to make greater efforts than required on the domestic market. This situation is explained by the special requirements of foreign markets for goods, services, advertising, which in turn is associated with the specific demands of individual markets and the level of competition.

Study of the foreign markets is more complicated than the study of the internal market. Now the global market consists from 234 markets, each of which has common features and specific characteristics. Therefore, the need for marketing information about the chosen market is much higher but at the same time and more complications in obtaining and interpreting.

In addition, during the entering on foreign markets is necessary to analyze some aspects that are not specific to the domestic market, for example, customs regulations, currency exchange rates, insurance, international operations, etc.

Requirements of potential foreign buyers determine the specificity of the marketing policy directions of the company. Thus, the fundamental importance is the development and commercial production of "goods of market innovation." In this sales policy compliance with the conditions of sales, for the country of export, the price is determining the level of prices, currency rates, etc.

A characteristic feature of international marketing is its focus on the firm's investment activities taking into account interests of consumers in foreign markets.

International marketing involves elaboration of the following stages:

1. Preliminary market research of countries that can cause interest
2. Decision on expediency of the entering on the foreign market
3. Selection of a specific target market of the country
4. Develop an exit strategy of firm in the market
5. Selecting methods and forms of access to foreign markets
6. Definition of the offer in the section of goods, services and prices, adjusted to conjuncture of market conditions
7. The development of commodity, pricing, sales and communication policy of the firm
8. Organization of international marketing services
9. Implementation of international marketing strategy and monitoring its results.

10.2. ENVIRONMENT OF INTERNATIONAL MARKETING

Exit of firm on the foreign market is impossible without a preliminary study of the international marketing environment, the totality factors on which will depend on the effective functioning of the firm in a foreign country. The most significant in the analysis of the international environment is the study of political, legal, economic, social and cultural conditions and circumstances and the associated risks.

Analysis of the **political environment** includes the study of the political aspects as the political system and political stability, level of influence of the national government on the economic processes, political and economic priorities, legislation, etc.

During deciding about the possibility of commercial agreements with foreign country the most important is an assessment of *trade and political conditions*:

1. The existence and contents of intergovernmental trade agreements, the system of state regulation of foreign trade, namely, laws and decrees which prohibit or restrict the import of certain goods in this country, the need and procedures for obtaining import and export licenses, etc.
2. The level of customs duties of goods, the method calculating the fee, internal customs duties and taxes, the presence in exporting country of "free zones" or protectionist policies
3. The country's participation in economic groupings and their impact on the import regime a particular product
4. Currency legislation of the country, namely: the order of receipt by the importer of foreign currency, control on transfer of company's profits, convertibility of currency, credit treatment
5. The restrictions and requirements of sanitary-veterinary order, etc.

During the planning of entry into foreign markets pharmaceutical company must study the existing trade restrictions. Trade restrictions are divided into two groups it is proactive and behavioural (Fig. 10.2). Proactive limitations include the tariff and non-tariff trade barriers.

The *customs tariff* is a systematic list of charges, which the Government imposes some medications imported into or exported from country. They are using for increase the revenues of the country or for the protection domestic producers.

Non-tariff trade barrier is limitations which discriminate proposals from a particular country in the form of standards. These include tariffs, quotas, embargoes, currency controls.

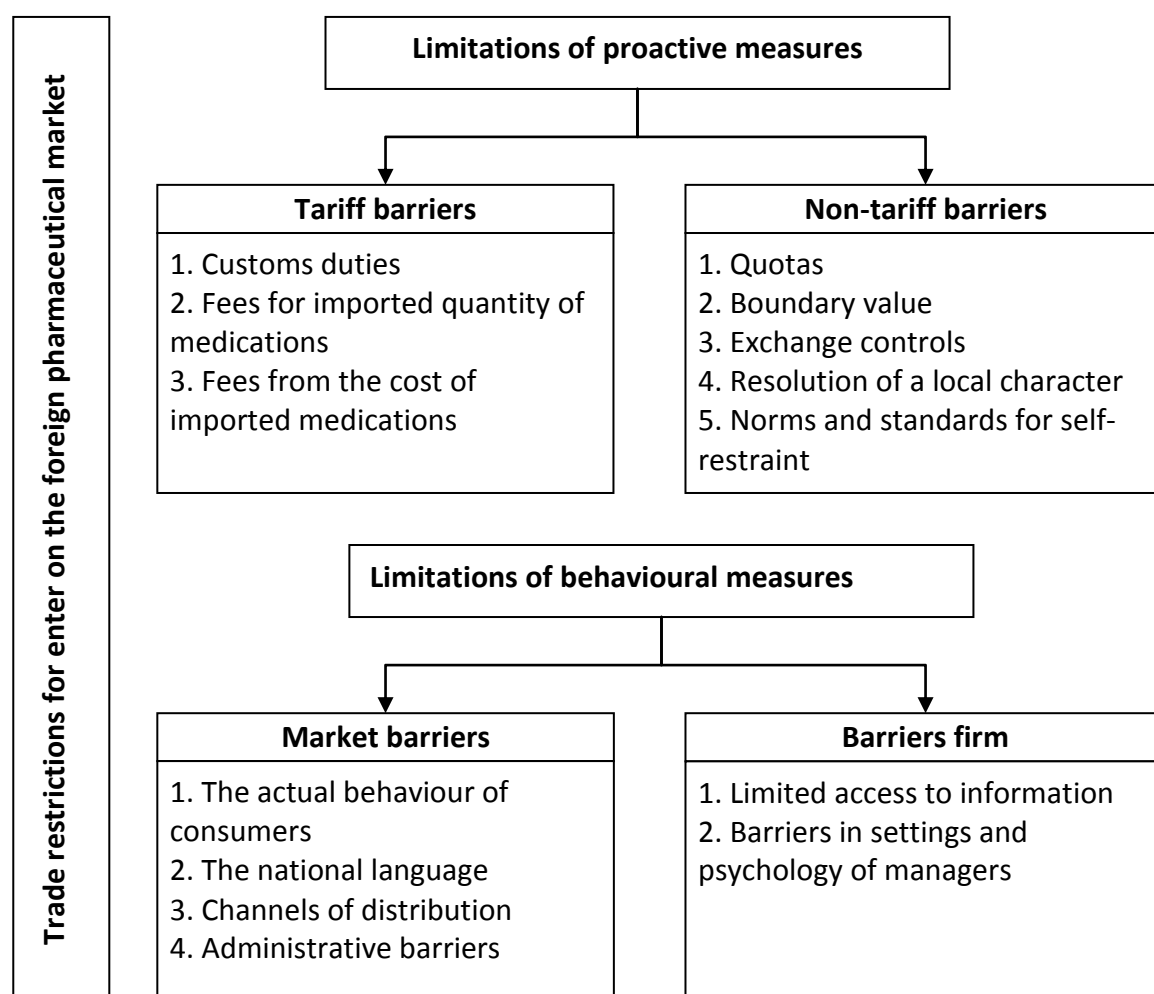


Figure 10.2 – Trade barriers acting during the exit enterprises on foreign pharmaceutical market

A *tariff* rate is the system that determines the amount of payment for various services of industrial and non-industrial character, which given to enterprises, organizations and individuals.

A *quota* is a quantitative limitation of certain categories that are allowed to be imported into the country. The quota is designed to preservation of foreign exchange, the protection of local industry and the preservation of employment. Allocate the export and import quotas.

Export quota is the discounted values of production and delivery on certain items. Defined as the ratio of the volume of exports in physical or monetary indicators to a certain volume of production medication in the country during specified period.

Import quota is a non-tariff quantitative method of restriction of import on certain goods to the country. In certain countries impose import quotas on import of narcotic and psychotropic drugs, may impose restrictions on import of other medication (most often in order to maintain national manufacturer.)

The embargo is a state ban on the export from the country or import in the country a certain medication. This may be due to the lack of a license on sale the medication, conformity with the standard of quality, etc.

Exchange control is the state regulation of the volume of cash in foreign currency and its exchange rate on other currencies.

In the study of the political environment of international marketing separately determined the *geopolitical position* in partner countries. The geopolitical position contains the following elements:

- topopolitical position, this position of the state in the world, its place in international political and economic relations;
- morphopolitical position, this position with respect to national borders, people close to the state, which contributes or prevents political and economic relations with other countries;
- physiopolitical position, this position of natural conditions and resources of the country's natural resources relative to other states.

The **legal environment** of international marketing consists of laws, regulations and agreements, operating at different levels and ensuring successful and efficient business with the recognition of the interests of each partner country in the law.

The main legal spheres are:

1. Legislation governing the legal status and activities of firms, including foreign ones
2. Legislation that provides protection for industrial property, patents, trademarks, copyrights
3. Laws on insurance and transportation by different modes of transport
4. Generally accepted in the importing country methods of solving legal disputes in international commercial agreements
5. Nationwide legislative framework, including the protection of life and health
6. Approaches to pricing, tax laws, etc.

The **economic environment** of the country identifies existing and potential consumption of goods and services.

Assessment of the international marketing environment by economic positions includes the study of complex quantitative and qualitative economic parameters of the potential market. The most significant are:

1. Identification of the type of economy (the market, the administrative-command, transition)

2. Establishing the degree and direction of state intervention in the economy of business, i.e. the number and proportion of existing in a country of economic principles, the financial system, the intensity of direct and indirect regulation of the economy, the international position, etc.

3. Justification of the country' type such as the structure of its economic management, that is, referring to the industrialized countries or to the countries the economies of which develops, commodity-exporting countries, countries with mainly natural economy, etc.

4. Analysis of economic growth, including government revenue, the level of personal incomes and their purchasing power

5. The availability of free economic zones, that is the most favorable for foreign and domestic entrepreneur's territories with preferential treatment

6. Research general economic situation and its dynamics and trends or conditions of specific commodity market, if the subject of business elected group of similar products.

Another factor that the firm should consider it a stable currency, as foreign currency fluctuations relative to the national can significantly affect sales and profits of the firm.

For the international marketing environment belongs to the socio-cultural sphere. A variety of elements, of its components can be classified into two groups:

1. Demographics, which include quantitative and qualitative structure of the population, dynamics of demographic shifts, level of social tension etc.

During assessing prospects of entering to the pharmaceutical market is set to fertility and mortality, life expectancy and living standards, infant mortality, geographic distribution, the ratio of urban and rural populations, the predominant occupation of the population.

2. The elements of the society – language, religion, social values and character of social values, motivations, habits, traditions, customs, taboos, level of education, aesthetic standards, etc. The socio-cultural sphere has a high degree of differentiation of the checked items in different countries. Therefore, marketers need to always develop and add to knowledge of this area since the establishment of business contacts with foreign partners in need of taking into account the national psychology, knowledge of the practice of conducting business negotiations with the people of a given nation.

An effective program of international marketing must be built not on impose customs and tastes of a country to its trading partners but on adapt the quality of their product and methods of trade to the habits and tastes of the population of the importing country.

Socio-cultural environment and national traditions influence on consumption medicines and their structure. As a rule, in civilized countries the population is widely administered medications as a prophylactic measure. These countries are also consumed more preparations for the treatment cardiovascular diseases, cancers, neuropsychiatric disorders. The low level of culture, sanitation and hygiene contribute to the spread of life of gastro-intestinal diseases and corresponding consumption of medications.

The study of the **technological environment** of the potential market due to the constant industrial development of the society, which puts forward the relevant requirements of the technological level of production processes and the product itself, its quality, compliance with international standards, norms.

The most important provision of the international marketing in relation to exports should be a **certification system** of measures and actions that will confirm that the actual characteristics of the product to the requirements of international standards acting on the world market and in particular importing country, or in the exporting country during the *self-certification*. In the latter case, the owner of the goods, carrying out self-certification is required to ensure accurate and complete compliance with the product that are made agreements and other documents, the high level systems of complex testing and quality control from raw materials to packaging and labelling; liability (including legal) manufacturer certification for quality and reliability of certification certificates; available to the buyer information about the system of control and quality, as well as possible site visit and observe the process of certification.

The highest level of quality assurance products in foreign markets is considered the certification by a third party, which has no relation to either production or selling of this product. The advantage of this certification is its independence and the ability to comply the uniform requirements for products and a system of quality control.

World Health Organization (WHO) has created and operates system of certification of medicines for international trade, according to which such major interrelated activities:

1. Licensing of medicinal products, manufacturers and suppliers
2. The production of medicines in accordance with Good Manufacturing Practice (GMP)
3. Managing the quality control of medicines
4. Inspection and assessment of the performance enterprises GMP
5. Authorized the issuance of certificates by the certification body
6. Investigate complaints and informing relevant authorities about serious flaws quality of medicines and associated with their use the potential threat.

Participation in the certification system and the implementation of its provisions is a prerequisite for export of medicines to other countries.

Thus, the study of international marketing environment creates maximally favourable conditions for activation and development of international business, enables firms to develop entry strategy and activities on potential foreign markets.

10.3. FORMS OF ENTERING OF PHARMACEUTICAL COMPANIES ON FOREIGN MARKETS

The choice of entry strategies on foreign markets and growth depends on the strategic goals of the company, product, political, economic and legal risks in other countries.

The most common forms of work the company on foreign markets are *exports, joint ventures and direct investment* (Fig. 10.3). As a rule, the firm begins from export to another country, then proceeds to joint ventures and direct investment.

Export this activity related to the sale and removal goods abroad to transfer their property to a foreign contractor. In practice of exit on a foreign market allocate indirect exports (sales of products through intermediaries of international marketing) and direct exports (sales of goods by creating their own subsidiaries, branches or representative offices).

Joint ventures involves partnerships between the company and exporter company of a foreign country with the aim of combining some aspects of the production and marketing in order to share expertise, the costs of communication.

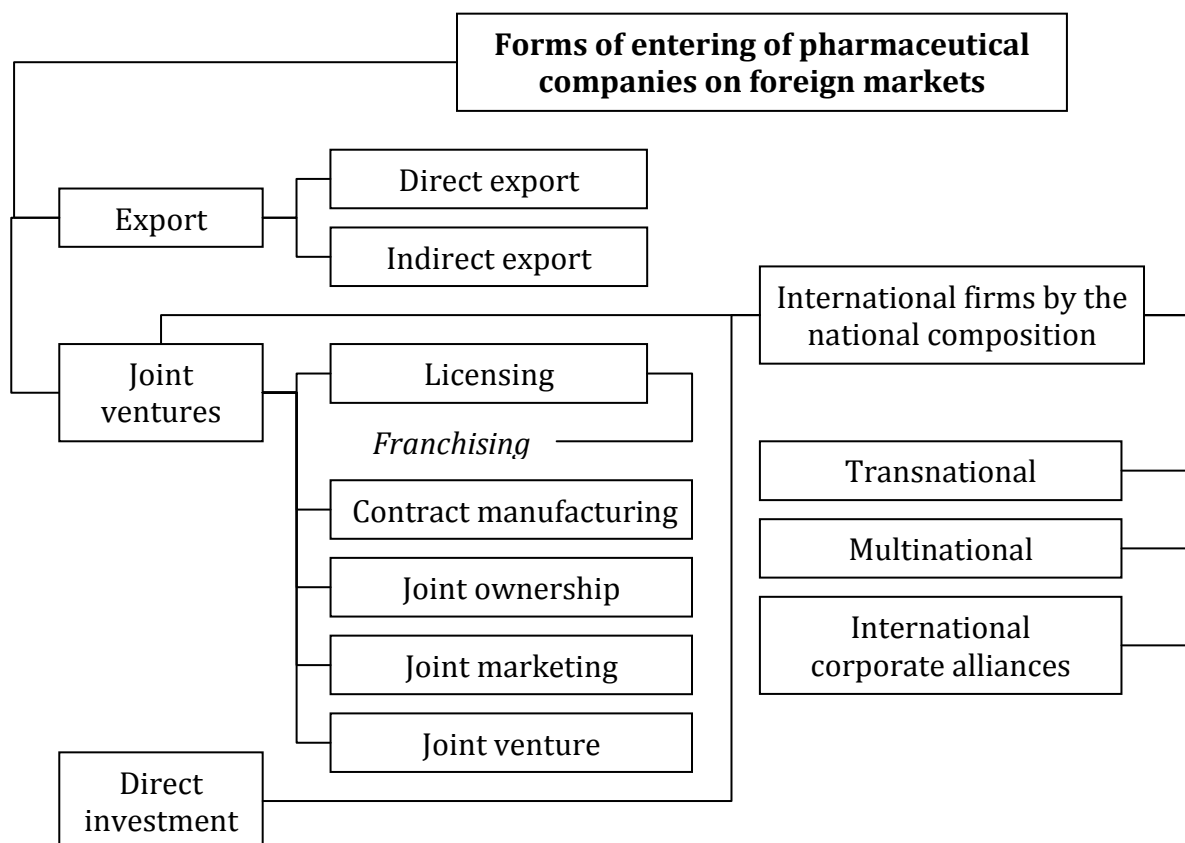


Figure 10.3 – Forms of entering of pharmaceutical companies on foreign markets

The benefits of joint ventures include lower costs and longer profitable, favourable terms of trade. The disadvantages of this form of activity are the lost profits of entrepreneurs in the country where the firm does not have enough experience and does not control the joint venture, as well as the probability that the host country will compete for the country that initiated the international marketing activities.

The *varieties of the joint venture include*: licensing, contract manufacturing, contract sales representatives, administration under the contract, joint marketing, and joint ownership (Fig. 10.4).

Licensing lies in the fact that the enterprise in order to enter the foreign market gives the licensee the right to use the technology, trademark, patent, etc. for the certain compensation or license fee. A common modern form of licensing is franchising. Franchising is an agreement of large corporations with small firms or individual businessmen. A large company (franchisor) provides small firms (franchisees) exhaust technology, provides the exclusive right to sell goods and services of the producer, using its trademark, provide assistance in management, advertising, cash-credit and financial transactions staff training, etc.

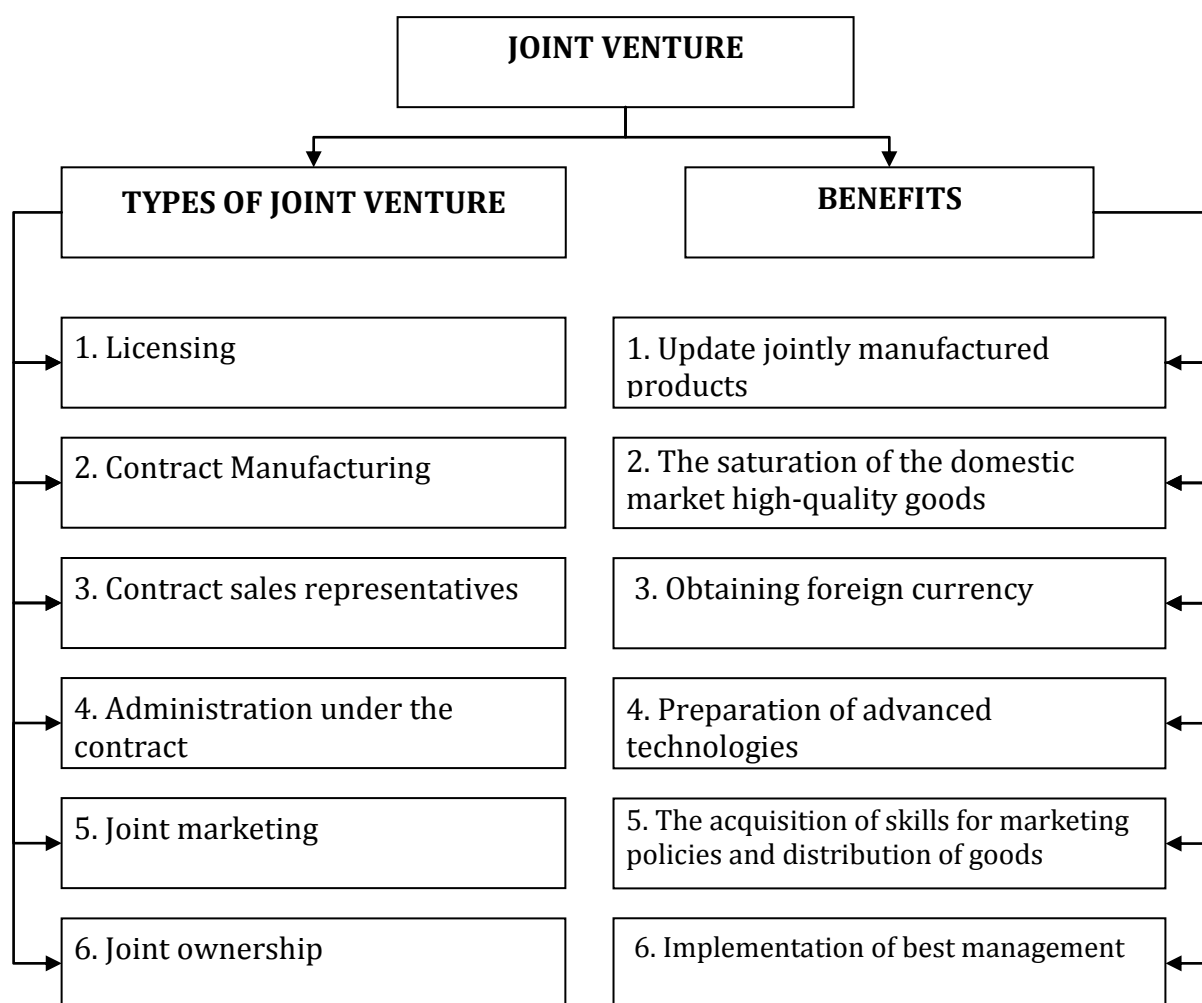


Figure 10.4 – Joint ventures

Contract manufacturing, at which an exporter signs the contract with a foreign manufacturer to establish production and sales of goods of the exporter.

Joint ownership lies in the fact that the exporting firm combines its capital with a capital of a foreign partner for create a foreign company in which the partners jointly control the production and sale.

Joint marketing an agreement between two companies for the joint promotion and distribution of certain products in specific markets.

In other countries joint ventures are quite common in the exploration, production and marketing of medicines. For example, “Merck & Co” (USA) and the firm “AsheGgour” (Brazil) organized a manufacturing enterprise “Prodome”; company “Roshe” and the Japanese firm “Nicon Medi-Physics” formed a company “Medicom”.

In the pharmaceutical companies with foreign investments are organized as legal entities and individuals. For this purpose there are the following ways:

1. Registration of new businesses, usually in the form of closed joint stock company or limited liability company.

2. Purchase of a foreign partner or shareholding of authorized capital available to firms. At the same time on the part of domestic the company possible retreat share in the share capital only for a certain period of time, i.e., the company temporarily converted into a contractual joint venture.

3. Contribution to charter capital of an existing enterprise. It possible that co-operation with the partner begins if the credit, which eventually transformed into a share of capital of the enterprise.

Necessary distinguish three main areas of joint pharmaceutical enterprises.

The first is the establishment of companies in the pharmaceutical industry. Foreign party allocates capital and technology, while the contribution of domestic side, except fixed and current assets, qualified staff, the knowledge of the local situation, the relationship with the economic structures and authorities. Joint ventures in industry significantly reduce the cost and time of development of new medicines; can achieve international standards of product quality. They are faster and less by cost means of access to new technologies that can be licensed.

Another direction is the organization of enterprises, when a foreign party represents pharmaceutical manufacturers and partner from of domestic side carries out sales promotion in the market.

The third direction is the creation of joint ventures as joint efforts of foreign and domestic investors, traders.

Direct investments suggest that the exporter fully complies and controls the foreign operations for the production, marketing etc., associated with its own foreign production. This is a form of long-term capital investments, providing the foreign investor control over the enterprise. Provided in the form of new production facilities or buy an existing company abroad.

International company is a special form of activity based on the co-operation labour of workers of many factories located in different countries but united by a common title of ownership of the means of production which is owned by the parent company, serving as the organizational and economic management centre. The latter determines the types and volumes of products produced by foreign manufacturers, affiliates and subsidiaries and also fixes for them the most important markets.

UN experts referred to as international firms companies that produce and distribute products and services in two or more countries.

Characteristic features of the international company are:

1. A network controlled by the production of branches and subsidiaries in other countries whose functions include production of certain products on previously known foreign markets, or supply of the parent company by raw materials and material resources.

2. The use of technological cooperation and specialization-controlled enterprises.

3. Control and coordinate the activities of branches and subsidiaries from a single centre, taking into account differences in their legal status. The difference is that the branch has no legal autonomy therefore has no right to act on its own behalf: to organize production and marketing, to conclude an agreement to keep accounts. In contrast, the subsidiary has legal autonomy that acts in the market on its own behalf and at own expense; shall be liable in accordance with its responsibilities.

One of the characteristics of international firms is an *international organization of production* based on the technology division of labour, which is carried out in two directions. The first provides for the inclusion of a foreign entity in a common technology network from the acquisition of raw materials to production the final product. The second trend, the so-called, detailed hotel specialization, is the distribution of production parts and components on companies in different countries, and collection of the final product in the markets.

On national structure international firms are divided into:

1. *Multinational companies (the corporation)*. Transnational corporations (TNCs) is a complex that uses in its work an international approach and provides for the formation of transnational production, trade and financial complex with a single center of decision-making in the home country, with branches and subsidiaries located in at least six foreign countries.

2. *Multinational corporations*. The second group of international firms belong multinational corporations (MNCs). It trusts and other industrial associations which are international companies not only by areal of activities but also for the control of them. MNCs join the national company of two or more countries on industrial, scientific and technical basis belonging to the owners of these countries. Branches are located at the same time in different countries.

3. *International corporate alliances*. International corporate alliances often take the form of consortia. They created the industrial, scientific, technical and commercial basis are special union of industrial, banking and other corporations formed to solve massive economic problems.

For modern multinational firms of great importance not only their origins how much a place of investment. Therefore, in the economic literature and in practice, a group of international industrial associations often called the same way: transnational companies.

The definition of "transnational company" means that it:

- provides direct investment abroad, the proportion of which is fixed at 20-25% of all investments of the enterprise;
- the company's management makes decisions based on analysis of existing capacity in all countries.

TNCs are important features:

Creation systems of international production located in different countries, but managed from one central location;

- high intensity of intra-trade between divisions in different countries;
- the relative independence of decision-making from home and host countries;
- global scope of employment is a mobility management by country;
- the development, transfer and use of advanced technology divisions of the corporation.

The main criteria, according to which the company attributed to TNCs, are:

- minimum number of countries in which production facilities located and in which the company operates (6 countries);
- the size of the company;
- minimum of foreign operations in the profit or sale of the company (approximately 25%);
- minimum share participation in foreign equity, which will provide the company control over the economic activity of foreign affiliate (not less than 25% of the voting shares in three or more countries);
- the multinational composition of the company's staff, especially senior management.

In the pharmaceutical industry's highest level of transnationalization of production and capital among other high-tech industries. Now the main suppliers of pharmaceutical products to foreign markets are leading companies of developed countries like USA, Japan, Germany, Britain, France, Switzerland, etc.

In the pharmaceutical industry operates more than 1,000 U.S. companies. The largest among them are TNCs with a complex structure. Mainly it is highly companies that combine manufacturing facilities, research centres and an extensive distribution network.

The end of XX and beginning XXI century marked active process of mergers of pharmaceutical companies. Major groups lead to an increase in operational and financial capacity of the company, as demonstrated by the merger of Pfizer Pharmacia (Pharmacia, Warner-Lambert), GlaxoSmithKline (Glaxo Wellcome, SmithKlineBeecham)

and Sanofi-Aventis. In 2006, there was an association of German company Bayer and Schering AG, which may become the largest pharmaceutical manufacturer in Germany. California company Watson bought for \$ 1.9 billion company Andrx from Florida, which created the company has become the third largest company for the production of generics in the U.S. In 2005, the company Sandoz (subsidiary of Novartis) has acquired the German company Hexal and its U.S. subsidiary company Eon Labs. In 2006, the American firm Ivax for 7.4 billion dollars acquired the Israeli company Teva.

The company Sanofi-Aventis announced the acquisition of a 430 million euro 24.876% stake in Czech pharmaceutical company Sentiva, specializing in developing, manufacturing and marketing of modern branded generics.

There is an acquisition of foreign companies pharmaceutical companies in Japan, although the legal formalities in Japan make it virtually impossible union. Thus, many Western companies have found it useful to take control of the subsidiaries of the former joint ventures (for example, Merck & Co and Banyu). Multinational corporations still tend to increase its presence in the second largest pharmaceutical market in the world. In 2002, the company Roche purchased the 50.1% stake in the Japanese company Chugai. However, most Japanese firms extending the coverage of its activities through the acquisition of U.S. and European companies. For example, this association Kyorin and ActivX Biosciences (U.S.), Takeda and Syrrx (USA), Sosei and Arakis (UK).

One of the most common types of business combination is the acquisition of a large firm small. The purpose of this operation is an extension of the range or technologies. The first step in such transactions is often the acquisition of a license.

10.4. STRATEGY OF INTERNATIONAL MARKETING

An important aspect activity of firm in foreign markets is development the optimal marketing strategy. International marketing strategy gives direction and intensity of using the necessary elements of the marketing mix in general and in different markets, as well as relevant forms of management, organization, coordination and control.

The process of developing of the international marketing strategy contains a number of stages (Figure 10.5).

The first stage is substantiation of the basic concept of the marketing activities of the company includes:

- situational analysis;
- investigation of macro-and micro-functioning of the firm;
- promotion of goals, development and optimization of strategic choice;
- specification of tactical objectives;
- periodic review and revision of marketing programs.



Figure 10.5 – Stages of development an international marketing strategy

The second stage consists in using a variety of analytical approaches for the development of methods of expansion and activity of firms in foreign markets. **Expansion** in the general sense is widening of influence by associations of large countries that is carried out through economic, military and political methods. **Trade expansion** is widening sphere of influence companies in the field of foreign trade, aimed at strengthening the fight for markets.

The third stage involves the creation and optimization of peculiarities of functioning of firms in an international environment, providing a certain level of adaptation marketing programs to foreign conditions and requirements.

The appropriate strategy is a complex process based on the gradual acquisition of experience in international marketing. As results is the formation of marketing strategy that combines the company's policy of the regarding product, price, placement and promotion of goods taking into account the strengths and weaknesses of the company and the existing competition.

International marketing strategy could be standardized so to be the same for both domestic and all foreign markets, or adapted that is specialized about each of the separate market.

The standardized (global) marketing strategy provides that the company offers to the foreign market goods which sold on the domestic market and trying to attract the largest number of buyers from different countries, using a standard marketing program. This strategy is applied when the goods have a widespread international popularity and the number of possible foreign buyers is large enough; and when the proportion of sales abroad and small firm does not have the capacity of a larger access to foreign commodity markets.

A standardized approach reduces the costs of scientific research and manufacture by issuing of standardized products on marketing activities; creating comfort for monitoring the activities of marketing programs; allows unification of markets, etc.

The adapted marketing strategy based on the accounting features of the demand for goods in different markets and willingness to modify the company's products and program of activities for their promotion taking into account specificity particular markets. In favour of adapted marketing strategy is evidenced by such factors as:

- a variety of market conditions;
- specific government intervention and regulation mechanisms of the economy in potential partner countries;
- differences in consumer motivations, etc.

However, complete adaptation also has certain weaknesses financial and organizational. Therefore, in practice, international activities, as a rule, used an **integrated marketing strategy**. This is the most difficult and flexible approach to the formation of an international marketing strategy, which provides the best match the overall marketing of the firm specific market conditions. The formation of an international marketing strategy must take into account such an important aspect, as the competitive environment of the world market and the definition of the competitive position of firms in it. On this basis, distinguish several *types of international marketing strategies*.

The basic strategy. These include the:

1. *A global strategy for a major share of the market*, which is typical for large international companies owning sufficient resources (personnel, technology, capital). Condition for the implementation of this strategy is already an existing and occupied a large market share, and a high degree of

standardization of goods. As for the differentiation of market peculiarities and the limitations imposed by tariffs, quotas, government monetary and financial regulation, or government incentives for local companies.

2. *Local main strategy of market share*, which is developed by other large but non-dominant companies in order to avoid direct competition with the dominant global companies. Typically, these companies rely on the national barriers that exist for their competitors.

3. *Global strategy niche* that practice by non-dominant small and large companies. This is an example of a concentrated marketing strategy, within which a company tries to meet the specific needs of the market by directing its efforts on those narrow areas where it has advantages.

Confrontational strategy:

1. *Flank attack* – is a concentrated marketing strategy often used by companies that are weaker than competitors, simply avoid unnecessary expense, acquired a new market's negative image.

2. *Frontal attack* – it is characterized by large international companies that have significant resources and competitive advantages;

3. *Market environment* – is a confrontational strategy, within which the company is trying to attack its nearest competitor in all possible directions. In this case, the company offers its products all available to all segments of the target market.

4. *Bypass strategy* – appealing to relatively small companies that are unable to withstand a confrontation with the major competitors of a certain international markets. Possessing the necessary marketing experience and know-how, such a company seeks out market segments that do not feed the interest of dominant firms, and focuses on their efforts and resources.

Cooperation strategy is the only possible competitive strategy for small and medium-sized companies that have the intention and potential to become global data, often possess a unique perspective and know-how. Their weakness is reflected in the absence of financial, manufacturing and human resources. This type of strategy involves the creation of so-called strategic alliances, the company attaches to your business the power and capabilities large companies. It can be alliances between manufacturers and their suppliers and distributors, and sometimes, at a certain interest in marketing from their competitors.

The innovation strategy is based on the exploitation of the competitive advantages of the international company it received due to a fundamentally new technology, product, or a combination thereof.

Developing a competitive strategy – a complex process, which is based not only responding to market changes, but the definition of the company's position in the industry. That is, to become the world market by actively taking part in the competition, it should be a leader on at least one important aspect of the production and sales activities.

The choice of option strategies or a combination depends on the capabilities of the firm and its resources, as well as factors that create the conditions of demand and the business climate in a particular market.

10.5. MARKETING RESEARCH OF FOREIGN MARKETS

Features of international marketing research. The main purpose of market research in international marketing is an effective adaptation of the goods, manufacturing, technology and structure of the company to environmental conditions and requirements of end users in foreign markets.

International marketing research is a systematic collection and analysis of data on various aspects of the firm on a foreign market can be classified in the following directions:

- a comprehensive study of foreign markets;
- the study of international marketing environment;
- study of the behaviour, needs and preferences of foreign consumers;
- study of commodity assortment of foreign markets;
- study competitors operating in foreign markets;
- study of resellers, selling goods on the international market.

Depending on the set goals for marketing research evaluated existing in the present market situation, and predict long-term value of marketing options.

International marketing research activities cover a wide field (the choice between many countries, commodities, markets), and therefore are associated with technical difficulties in collecting and processing information. In this regard, the basic requirements that apply to them are the choice of most profitable projects, research, and the comparability of results. In order to save resources, the company expended funds for international marketing research, analyzes the results of peer reviews and chooses the project that the future can bring big profits.

Comparability of obtained results is one of the major problems of international marketing, in large part due to national differences in foreign countries. In order to provide comparability of international marketing research take into account the following differences:

- language involving the use of similar terms in all languages;
- cultural, due to importance of consumer attitudes to a product offered by a foreign supplier;
- behaviour caused by social, psychological and economic factors outside the market;
- information (information sources).

Foreign countries are different from one another and its political and legal environment. In solving the question of establishing business relations with one or another country should be considered, at least four factors: attitude toward foreign businessmen, political stability, monetary policies and government bureaucracy.

Attitude to foreign entrepreneurs. In some states it may be helpful, in others – unfriendly. For example, Mexico for a long time attracted foreign investment by offering incentives to foreign entrepreneurs and service when choosing a location of enterprises. At the same time, India needs to import quota compliance, blocking some of the currency, puts the condition in the management of the introduction of newly formed companies a large number of its citizens. Moreover, in countries with extensive public sector of the economy, most countries in Africa and Latin America research of the market can be conducted only by obtaining special permission from local authorities. Next, should be pointed out the problem of linguistic nature, arising from the collection of information through questionnaires and interviews. Necessary for this are numerous translations generate a significant risk of loss or distortion of information.

Political stability. The change of government could lead to a change in policy, sometimes dramatically. Property of foreign firms may be nationalized, its foreign currency accounts are blocked, may introduce new quotas and taxes.

Monetary rules. They include foreign currency restrictions and currency fluctuating exchange rates which may determine the losses of the company in foreign economic activity.

Government bureaucracy. The ability of local governments to organize an effective system of assistance to foreign companies and an effective customs system, safe marketing information and other factors contributing to successful entrepreneurship.

Not the least role in planning of international marketing program of firm plays the cultural environment of the target market. Culture includes a set of core values, beliefs, desires and behaviour. It affects the market behaviour of consumers, which can often be unpredictable and therefore affect the firm's marketing decisions.

In related research with surveys of individuals or families the behaviour that is alien to our culture and our habits, creating unforeseen obstacles. These include unwillingness to come into contact under the influence of unfavourable political or social environment, or, conversely, the desire to show kindness and please the questioner. In the countries of the Middle East or Central Africa, testing of goods may bring misleading results, as there is considered impolite not to answer, as the questioner presumably waiting – this is the flip side of the law of hospitality.

Stages, types and methods of international market research of medicines.

Conducted market research on the international market and their objectives determine the choice of media, artists, techniques and technology research.

Marketing research of the pharmaceutical market, and suggest steps typology presented in Fig. 10.6 and 10.7. In the implementation of steps of marketing research in foreign markets should identify the following stages:

- identification of the necessary macro- and microeconomic information (Fig. 10.8);
- definition of requirements to the parameters of the quality of information;
- selection of performers (Table 10.1);
- identification of the costs of conducting market research;
- financing of marketing research.

Costs on marketing research in foreign markets should be considered an enterprise which carries out it as an investment. The difficulty of assessing return on such investment related to the fact that, as a rule, unknown all necessary parameters required under the usual methods of calculating the return on investment. Therefore, the return on investment is analyzed in terms of losses that the company managed to escape.

The cost of marketing research of the foreign market can be measured by a score of executor for carried out researches or when the study was carried out on their own staff of firm – an addition to the direct costs of the firm. To a significant number of enterprises and firms do not refused from international marketing research (due to their high cost and potential risk non payback research) the government has adopted various incentive measures. In Western countries, they include many organizations that form the sources of information on foreign markets.

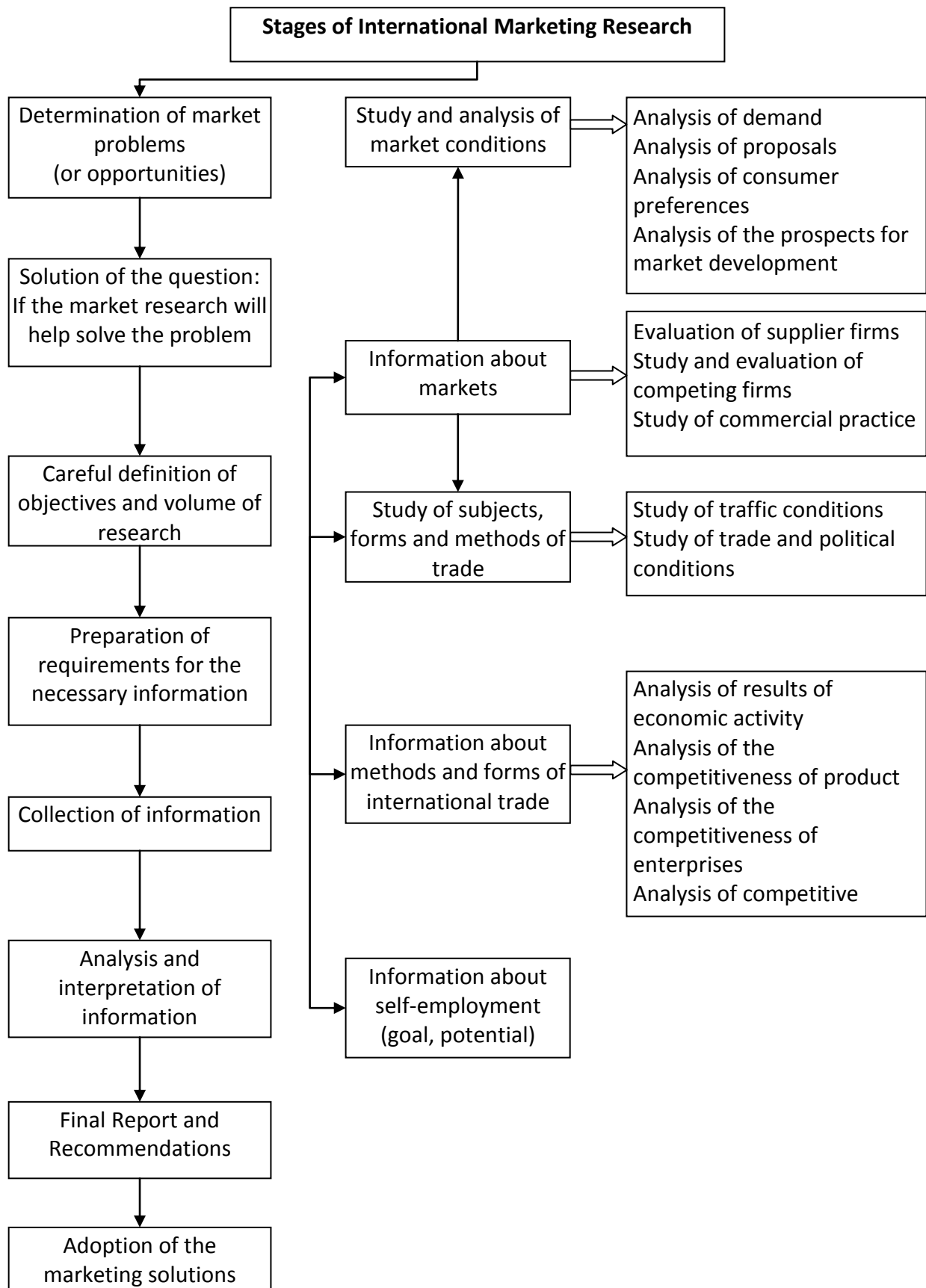


Figure 10.6 – Stages of International Marketing Research

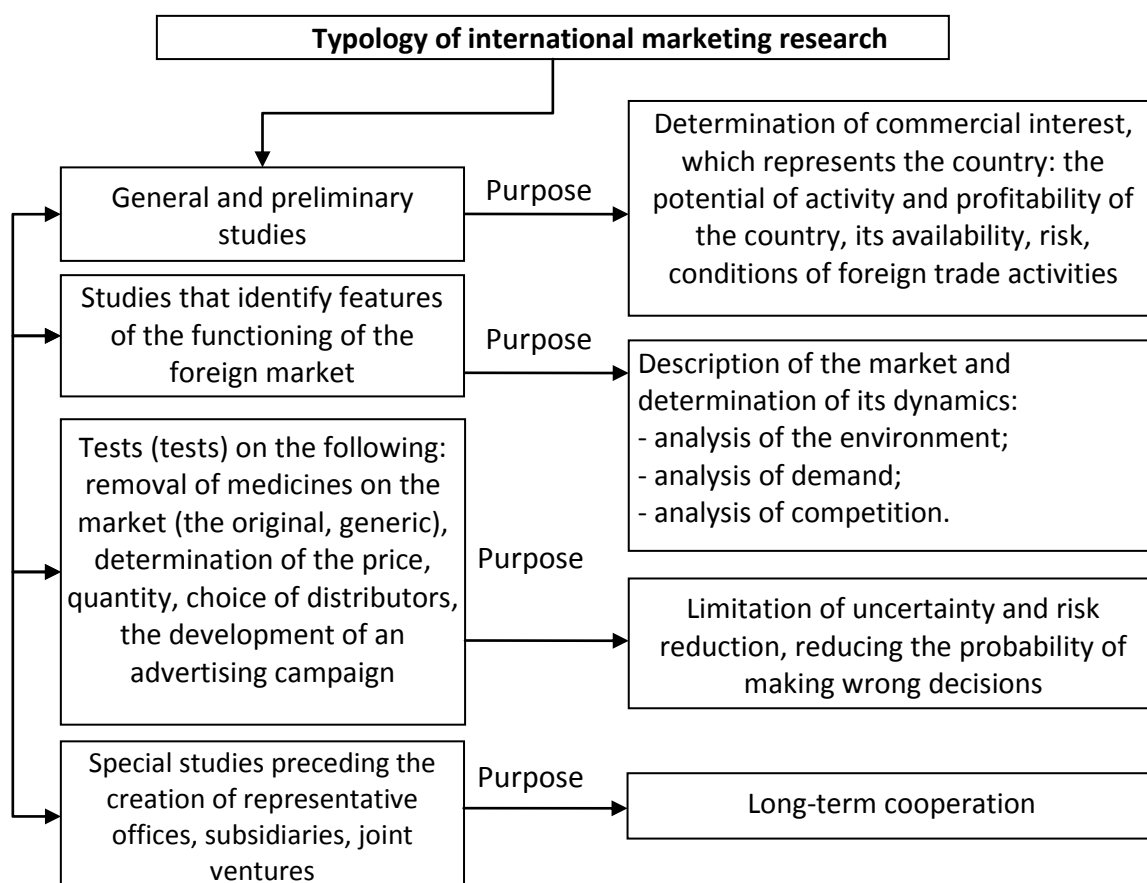


Figure 10.7 – Typology of international marketing research

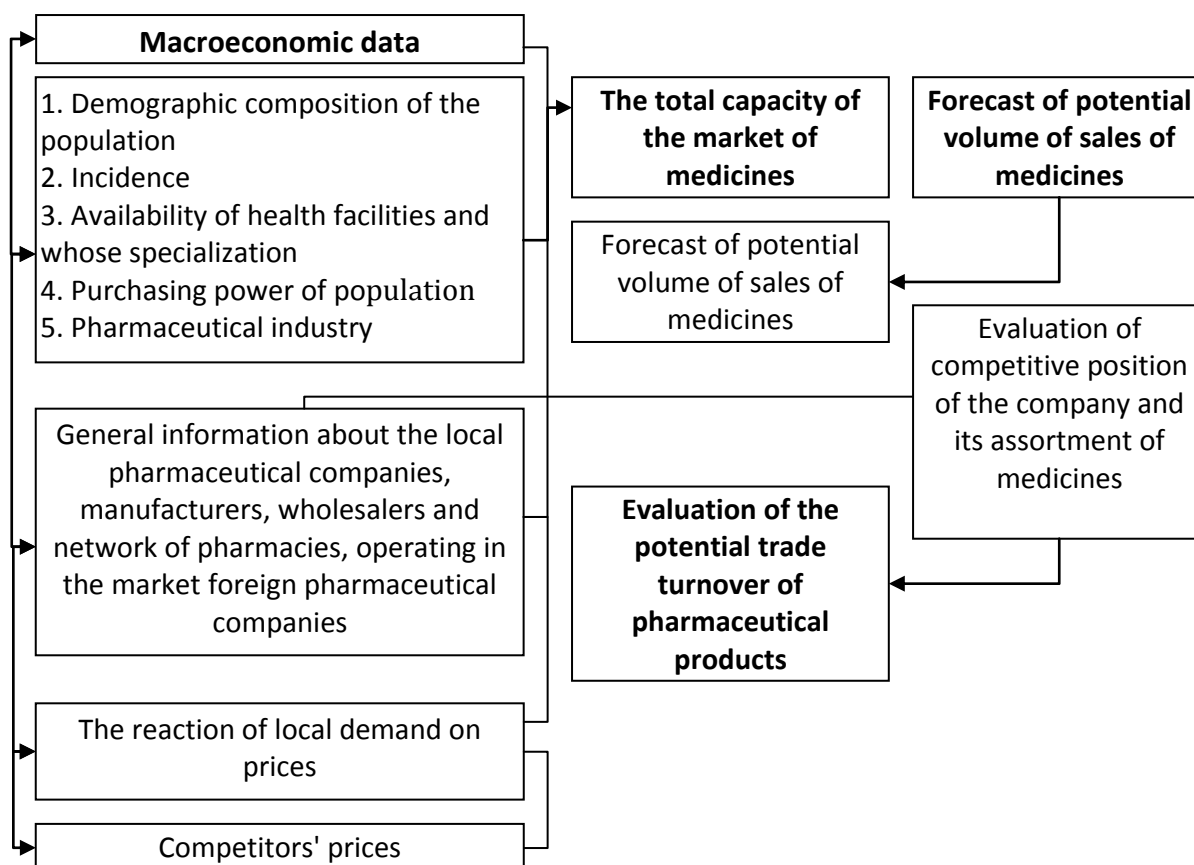


Figure 10.8 – The structure of the information which is necessary for pharmaceutical company when entering on a foreign market

Table 10.1 – Selection of the performer and the basic parameters of the quality of market research

Research Group	The main parameters of the quality of research	Preferential selection of the performer
General and preliminary research	Knowledge of the goals and objectives of the research, "narrow" places of the pharmaceutical industry (pharmaceutical companies, pharmacy network)	Personnel of the firm with the support of experts from the study country Local research group (company) in close contact with the company-customer
Research on the functioning of the foreign market	Access to information. Understanding the market environment. Knowledge of goals and "narrow" places of the firm.	Local research group (firm), which has expertise in the analysis of this region The International Network The foreign branch offices
Tests	The basic technologies for the collection information as applied to given country (region). Knowledge of the market environment.	Local research group (firm) The agents
Special research	Knowledge of legislative framework, social rights, the labour market and the specific of personnel management, local (regional) restrictions	Local research group (firm), which has expertise in the analysis of this region Personnel of the firm with the support of experts from the study country The International Network

State financing of these organizations can supply information about price equal which to marginal cost, resulting in a total cost of conducting market research for companies significantly reduced. Another measure is to take on some of the risk non payback research costs in the form of public insurance, or obtain privileged credit for the financial support of their search business.

Specialized studies that make up major share in international marketing research have shown in Fig. 10.9 structure.

Using of marketing research in the world practice varies widely, depending on the companies and their industry sector and the type of information required. Own research departments are created usually in large firms.

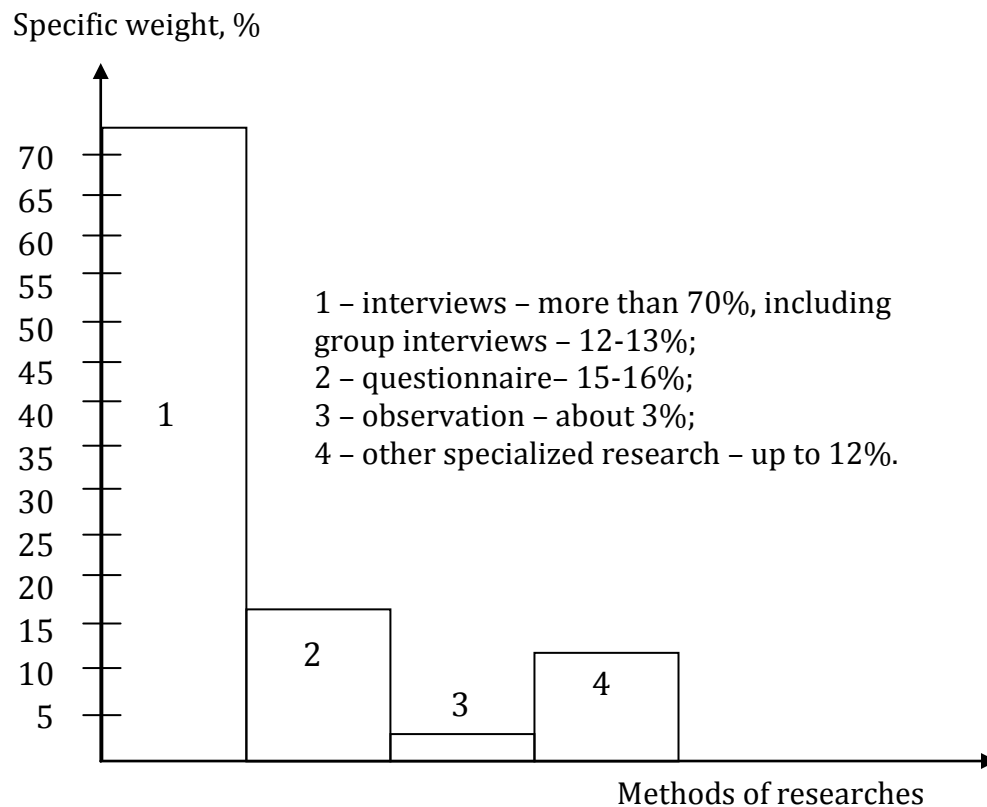


Figure 10.9 – The structure of the specialized research in international marketing

Information support for foreign market research pharmaceutical market. Depending on the goal identify the following types of international marketing research:

- preliminary studies aimed at clarifying the terminology and the priority objectives of the research, as well as the determination of commercial interest, which may represent a foreign market;
- descriptive type, the main focus of which is a simple description of objects, phenomena or processes affecting international marketing;
- casual type – combines research to study hypotheses, based on the identification of causation.

In studies of this type are widely used economic-mathematical methods and techniques of expert assessments.

After determining the type of market research carried out selection of information sources, and methods of collection.

The primary sources of information include the so-called "soft information", the main purpose of which is to gather information database which aimed at solving specific marketing problems, the so-called field (non-desk) market research. Methods of collecting primary data are di-

vided into quantitative (mathematical calculations of the phenomena; interviews – constant and temporary; panel method of examination, various experiments) and qualitative (observations, in-depth interviews, based on probing questions and intended to clarify the views of interviewees on the problem at hand).

Secondary sources of information ("hard information") used in conducting desk market research, which are based on data collected for other purposes. Secondary sources of information are divided into domestic, which are collected within the organization, and external, that is outside of the organization and characterizes the state of the marketing environment.

In the international marketing as external information sources most commonly used:

- Reports of international organizations (UN, UNIDO, GATT, IMF, etc.), laws, decrees, decisions of public agencies of different countries;
- National statistical reference books;
- Periodical publications of the country, containing the general economic and commercial information;
- Electronic media;
- Publication of Chambers of Commerce and centres of scientific and technical information, and public organizations;
- Specialized books and periodicals;
- International exhibitions, trade fairs, product presentations of leading firms;
- International Classification of specialized (food and industry);
- Commercial databases;
- Results of scientific research;
- Advertising publications.

External information can also be classified as a public, which is published officially, and the syndicate, which is inaccessible to the general public and specially bought from spreading its organizations on request. The most common type of syndicated services is to assess the market situation, when the organization at regular intervals (e.g. every month or every six months) evaluate the state of the market of products a particular industry, using a standard set of indicators, and then sells it to their subscribers. For example, so do the company "Socis Gallup", "Business Credit". The advantage of syndicated data is provided by the fractional value of marketing information services, which is shared among multiple subscribers. The downside of this information is the need to pre-assess the suitability of the information in terms of applied research methods.

It should be noted that the cost of services of marketing companies is 3-5 times higher than the cost of gathering marketing information, if it is done in-house companies, businesses or by creating a special, usually temporary, the research team.

When collecting information necessary to adhere to rules and regulations of the “International Code of Marketing and Social Research”, established by the European Society for the Study of Public Opinion and Marketing Research (ESOMAR). It points to the following requirements:

- respect the anonymity of informants, the researcher who receives the information in order to market research, except otherwise stated;
- the presence of an informant the right to refuse from work with the researcher at any stage of the interview;
- respect the right of ownership of the customer in the results of research and the data contained in the project of marketing research;
- confidentiality of information which contains information that is not directly related to the conduct of research about customer name without his permission.

Information support of international marketing is carried out thanks to business partners of marketing information system, based on the quality organization of conducting research and analysis of market research of external market. The collected information is analyzed using statistical, economic and mathematical methods and expertise.

A researcher in the provision of results should clearly separate the results, and his personal interpretation of the data, as well as recommendations. It should be noted that the global trends of modern international research are, first of all, the increased availability of users to use databases of several specialized firms on the commercial basis, as well as improvement of information technology, including the use of email received on magnetic media or through the “Internet” information as well as modern computer technology.

At the present stage of development of information technology is very perspective method of obtaining economic information for foreign companies is to appeal to the Internet. Even today, many companies (especially TNCs – transnational companies), realizing the enormous potential of the Internet as a marketing intermediary, trying to translate its international business in the global computer network. According to current estimates of the volume of international transactions over the Internet is much more than 1 billion U.S. dollars. It should be noted that the existing model of TNCs use the web-server – “information – deal”, and start-up companies are more likely to model “transaction – information”.

Dissemination of information via the Internet reduces the costs because other telecommunication channels are more expensive. No less significant changes today, thanks to the Internet undergoes Institute of intermediaries. Internet has allowed connecting end users of goods and services with producers directly, significantly reducing as the actual value, and tasks, as well as income of intermediaries.

10.6. TRADE POLICY OF INTERNATIONAL COMPANIES

Development of marketing strategies for product is the central link of marketing activities an international firm.

The main elements of product in international marketing are:

1. The value of consumer goods, which is regarded as a set of properties associated directly with the product itself, with its attendant services.
2. Clear orientation on pre-identified product target group of consumers (market segment)

It should be noted that the consumption of medicines of different anatomical therapeutic chemical groups, due to national and regional characteristics, although there are general tendencies of implementation products. Thus, in the North American market, most sales are medicines that act on the central nervous system and drugs affecting on the cardiovascular system, on the markets of Germany, France, Italy, Britain and Spain sold more cardiovascular drugs. Japan is also a leading position on volumes of implementation tools are affecting on the heart system, digestive system and metabolism. There are also national preferences with respect to dosage forms: in the UK and the Netherlands is a pill in France – suppositories the injection.

3. Commercialization of the goods, i.e. successful completion of all required tests, including market, obtaining the relevant certificates and other technical documentation, development of mass production, the creation of a network service, etc.

4. The competitiveness of the goods. In the international market competitiveness of product is determined by the following set of technical and economic parameters:

- price of consumption product equal to the sum of purchase (sale) of goods and operating costs the consumer over the lifetime of the goods;
- class of products within which is determined the competitiveness;
- technical parameters describing the purpose, design and technological features, reliability, durability and maintainability of the product;

- regulatory parameters, showing compliance with product standards and regulations that determine the cleanliness of the patent and legal protection of products on the expected export market;
- ergonomic parameters that reflect the level of "friendliness" of the goods to the user;
- aesthetic parameters: the level design, the requirements of fashion (for non-production goods);
- organizational settings, which include maintenance services, warranties, financing the purchase, etc.

5. Classification of goods by the nature of consumption.

The firm, acting on one or more foreign markets, should solve the problem of adapting their marketing mix to local conditions. Theory of International Marketing defines *two types of international marketing mix*: standardization and adaptation.

The advantages of a **standardized complex of international marketing** consist in cost savings through large-scale production, the organization of a unified system of goods and services, standardization of products, which is a prerequisite for global marketing strategy, the possibility of a quick return on investment in the standard product and sold on foreign markets, simplifying the management of in terms of organization and control. The disadvantages are: lack of flexibility in marketing due to the impossibility to adapt the goods to certain local requirements, limiting the development of creativity and commitment to innovation.

Adaptation (modification) it is an adaptation of elements of the complex to the specifics of each target market (segment). Adaptation can be *forced* or *required*, depending on the physical characteristics of the goods.

Forced adaptation associated with the laws and local regulations, among which are: safety standards, sanitary norms (restrictions on the importation of low-quality food or industrial products that pollute the environment) technical standards (appliances with plugs under the outlet of the European standard, different tension in the household power), cultural norms (supporting information in the national language).

Drugs and medical devices should be adapted to local conditions or needs in foreign markets. For example, the technical solutions of medical devices must be designed for some countries that use the power of an electric current 110 V or 60 Hz. In foreign countries there are requirements for packaging of medicines, and

therefore the pharmaceutical multinational companies are often forced to change the design of drug packaging, the contents of the information in the instructions for use, to put labels on the package in the languages that meet the requirements of the country, etc. For the packaging of the drug is also important to match the climatic conditions, preservation of drugs during transportation, storage, storage.

The required adaptation connected with the necessity to take into accounts the specific needs and demands of customers in each country where the goods supplied.

Firms that choose a **strategy of “reverse the invention”**, guided by the developing countries, making products more simple than that sold in the domestic market.

Following the **strategy of new inventions**, international firms are developing entirely new products for their export markets. This strategy is more risky and requires a large investment of time and money. But at the same time, it creates the potential for substantial profits, and sometimes – the world's recognition.

Development and implementation of the pharmaceutical market innovative medicines requires substantial financial costs, while providing sustainable competitive companies on the market. According to the Centre for the Study of Drug Development (USA), the cost of research and development of a new drug is 900 million dollars. U.S. and requires 8-12 years of a large group of researchers. For example, the well-known pharmaceutical company Solvay Pharmaceuticals for the first 9 months of 2007 showed growth in sales of medicines on 11% (683 million euro), while expenditure on research and development accounted 16% from sales pharmaceutical sector. The company concentrates its efforts in two priority therapeutic areas it is the direction of cardiometabolic, neuroscience and psychiatry – taking strong positions on the market vaccines and enzyme preparations.

The leader of the pharmaceutical industry in Europe is Sanofi-Aventis due to large R & D developments and occupies a leading position in seven major therapeutic areas: cardiovascular, thrombosis, oncology, metabolic diseases, central nervous system, internal medicine and vaccines.

Sometimes, due to the development of original drugs, do not use the alleged popularity among consumers, pharmaceutical companies are suffering some losses. For example, one of the leaders in creating innovative products, Pfizer felt a decline in profits in the third quarter of 2007 largely due to consumption of 2.8 billion dollars. U.S. completes the investment in poorly marketed insulin inhaler Exubera. Given the fact that the drug failed to win recognition of physicians and patients, the company concluded unjustified further investment in this product. The financial results were also negatively impacted by reduced sales of medicines cholesterol-lowering Lipitor (al-

though the III quarter of 2006, it was the best-selling drug in the world, its sales amounted to 3.3 billion U.S.) and the emergence of generic drugs that compete with many medications Pfizer.

General trends in the development of new medicines in recent years show a decline and stability of the production of new active substances (NAS) in 2005 – 30 NAS in 2004 it is 31, in 2003 – 30. In 90-ies the last century, these figures were 40 per year and 70-80-ies – more than 50.

In 2005, the U.S. continued to dominate as the number of developed and released to the market NAS (50% of total). The share of Japan's participation was 17% (5 NAS), while in the 90s was 30-40%.

Analysis of the development and release of NAS for therapeutic classes showed some change in priorities: in 2005, was released just five biological NAS (in the previous two years were produced by 8), the share of systemic anti-infective drugs and drugs for the treatment of CNS diseases accounted for 17% of the issued NAS, the share of anti – 13% (in 2004 they accounted for 32% of NAS). However, given the drugs in development in the near future, the number of new antitumor agents on the market can grow.

There are global trends on the development of influenza vaccines against the bird flu means for the prevention and treatment of HIV infection.

It should be noted that at the stage of research is a lot of transactions for the sale of licenses for medicines, more than half of them in the beginning of the third phase of clinical trials.

The degree of product differentiation is determined independently. However, there are factors that significantly affect one or another direction of commodity strategy. This is level of income in selected markets, social differentiation, traditions, customs, habits, age structure, the language requirements for goods and other organizational and economic features of a particular market.

Effective management actions on an international commodity policy are based, as a rule, on the theory of product life cycle.

The life cycle of export goods has some peculiarities. First, the active strengthening of exports usually begins when a new product of the company is already bearing significant profits due to capturing a significant share of the domestic market. At this time the product performs in the international market even as new.

Second, the maturity of export product starts its production firms in the importing country (for domestic market), or licenses, or by modifying their own product. Therefore, at this stage, the exporting firm in its foreign markets faces some measures to restrict their business activities.

Third, at a stage when this product becomes a standard for the foreign market, begins international competition. In this regard, the exporter faced with the task constantly have ready for launch on the export of goods which has not yet reached the stage of international competition.

On this basis, an international commodity policy to a certain course of action of the international firm and the existence of such principles by which ensures efficient formation of the commodity nomenclature and assortment of goods for sale to foreign markets.

The main factors which consider during designing the perfect product policy are follows:

- the aim of the firm: profit maximization, or penetration and long-term stay in the international market;
- markets and their requirements and real needs;
- the resources of the firm;
- the nature of the goods, that is, the duration of its life cycle, the attractiveness, the required level of service, brand name, ease of production, legal limitations.

There are three types of commodity policy:

1. **Concentric**, when searching for new products which in the technological or market respect would be "in tune" existing company products, and attract new customers

2. **Horizontal**, when a new product is essentially a continuation of what has already been realized, and is designed to form a circle of consumers, and its production does not require the company significant technological change

3. **Conglomerate**, when the export of new goods, in no way associated with the goods that existed at the company before and therefore requires the development of new technologies and new markets.

When selecting target markets in the international marketing company can cope such methods strengthening of their position on the international market:

- "*old market – old product*" (market penetration depth) due to cost reduction, circulation and production, activation of advertising, changes in goals by expanding the scope of manufactured goods;
- "*new market – old product*" (expanding the boundaries of the market due to the development of new international markets and new segments of the markets);

- “*old market – new product*” the expansion, development, exploitation, production of high quality new products for this market;
- “*modification*” and the market introduction of new products in the application of both direct and covert methods of competition (lower prices, better quality goods for sale at the same price, the provision of long-term guarantees to the buyer, consumer loans, free of related services, etc.) ;
- “*new market – new product*” requires substantial resources and capacity needed for mass production of a new product and marketing it on the market, has not yet been captured by competing firms.

International practice shows that in a particular case in order to minimize commercial risk and the subsequent expansion of market segments (markets) is not advisable to produce a commodity, and a few similar products with different parameters.

A serious problem is the international fight against the implementation of the pharmaceutical market adulterated (counterfeit) medicines. Revenues from the sale of counterfeit medicines (CM) exceed the income from the sale of drugs and account for 30 billion dollars per year (5 to 8% of the legal market). According to the WHO share of CM in the world are 15% of all marketed drugs, up to 30% of drugs – in Africa, Latin America and Southeast Asia, and in some CIS countries – up to 20%. In the U.S., this figure does not exceed 1%. At the same time, according to the WHO, counterfeit are up to 50% of medicines sold over the Internet. State Inspection Health Ministry of Ukraine on the results of studies of quality of drugs, as well as on the basis of statistical data estimates the total share of CM of all medicines on the market of Ukraine in tenths of a percent.

Adulterated drug – is a drug that deliberately labelled incorrectly as to the authenticity and (or) origin. Can be faked the original products and generics.

Counterfeit drugs can be divided into the following types:

- an illegal copy of the original medicinal product – biologically equivalent analogy of the original drug, which fully meets the requirements of the AND, provide the necessary therapeutic effect, but went into circulation with violation of law on the protection of industrial property rights;
- an illegal copy of a generic drug with insufficient active ingredients – a fake drug manufacturer legally, which is manufactured with insufficient amounts of active ingredients and does not provide the desired therapeutic effect;
- counterfeit drug-substitute – the substitution of the drug of the legal manufacturer, which contains the active ingredient of another type of pharmacological action and does not provide a therapeutic effect specified in the instructions for use of this drug;
- counterfeit drug-placebo – a fake drug manufacturer legally, that does not contain the active ingredients;

- complete a fake of medicinal product – a deliberate and false labelling of mismatch, composition, ingredients, quantities, manufacturer, and packaging of the drug.

Taking into account the ways of rigging the *CM can be roughly classified into “white” and “black”*.

“White” counterfeits is products, qualitative and quantitative composition of the active substance which corresponds to the marking, falsified trademark of the manufacturer, might not be maintained quantitative composition, may apply other auxiliary substances; active and auxiliary substances usually do not meet the requirements of the Pharmacopoeia.

“White” CM is characterized by the markets of developed countries with high standards of quality and advanced control and recording system.

“Black” counterfeits is products, quality and (or) quantitative composition which does not meet the labelling. Instead, the stated amount of active substance contains another (usually smaller) number, or other, cheaper (the easiest way to falsification is plywood labels of more expensive medicinal product with a higher dosage of the active substance in the package with cheap substances in low doses) or the active substance is non-existent.

“Black” CM often present on developing country markets.

The problem of CM, methods of detection and control in developed and developing countries differ significantly. Thus, in developed countries combating the spread of CM is a high level of quality requirements for drug licensing of Internet sales, tighter import and export, and implementation of policies to reduce drug prices in the presence of a developed system of good practices, the presence of an effective system of copyright protection controls and the judicial system as a whole is in the existence of public and political will to combat CM.

In developing countries, in order to prevent the spread of CM requires tight control by the state, the elimination of non-controlled points of production and sale of drugs, control of production, importation and exportation of drugs from the country, the creation of powerful screening laboratories. Obstacle to the spread of CM can also be a domestic production of cheap generic drugs.

WHO has called to put an end of trading of counterfeit medicines and announced the launch of a new international program against the counterfeiting medicines. For this purpose, WHO has created a special unit IMPAST, in which will be attended by law enforcement agencies of the member states, the largest pharmaceutical corporations, and Interpol.

10.7. PRICING POLICY IN INTERNATIONAL MARKETING

Determination of the international pricing policy given significant attention from companies wishing effectively and continuously carry out their activities in foreign markets. Purposeful pricing in international marketing is to establish such prices, and then they change depending on mar-

ket conditions, which would allow gaining market share, to receive the intended amount of income, to solve other strategic objectives.

Now pricing policy is one of the main components of the marketing activities of any company, including international. If in the 60s of last century in Western companies pricing was the sixth in importance among the 12 factors of marketing (product planning, marketing research, sales management, advertising, sales promotion, customer service, etc.), then from 80 it's a key factor.

Marketing management of prices in international markets has the same structure as in the national market.

However, pricing in the international market is more complex than at the national, for such reasons:

- varying degrees of government intervention in the economy;
- a variety of markets;
- export prices is higher;
- differences in the strategies of competing at international level;
- fluctuations in exchange rates.

No doubt all these factors vary from country to country.

Almost the development of the international pricing policy provides for the determination of the optimal selling price of goods or services for each country, and then – make the necessary corrections to ensure the unity of the price.

The basis for the calculation of export or import prices in foreign trade practices are the prices of major commodity markets. They reflect the global average conditions of production, sale and consumption of specific goods. Therefore, to the exchange of goods took place on an equivalent basis, these products should be evaluated in the world market prices.

Under the *world price* should be understood an international monetary expression of value realized on the world commodity market. International value it is socially necessary labour to produce goods in the global average conditions of production and the world average level of productivity. It is formed mainly under the influence of production conditions in those countries that are major suppliers of goods on the world market.

Benchmark for participants of foreign trade in determining the price of their goods is the price information collected from various sources. Prices in international trade, depending on the characteristics of markets where they apply, are divided into free-market prices and prices of closed markets (Fig. 10.10).

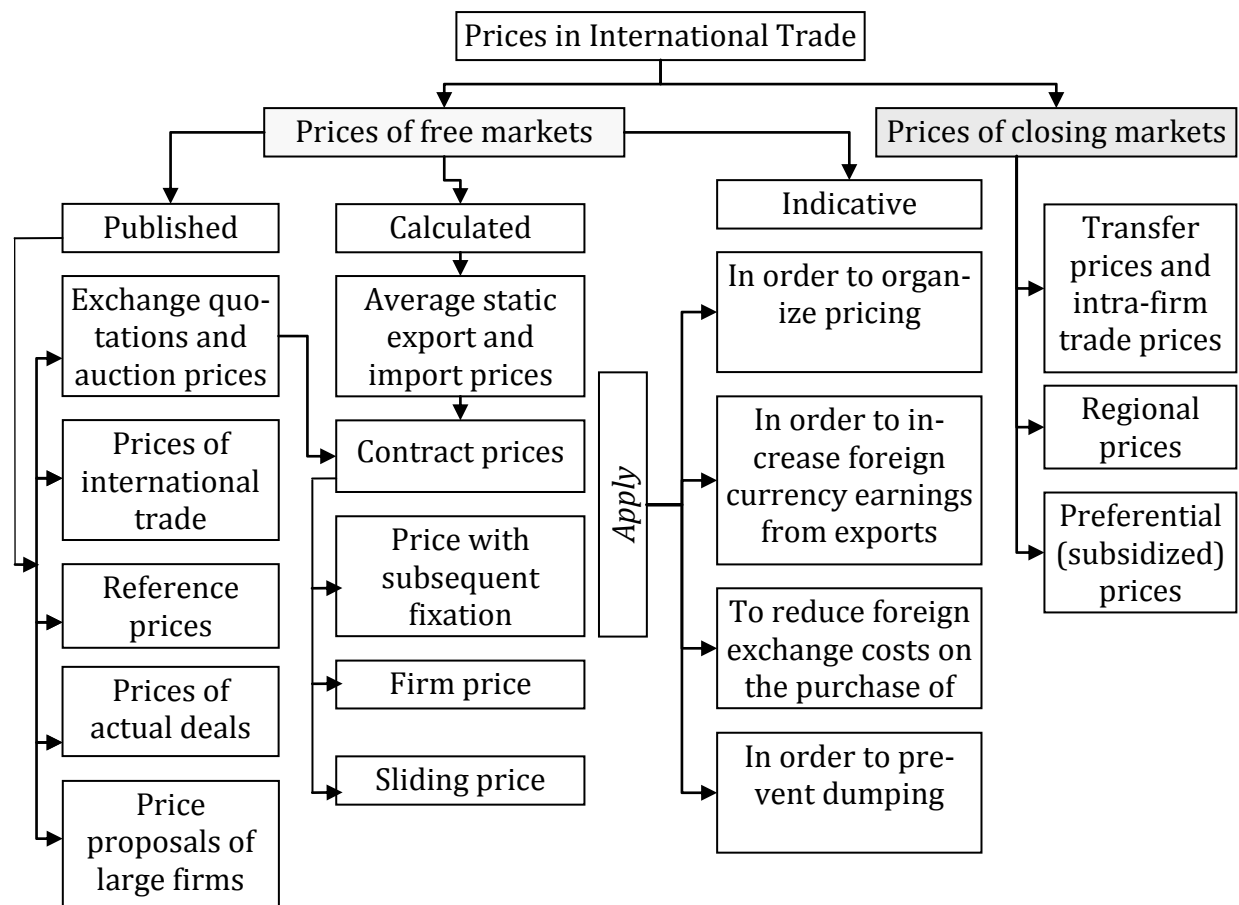


Figure 10.10 – Types of prices in international trade

For free-market prices belongs published, calculated and indicative prices. In turn, to the *published prices* (i.e. prices, which have information in special and corporate sources) are background, stock market, the prices of international trading, the offer price of large firms, the prices of actual transactions, etc.

Reference prices are officially published prices of goods on the domestic wholesale or foreign trade of foreign countries. They can be found in various print media – newspapers and economic journals, newsletters, trade catalogues, price lists. Reference prices in most cases are so-called basic prices, i.e. prices of goods of a certain quality and quantity, specifications, dimensions, chemical composition and other characteristics in a given geographical (base) point. They are usually overpriced compared to prices of actual transactions.

Stock quotes and auction prices is the prices of actual transactions on the exchanges and auctions, conducted on uniform terms and conditions regarding quality of goods, volume and delivery time, the currency of payment, etc. are used in world trade for a wide range of mineral commodities and agricultural origin.

Prices of international trade that apply at trade of manufactured goods, especially machinery and equipment.

Offer price of large firms essentially have character of reference prices and declining during the negotiations (usually within 10%). But they still differ from the prices given in price lists and catalogues of companies that focus on specific customer and their publication is less regular. Appear mainly in the specialized trade press.

The prices of actual deals as a rule were not disclosed. They can be found regularly speaking at a free international market as independent sellers or buyers. A comparison of these prices with the background makes it possible to more accurately establish the level of prices in the contract.

Price with subsequent fixation (as opposed to fixed price, which does not change during the period from the date of contract signing to delivery of goods to the buyer) is specified in the contract for a calendar date. And if the goods are delivered to the purchaser no later than this date, then affixed to the contract price does not change. Otherwise, the supplier of the goods must meet certain sanctions, which must be specified in the contract.

Sliding price depends on the change in economic status of the exporting country (the seller). In the event of a change in prices for raw materials, fuel, energy, wages, etc. parties stipulate the right of price adjustment formula for the standard bearings (10.1):

$$P_s = \frac{P_b}{100}(a + b + c), \quad (10.1)$$

where P_s – sliding price (the price of slide);

P_b – pre-agreed price (the base);

a – the constant component of the price (return);

b, c – changing the components of the price (cost of raw materials, energy, fuel, depreciation, salaries), %.

Calculated prices are used in the absence of the necessary price information. The calculation is based on the data, publication of which is regular and official character. These are the indices of export and import price indices of domestic wholesale prices.

Price indices – are relative indicators of the change in prices over a period of time. They are published by statistical agencies on a wide range of products and product groups.

There are also supplier settlement prices, which are used in contracts for non-standard special equipment produced, as a rule, to order.

And finally, as a kind of free-market prices is indicative prices – is the prices that have been established on the international market for the commodity at the time of export (import) transactions subject to the terms of delivery and performance of calculations in accordance with the law.

In the practice of international trade there is the concept of commodity dumping – selling significant volume shipments at dumping prices, i.e. prices substantially lower than in the ordinary course of business. This price is applied in order to gain a competitive advantage when exporting to a particular market and the displacement of a competitor. The use of dumping prices is limited to anti-dumping legislation of the country.

Prices of closed markets include:

1. *Transfer prices* (prices of intra-firm trade), which are used in transactions between the countries located in different parts of the same multinational corporation for the purpose of the resulting gain in profit due to the minimization of taxes and tariffs. In connection with the trend of globalization of international trade is intra-firm trade in its most important element. Suffice it to say that the share of transnational and multinational corporations have already account for nearly half of world exports. Transfer prices depending on the conditions of taxation in specific countries or installed at a minimum, or, conversely, the maximum level.

2. *Regional prices* are used by different trading blocs in the transactions between countries which belonging to them.

3. *Preferential (subsidized) prices* set by the intergovernmental agreements on the supply of certain goods. The peculiarity of such prices is their minimum level.

In a market economy, the process of pricing is subject to the commercial objectives of the firm. On the international market pharmaceutical firms derive a new (innovative) medicines as well as generics.

With the introduction of innovative medicines on the market pharmaceutical companies use two main pricing strategies – the strategy of "skimming" and the strategy of "market penetration".

As you progress through product life cycle changes, and **pricing strategy** of pharmaceutical companies. There are medications-substitutes, including generic drugs.

There are three main strategies for the positioning of the prices of drugs that are no longer an innovation on the market: the maintenance of prices, lower prices and increased prices.

Maintaining the price – this strategy is applied if the market segment, which provides the bulk of the implementation, will not be exposed to intense competition and if the main purpose of pricing in the formation of the primary price achieved.

Reduced price – this type of strategy can be used as a defensive (for example, when a competition among generics) and offensive (while reducing the cost of production and distribution of the drug, provided, when a large market share can be achieved through lower prices). In addition, lower prices may be subject to changes in market conditions.

Increasing the price – this strategy can be used for several reasons. First, in terms of inflation price increase is necessary to maintain the profitability of operations. Price rises to a level that ensures the same margin, both before and after inflation changes. Second, the price increase on the original drug may be long before the expiration of the patent on its active ingredient. This is done to make the best use of the remainder of the "monopoly" and extract the maximum possible profit before generic medicines.

Firms that go to foreign markets are faced with many challenges in setting prices for their products:

First, regardless of how the firm solves the problem of pricing of its foreign prices are likely to be higher than domestic ones. This is due to the fact that in the original price when determining the customs value is added to the price of insurance, loading, delivery to the boundary, etc.;

Second, if the firm sets a high price on exported drugs, it would have to pay high customs duties;

Third, if the firm appoints a fairly low price of exported goods, it would have to face anti-dumping measures;

Fourth, the problem of the so-called gray market, i.e. re-export of medicines from countries where their price is lower in countries where their price is higher.

The method of pricing the firm which decided to enter foreign markets, usually involves the following steps:

1. Formulation of the problems of pricing:

1.1. Gain maximum market share – based on long-term company profits goes to the highest possible price declines, mainly due to lower production costs. Implemented as a rule, in the early stages of the life cycle of products.

1.2. Gain leadership in quality – to cover the costs of achieving high quality and costly R & D, is set high enough price, but such an increase is seen by consumers as it is permissible for the quality of the compensation.

1.3 To maximize current income – current financial performance are placed above the long-term, and select the highest price that provides the greatest profit and cost recovery in the shortest possible time.

1.4. Ensuring survival – in order to maintain market position company sets low prices, sometimes itself at a loss (but not for a long time). It is used when the supply exceeds demand, the market is a lot of competitors, or drastically changing customer needs. In such cases, survival is more important than profits.

2. Accounting the price factors:

2.1. Demand (the "ceiling" prices) – to determine how sensitive the demand to change the price for each item should bring the demand curve and to calculate the elasticity's. In the case of inelastic demand enterprise profitable to raise the price of goods as well as sales increases, while in the case of elastic demand a price reduction benefits as well as an increase in sales volume increases.

2.2. Costs ("base" price) – if the demand is the maximum price of the goods, then the minimum price determined by the cost of production, distribution and marketing, including the rate of return for the effort and risk.

2.3. Proposal (competition) – the company should explore competitive price and quality of goods offered by the market.

2.4. State pricing policy in respect of pricing:

- fixed prices set by the state itself;
- regulated prices – the state sets the rules for companies (ceiling price, best value, limit one-time increase in prices, etc.), whereby the latter set their own prices;
- free-market prices – the state sets the rules, "playing the market" by introducing a series of restrictions on unfair competition and monopolization of the market (which prohibits collusion of two or more competitors on price, dumping, imposing price and so on).

3. The choice of pricing method based on cost factors:

- pricing based on demand – is carried out by subjective evaluation of customer value of the product, its quality. The increase in demand leads to higher prices and vice versa;
- pricing based on cost – "average cost plus profit."

The total cost of the product in a foreign country is the basis for the determination of purchase price to the final consumer, when the whole company takes on sales of the exported product. If it sells to resellers, the selling price is calculated on the basis of cost, corresponding to a certain stage of the transaction. Classification of basic conditions of supply of goods (Incoterms Rules), adopted by the International Chamber of Commerce allows you to accurately determine the time of transfer of ownership, which means that the distribution of liabilities and expenses between the seller and the buyer:

- pricing based on a proposal focused on the level of competition;
- the method of the current price – the company pushes the prices of competitors;
- the method of "sealed envelope" – setting prices in the closed tender (to make a lucrative contract, the firm sets the price as low as possible, starting from the expected proposals of competitors).

Customs value – the price of goods, down on the open market between an independent buyer and seller by which it can be sold in the country of destination at the time of filing the customs declaration. In determining the customs value, it includes the price of the goods specified in the invoice, as well as actual costs, if they are not included in the invoice (Fig. 10.11):

- on transportation, loading, unloading, handling and insurance before crossing the customs border, depending on the conditions of supply of goods under the contract;

- commissions and brokerage, which had been assessed prior to crossing the border, if it is stipulated in the contract;
- charges for the use of intellectual property, if provided by the contract.

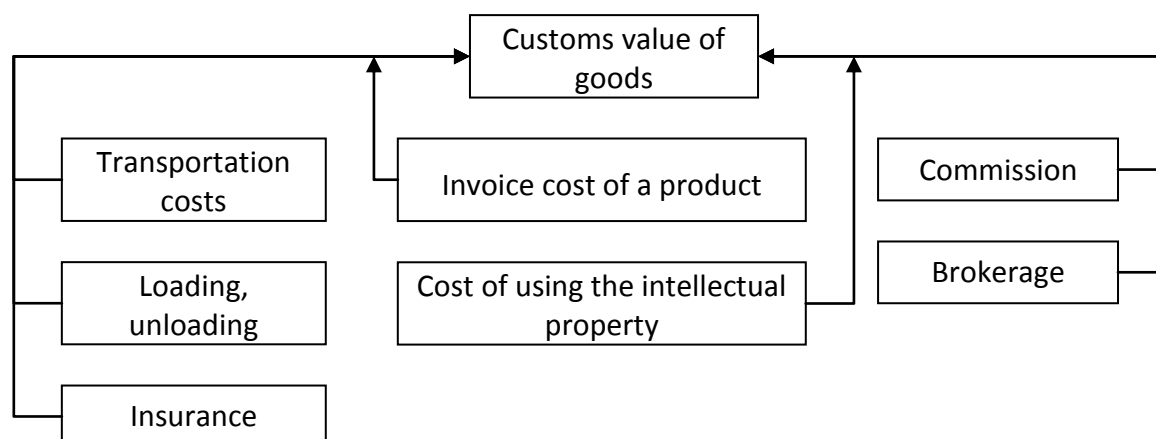


Figure 10.11 – Components of the customs value

Depending on the different aspects of commercial products manufactured by the company pricing policy can be based on one of these approaches:

- pricing based on geography;
- determination of the price discount and credit, the firm provides a discount for the calculation of cash for the amount, seasonal or functional discounts, etc.;
- establishing the price of a new product;
- establishment of prices for sales promotion;
- discriminatory pricing when the firm assigns different prices to different customers for different types of goods, etc.;
- pricing of additional products, mandatory items, by-products.

The choice of pricing policy depends on what goals company pursue: achieving the intended return on invested capital; the stability of earnings; stable or improving the image of the market; success in the competition; a leading position in the relevant field.

Ways of implementation the price policy of the firm will have different options, among which the most common are:

- avoiding setting their prices lower than the sum of production costs;
- try to set the price of their products are lower than those of competitors;
- to follow the market price;
- to set prices at a certain price of a competitor;
- determine the prices so as to obtain the planned amount of profit, etc.

Great importance in the pharmaceutical industry of foreign countries with developed market economies attached to control prices. Direct the management of prices has two forms, each of which can be tailored to a specific market. The first form is state regulation of prices at the production of the substance and finished pharmaceutical products. Such regulation includes control over the prices at which pharmaceutical products offered for sale. The second form provides for the determination of the price through negotiations among the major consumers and private pharmaceutical companies. This form of control depends on the share prices of public and other buying organizations in the common market.

Along with the above, the level of prices of medicines depends on the nature of the purchases (single or continuous) and the place of purchase (domestic output or imports), the terms of payment of transit, conditions of sale of drugs (or a variation of commodity circulation channels open tender) and will eventually from the level of demand for specific drugs.

Across the world there are different approaches to the management of prices for medicines.

In the United States there is no formal price controls on drugs. However, in the U.S., there are two public programs in health financing, which provide more than 40% of medical expenses. These programs provide for payment of the cost of prescription drugs by physicians. The analysis showed that the public health sector (program «Medicor» and «Medicaid») share of the cost of drugs is significantly lower than in the private sector – 2.9% and 11.2% respectively. This is due to the fact that the federal government (FDA – Food and Drug Administration) recommends a wider scope to use generic drugs, the more expensive proprietary tools.

Compensation for the cost of drugs in the United States is produced in three main areas:

- a special federal and federal-regional health programs;
- through direct federal-government transfers;
- through private health insurance and / or direct payments to patients.

According to IMS America INC an only 20-25% of the national bill for drugs covered public health programs. The remaining expenses are reimbursed or through private insurance or by direct payments for medical treatment.

Despite the great interest of the governments of Western Europe in containing the prices of medicines and promote their use of generic drugs, generic medicines market is well developed in only four countries: Germany, the Netherlands, Denmark and the UK. The fact that in these countries of Europe the prices of medicines are the highest, is not coincidental, but rather an incentive for greater use of generics. The high price of original drugs has provided generic pharmaceuticals sector opportunities for introduction into the market of cheaper medicines equivalent to original. The use of generic products in the indicated countries supported as by government agencies so doctors and the public.

Government authorities of European countries use different measures of price controls on drugs: the system of control of prices, the involvement of patients in the payment of the cost of drugs, the use of so-called positive and / or a negative

list of drugs, which cost shall be compensated, the control over the prices of new drugs, reduction or freezing of prices.

The UK operates a system of fixed surcharge, introduced by the patient for each medication and issued him a prescription, regardless of its value. The cost of most prescription drugs shall be compensated, but for those categories of patients who are required to participate in the cost of treatment, a fixed co-payment.

In Japan, there is the following procedure for the pricing of pharmaceutical products. Before new drugs come to market, they must be entered in the Register of medical costs. At the final stage of the approval process of a new drug application is forwarded to the Economic Division of the Bureau of the pharmaceutical preparation for the introduction of the Register of medical costs. The applicant has the opportunity to prove the asking price, based on chemically and technologically proven results using the previous approved drugs in some therapeutic groups as a control. Applications will be reviewed by the following agencies:

- Economic Department;
- Bureau of Health Insurance;
- Commission to resolve disputed issues of Japanese Medical Association (technical material);
- Central Medical Council on Social Security.

Finally, the Register of medical prices set by the Central Medical Council on Social Insurance.

Prices for drugs in the Register of medical quotations can use them when calculating the cost of health care.

The analysis showed that, except for the U.S., where drug prices by government services are not installed straight and regulated by the FDA only to the promotion of production of cheaper generic drugs in other countries, drug prices are regulated directly and indirectly relevant government authorities.

Investigation of the structure of the price of drugs has shown that a significant fraction of the cost of the drug does not have to make, but in bringing it to the pharmacies. This is due to the cost of pharmaceutical marketing. Even small and medium-sized firms in the state contain up to 30% of the professionals involved in the study of demand and sales.

10.8. COMMODITY DISTRIBUTION POLICY IN INTERNATIONAL MARKETING

In the process of developing an international marketing firm policy should take and implement decisions on marketing channels or paths, that is, develop a system of physical movement of goods on the selected channel marketing. Features of the organization of the international distribution of goods, taking into account the globalization of international marketing are presented in Fig. 10.12.

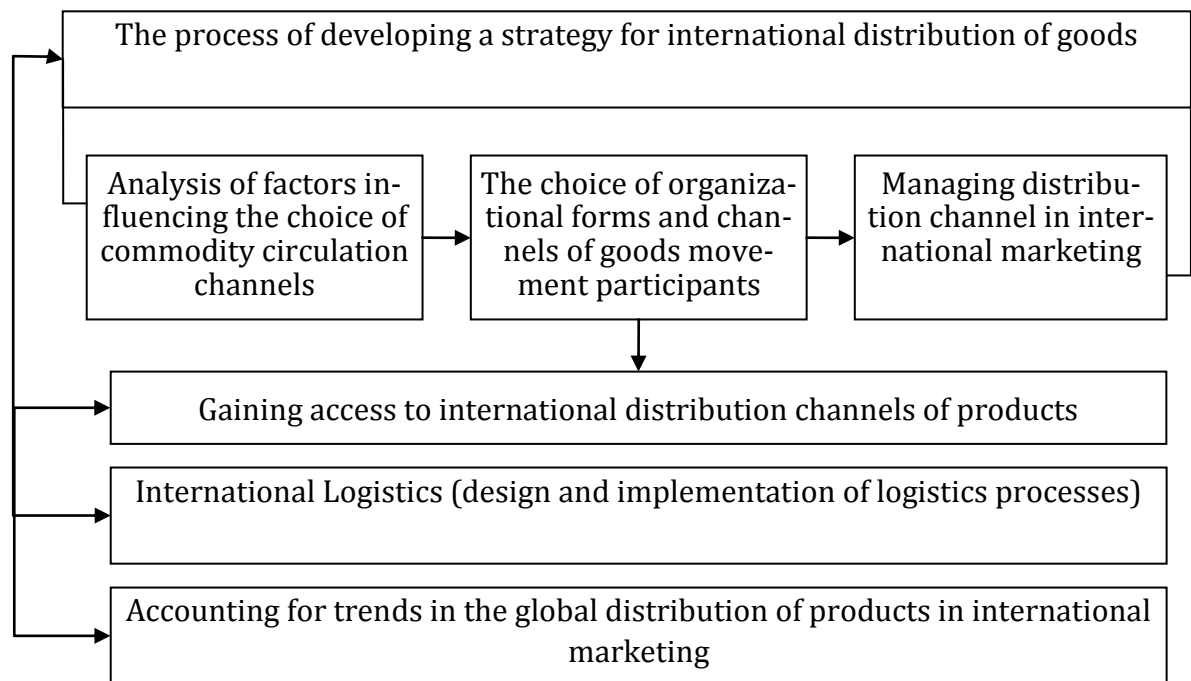


Figure 10.12 – Features of the organization of the international distribution of goods

Under the **policy of distribution (sales)** in international marketing should be understood the totality of activities required to deliver the goods on foreign markets directly or indirectly, alone or with the help of intermediaries. At the same policy objective distribution of goods in international marketing are: maximization of turnover, and increase the market share of the company; minimize marketing costs, the creation and support of the prestige of the selected channel marketing, long-term relationships within the channel of goods movement while maintaining its flexibility and the optimization of marketing intermediaries in the process of distribution of goods.

At the same time to the problems of distribution policy should include: choice of the distribution system (centralized or decentralized), the choice of organizational forms of distribution (own or third-party sales agencies), the choice of distribution channel (direct or indirect).

Distribution channel in international marketing – a set of firms or individuals involved in the process of moving goods from producer to consumer. Distribution channel is characterized by parameters such as level, length (total length) and width.

The problem of choosing the most efficient channels of commodity promotion in international marketing is complicated to the extent that as a growing number of countries where the company expects to deliver the goods.

When choosing an international distribution channels the company can follow different approaches, depending on whether it is focused on the production or marketing. In the first case, the decision regarding the organization of commodity promotion is determined by reasons of logistics. Companies focused on marketing, on the contrary: first of all, will try to identify the most favourable marketing opportunities, then to develop a framework and distribution system only if the expansion will determine the place of production structures in order to best achieve marketing goals.

There are different options for distribution channels, which should take into account the company trying to choose the best scheme of goods movement in order to achieve its objectives of sales in foreign markets (Fig. 10.13).

Selected channels of distribution must provide the manufacturer geographical coverage of the target market (or segment) at the lowest cost of goods movement, which are calculated by the formula (10.2):

$$D = T + C + H, \quad (10.2)$$

where D – the sum of costs of goods movement;

T – transportation costs;

C – storage costs;

H – the cost of orders, not executed in the guaranteed period.

T

he criteria for selection of effective channels and methods of selling goods on foreign markets is a quick turnover, costs turnover, sales volume, the selected distribution policies of the goods.

In the theory of international marketing are three types of participants (levels) of commodity movement channels:

- own sales agencies (export department, leadership of the company, the authorized representative of the firm, export organization in the country, overseas office (or branch office), the "daughter" unit overseas manufacturers, branded retail stores);

- sided marketing intermediaries in their country (exports organizations or representatives, trading houses, representatives of foreign wholesale buyers in the face of commercial concerns, large industrial enterprises);

- marketing intermediaries abroad (import wholesale organizations, import agents (agents), transit trade companies, commissioners, brokers).

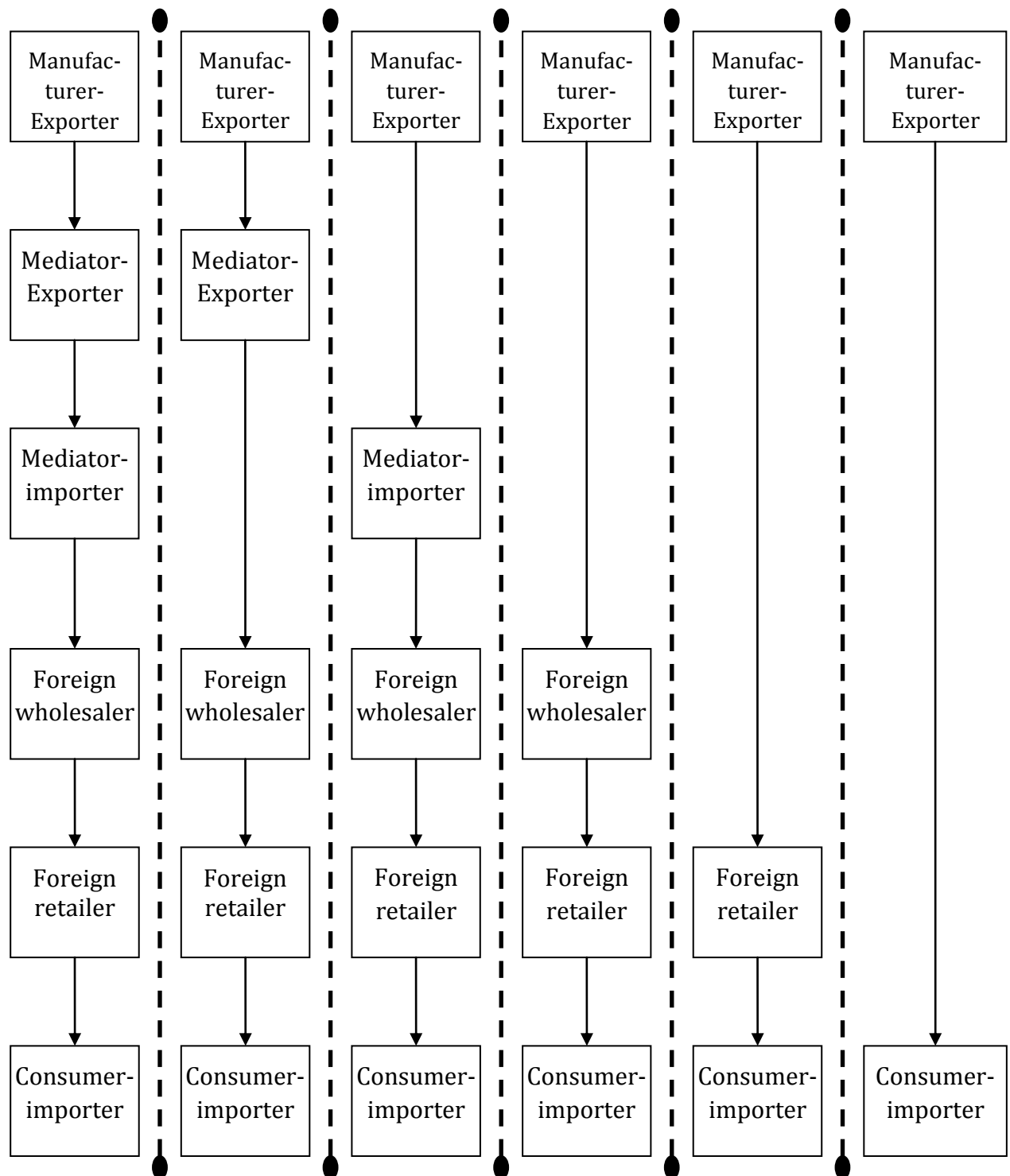


Figure 10.13 – The main types of distribution channels of products in international marketing

Consequently, the firm can sell products directly through its own sales staff or hiring outside mediators to end the agreement. The company should consider the traditional relationship, the presence of mediators who meet the company, the differences in the structures of the wholesale and retail trade in their country and the partner countries, governmental restrictions and costs.

Knowing exactly what channels of distribution for it within reach, the company assesses the advantages and disadvantages of each option.

Before deciding on the choice of distribution channel should be deep enough to analyze such issues:

- the objectives in the field of international marketing, which sets the firm, managerial resources and expertise;
- an international organization of the company;
- reputation of the company;
- existing sales agreements in each market;
- availability of distribution channels;
- the financial position of the company;
- market and its special characteristics;
- specific requirements related to the characteristics of goods, etc.

Methods of distribution of goods in international marketing, as well as internal marketing, subdivided as follows:

1. **Direct distribution**, which provides that a manufacturer of products come into direct relations with its customers and uses the services of independent mediators. Especially prevalent in the market of means of production – fuel, raw materials, manufacturing, and others less frequently to help direct sales agents have resorted consumer goods market, using its varieties, such as:

- direct marketing (direct work with clients who are regularly visited by sales representatives);
- telemarketing (sales of goods and services over the telephone);
- Internet marketing (sales of goods and services via the Internet).

2. **Indirect distribution**, which provides that a manufacturer of products using the services of various kinds of independent mediators. The presence of mediators for the following reasons:

- high level of professionalism of intermediaries in the distribution sector to accelerate cost recovery and turnover of funds, as well as convenience for the end customers;
- the mediators have the ability to bring the goods to the target market, their relationships, experience, specialization, the firm provides a much more successful than it could achieve on its own, relying only on their own;
- many manufacturers no experience in foreign markets, lack of financial resources for direct marketing;

- even if the manufacturer can afford to create their own channels, in many cases it is more profitable to increase their investments in the core business (where profitability is greater than the profitability of direct marketing);

- the use of intermediaries in some cases, it is the only possible way by established sales in the market rules and traditions (such as auctions and commodity exchanges), as well as for political or legal norms in direct contact with the consumer is not possible.

3. Combined (mixed) distribution, where a manufacturer uses a combination of both direct and indirect marketing techniques. For example, about 2/3 of export deliveries of machinery and equipment from developed countries is carried out through intermediaries and 1/3 – directly to consumers, usually by special order.

When selecting mediators are guided by these recommendations:

- selected mediator should not be a mediator of competing firms, or it can completely cover the market for your product;

- ceteris equal conditions preference for specialized intermediaries, as he has more experience with this product is available (though not eliminated cases where the product can be harder to come true, being together with the goods of another kind that is sold to a universal mediator);

- preference for more well-known mediator that has a high reputation in the market;

- need to find sources of financing intermediary – whether it provided loans and how it is the bank;

- should identify the level of equipment logistics intermediary (warehouses, offices, training and service centres, etc.), the level of staff skills (experience in servicing and repairing of products);

- it is recommended to enter into short-term trial agreement for mediation (one year) to allow practice to learn about opportunities and business responsibility of the mediator;

- must attend (in person, on-site) intermediary firm to ensure its reliability;

- to take into account the location and number of outlets, their specialization and range of products sold in them.

In addition to channel selection commodity promotion, international company must decide on planning and organizing an effective system of promotion goods from the warehouses of the company to the consumer.

Planning for commodity movement at the international level provides different options.

1. *The company produces goods in one country and delivers it to the markets of different countries-consumers.* In this case, the management of commodity movement is carried out centrally. The main role of sales division is to ensure the deliveries of goods in the importing countries are the most economical manner and to maintain inventory at optimum levels.

2. *The company provides a number of independent companies in different countries, each of which operates in both production and marketing.* This option means a higher degree of decentralization, with the international marketing ceases to exist. The organization commodity movement is predominantly local affair.

3. *The company has around the world several companies that serve many markets.* This is a fairly common variant, which provides for the creation of complex commodity distribution structure with well-thought-out distribution of responsibilities.

The process of organizing commodity movement, as a rule, includes the following stages:

- choice of stocks and storage systems;
- identification of moving loads;
- introduction of a system of inventory management;
- setting procedures for handling stock;
- the choice of means of transportation.

With efficient organization system of goods at each of these stages is planned as an integral part of a balanced and logical overall system.

10.9. PROMOTION OF MEDICINES IN FOREIGN MARKETS

Policies promotion pharmaceutical goods in foreign markets involve the communicative impact on consumer marketing and interaction with the environment, whose goal is to encourage the buyer to purchase a particular product. Promotion or the use of complex marketing communications aimed at uniting the interests of consumers and to maximize the benefit of the manufacturer.

Objectives of the policy of promotion of medicines may include:

- to attract attention and interest to the medicament, its customer value, brand image, sales conditions, etc.;
- the formation of adherence to certain producers and intermediaries operating in foreign markets.

As in domestic markets that make up the promotion of medicines abroad are: advertising, professional information, public relations, sales promotion, personal selling, direct marketing, specializing medical exhibitions. All these forms of work are fully applicable in promotion of OTC drugs (Fig. 10.14).

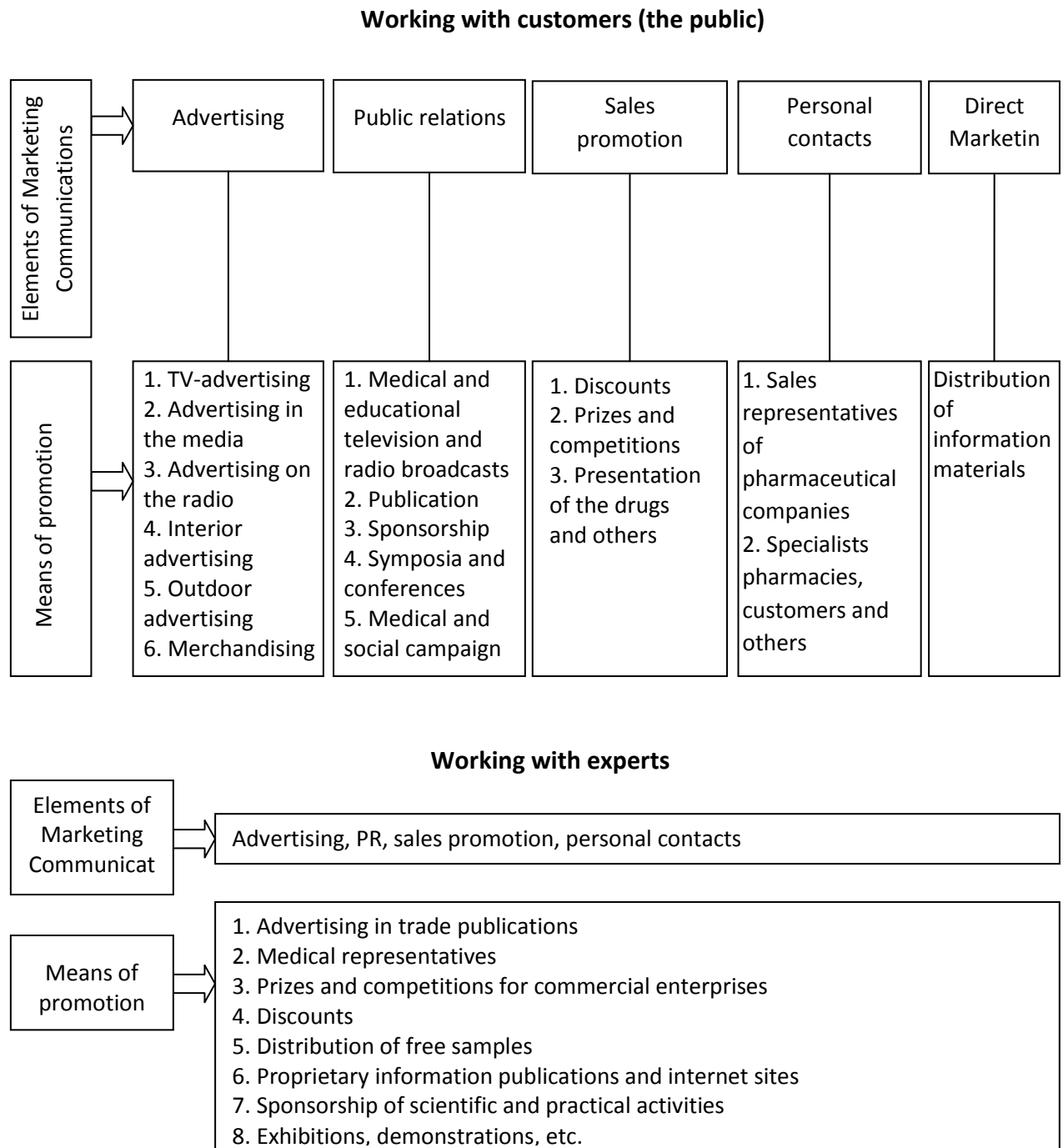


Figure 10.14 – Components of promotion of OTC drugs

The advertising campaign an international level is based on, depending on whether it is standardized, specialized, or should be adapted to specific local markets.

Standardized advertising has advantages in the sense that if it is successful in one country, it will probably be successful in another, similar, to the country. In addition, standardized advertising is cost effective because the cost of its production is much lower.

Adaptive (specialized) advertising accounts economic and cultural differences between countries. The choice of this approach to the advertising campaign based on these conditions, a foreign environment, such as level of education, experience and competence of the staff of foreign firms, national characteristics and rates of economic growth, the traditional consumer products, media independence from state control. If these differences are significant, then the adaptive advertising is appropriate.

In addition to the environment when planning an advertising campaign should be taken into account other criteria: the ratio of the purposes of advertising and the economic interests of their own country, the specific market characteristics of the product through the media, the ratio of rates of "profit-costs", etc.

Promotional activities of pharmaceutical companies depend on such factors of the international environment:

- regulation, restriction and control of drug promotion;
- public attitudes to advertising;
- the availability of advertising agencies;
- the choice and availability of specific media advertising (television channels, publications, etc.);
- the degree of competition in the pharmaceutical market, etc.

The theory of international marketing encourages such common stages of the program design an advertising campaign:

- ensuring the company building the international guidelines of advertising;
- identification of the purpose of advertising;
- review and approval of its parts;
- sample testing of the population in order to verify the effectiveness of advertising;
- planning for the media;
- approval of the budget;
- introduction to the markets of the company;
- evaluation of the effectiveness of advertising campaigns.

Public relations contribute to the formation and maintenance of a favourable public opinion for the firm on a wide range of problems affecting its interests. This activity does not create a direct financial benefit to the company, but indirectly has a positive effect on business performance. In developed societies, socially oriented and there was even the concept of “social marketing” (public marketing), a strategy which is aimed, on the one hand, to comply by the public interest, on the other to provide a support in the community.

In the medical-pharmaceutical public sphere, first of all, especially responsive to the actions of companies that contribute to improving the health of the population, and secondly a negative response to any (real or apparent) manifestations of unethical behaviour of firms (there is a condemnation of the business, earning the sufferings of the people). Pharmaceutical manufacturers, distributors, drugstore chains in its PR-activities make extensive use of medical and social issues in an effort to influence public opinion in regard to the individual firm and the pharmaceutical community as a whole.

The main objectives of pharmaceutical companies is staging some problems in the public consciousness or awakening them active interest, which ultimately creates the preconditions for the promotion of drugs. Another object of PR-activity is to change the attitude prevailing in the society to an issue, for example, the prices of medicines. Given the prevailing view of the high prices for medicines and as a consequence of excessive profitability of the pharmaceutical industry, pharmaceutical companies are trying to inform the public about the high cost of developing new drugs to control the efficacy and safety of medicines, etc.

In order to form a trust relationship between the firm and the public when examining and resolving a specific problem the pharmaceutical company should strive to ensure that health professionals and the public trust in its competence and ethics. As a result, it is provides for the formation of positive image of the company and its activities, public loyalty to the firm, respectively an enabling environment for business.

Sales promotion of drugs in foreign markets pursues essentially the same purpose as the domestic. They are:

- stimulating the commission of a test purchase, as the benefits of the drug appear in the course of its actual use;
- increased exposure to advertising (sales promotion tools created with the acquisition of additional reasons for drug users, doubtful, for whatever reason);
- reducing the inventory of the drug (shares usually directed at consumers who are familiar with the drugs, engaged in repeated acquisitions, sometimes “in reserve”);
- to familiarize physicians with a new drug through the transfer of free samples;
- stimulate sales of new drug wholesale and retail businesses, which is especially important for the pharmaceutical market, which has a high degree of saturation of the range of drugs. Therefore, it is important to encourage activities for members of trade, to convince them of the benefits of implementing a new drug;

- formation of partnerships between manufacturers and pharmaceutical companies (creating more favourable conditions of work with the preparation of the firm than with competing products, its location in the windows on the most conspicuous place; recommendations to the buyer, joint promotional campaign). The achievement of this goal is most conducive to a joint marketing agreement of the manufacturer and trading company, which in addition to shares of sales promotion suggest a presentation, demonstration and training of personnel.

Importance to market OTC drugs have direct contact with the pharmacist to consumers, since specialists compensate for a lack of awareness among patients about the properties of drugs, often providing patient care in the selection of medication for some symptoms.

When promoting prescription drugs accounted participate in the appointment process, the acquisition and use of physicians, pharmacists (pharmacists), funding bodies (if you pay for medicines out of the state budget funds or insurance funds), and consumers.

The main subject of the choice of prescription medication is a doctor. The elements of marketing communications that are used to influence it, are medical representatives, opinion-leaders, the results of clinical studies, conferences, symposia, advertising, exhibitions, PR-campaign. Significant influence on the choice of physician medication provided by:

- personal and professional characteristics (specialty, membership of a particular scientific school, work experience and age, personality type, etc.);
- relating to a particular drug or group of drugs;
- a direct interest in the doctor: in most countries, the legislation prohibited the direct stimulation of the pharmaceutical company physician for the purpose of a particular drug. The EU regulates all types of contracts, firms with physicians, bringing the latest material benefit. Limited to the value of gifts and souvenirs (or prohibited at all), are communicated to the doctor, is regulated by the transfer of free samples, sponsoring trips abroad doctors, their participation in conferences, seminars, etc.;
- external constraints, which include lists of drugs (or categories of patients) for the preferential and free vacations; range of drugs purchased by health care setting, treatment guidelines, formulary lists.

The marketing activities of pharmaceutical companies to promote prescription drugs should be aimed at pharmacists, advising patients when choosing a drug, informing doctors about the presence of analogues of admission to the pharmacy, new drugs and their properties. It is important to cooperate with the pharmacy enterprises: their influence on the range of drugs for the purchase of a particular drug, staff motivation, etc.

In promotion of prescription drugs a special role belongs to the medical representatives of pharmaceutical companies. Their activities are directed to work with doctors and pharmacists, are regulated by EU Directive 2001/83, national laws and other normative documents.

Exposure to pharmaceutical companies directly to consumers of prescription drugs in most countries is restricted or prohibited. However, for example, with the development in the United States (in the 90s of last century), direct marketing or direct marketing, advertising was allowed to prescription drugs in the media. At the same time leave of such drugs is carried out only by prescription. In European countries, such advertising is not allowed. In countries where advertising prescription drugs banned in other forms of influence on the consumer it are medical and social programs, discussions with patients, problems specific diseases, the work of “hot lines”, etc.

As payment for prescription drugs in many countries is carried out not by the patient, and from a variety of funding sources it is the budget, funds independent state organizations, the health insurance fund (or private insurance companies) Pharmaceutical firms often take steps to promote the inclusion of the drug in the standard of care. To this end, work with opinion-leaders (“opinion leaders”) to the economic entities of funding bodies, the creation of public opinion.

10.10. OFFICE OF INTERNATIONAL MARKETING

Management of International Marketing combines basic approaches to management marketing companies and the specifics of the foreign markets. The basis of international marketing strategy is the development of an overall plan of the company in the international market, taking into account identified in each country, prospects and opportunities for firms to implement them. Elected one of the key strategies for products and markets a global (standardized), adaptive (multinational) or integrated (differentiated).

The global strategy allows the companies obtain a significant competitive advantage by posting its activities in the most attractive countries and coordinate their policy actions around the world. In the past 20 years in international marketing has been a characteristic trend of increasing globalization of the advertised goods. Worldwide brand enables the firm to avoid the large costs of developing brands and marketing campaigns for different countries. Through an advertising campaign on a global scale, the firm is able to occupy a dominant position in many countries, it provides a competitive advantage.

The need for *adaptive (multi-national) strategy* arises from the sometimes significant differences in the cultural, economic, political and competitive conditions prevailing in different countries. The more varied the conditions of national markets, the more preferable a multinational strategy in which the company is adapting strategic approach to the specific market situation of each country. In such cases, the overall international strategy of the company is a combination of strategies across countries.

Compromise between these two strategies is *the integrated (differentiated) standardization*. In differentiated standardization strategy the company formulates a global marketing strategy, providing the right leaders in the local markets, knowing the national peculiarities and customs vary the implementation of marketing strategies.

The answer to the question of whether to try to penetrate the markets as many countries, or focus on a few key countries are two versions of an international marketing strategy: world adaptation; adaptation on key markets. Global adaptation strategy is the most expensive, as it implies the sale of goods of different options in each country in the world. This adaptation is necessary when it is dictated by differences in consumer needs.

In the following are being developed strategies for the product, price, product distribution policy and its promotion.

Creating the organizational structure of international marketing focused on the best match the requirements of foreign markets. This takes into account several factors:

- the volume of work of firm;
- the number of foreign markets in which the firm operates;
- specificity and methods of work in the foreign market;
- marketing goals and objectives of the company in foreign economic activity;
- experience in international activities of the company;
- feature and the competitiveness of the goods;
- breadth and depth of assortment of goods.

Marketing departments of Western companies are usually performing the following functions:

- conducting market research;
- justification of product and pricing policies;
- implementation of promotional work;
- organization of sales and deliveries;
- monitoring compliance with payment discipline;
- monitoring the timeliness of delivery of products;
- organization of service.

As part of the main guidelines for the management of marketing, selling products in the markets of different countries allocate positions of regional directors, carrying out its work taking into account local conditions. Local self-marketing service developing a whole range of issues related to market research, advertising and sales, but their activities are coordinated and consistent with the general plans of the head company.

In the pharmaceutical market solving problems of integration and coordination of the firm in different markets, a combination of centralized and decentralized management helps an organization representative of pharmaceutical companies. Representation mediates between the foreign manufacturers on the one hand and the subjects of the national pharmaceutical market – on the other. On the representation of pharmaceutical companies are assigned the following tasks:

- organization of drug registration and coordination with relevant public health authorities and clinical centres;
- research, analysis, evaluation and forecasting of market medicines;
- promotion of medicines in the local market, participation in the implementation of national and regional health programs;
- public relations, formation of the image of foreign pharmaceutical companies in the local market.

Model of organization of representations of the pharmaceutical companies can take into account the specialization of the representatives of on the territories (regions), goods (groups of drugs), the customers (wholesalers, pharmacies, health facilities, patients), and possibly a combination of two or more elements of the above models.

Control of international marketing includes the following stages:

1. Establishing the level of implementation achieved the objectives of the program of international marketing
2. Identifying indicators of deviations from the planned development of international marketing
3. Determine the degree of acceptability of these deviations in terms of strategic objectives set forth in the international marketing program
4. Establishment of internal and external causes of deviations
5. Make recommendations to the full establishment of the identified deviations or mitigate them if they are not caused by an organization independent of external circumstances.

In practice, control of international marketing is to conduct periodic *audits of marketing, or marketing audit*, which is a “snapshot photos” of the organization with the environment. It can be used to compare the market conditions and resource capabilities of the company to make the necessary adjustments to the marketing plan to improve financial and economic indicators. Marketing audit to evaluate the organization's activities in foreign markets, to see its successes and failures, identify the causes of those and others, to establish the competence of employees and their effectiveness.

Complex study of the pharmaceutical companies in foreign markets include the following directions: assess organizational and regional structure; analysis of the company's image; assessment of promotion of drugs; assess the assortment of medicines and other pharmaceutical products company.

Assessment of organizational and regional structure provides:

- evaluate the effectiveness of vertical relationships in the company;
- analysis of planning and reporting systems at all levels;
- identification of overlapping functions of departments and employees;
- evaluate the effectiveness of the distribution of effort between regions;
- exploring the moral environment in the company, the views of employees about working conditions, etc.

The main method of this research is interviewing employees.

The company's image in many ways determines its present and future position in the market, so it is recommended to study with some frequency, for example, once in 1-3 years. Depending on the specific purpose of analyzing the perception of the following criteria:

- perception of the pharmaceutical company as a whole;
- perception of the pharmaceutical company or brand;
- perception of advertising and other means of promotion of medicines or other goods;
- perception of the medical (trade) representatives.

Investigation of conducted by the company's image questionnaires or interview of target groups, which may include: end-consumers, physicians, pharmacists (pharmacists). Thus, in the case of non-prescription drugs or major groups of goods parapharmaceutical interview are consumers and pharmacists, with the image analysis of prescription drugs the most attention is paid to physicians.

During analyzing the image of the medical representatives of particular importance have doctors and pharmacists. Medical and sales representatives can be considered a person of the company; they have a direct impact on the situation in the short term, and the subsequent performance of the company. As part of the study the company's image is also important in comparative analysis of major competitors (or competing products) to the activities and future activities of the pharmaceutical company.

Monitoring and analysis of assortment of drugs and the effectiveness of marketing activities by firms using traditional methods described in the relevant sections.

Questions for out-of-class work

1. Which factors are the conceptual bases for the formation of international marketing?
2. What are the main functions of international marketing?
3. At solving of which tasks the international marketing focused marketing activities of pharmaceutical companies?
4. Describe the characteristics of international marketing.
5. What are the steps involves the formation of a national policy of international marketing company?
6. What factors of the international environment influence on the effective functioning of the firm in a foreign country?
7. List and describe the existing trade restrictions proactive character.
8. Which factors of the legal environment should be taken into account when the output of the national company on the international market?
9. What are the most important economic parameters of the potential foreign market, to be considered when evaluating international marketing environment.
10. What are the different forms of output on a foreign market?
11. What are the different types of joint ventures?
12. What are the characteristics of an international firm?
13. What features are inherent in multinational companies?
14. What are the stages of developing an international marketing strategy?
15. What is the strategy of a standardized (global) marketing?
16. What makes marketing strategy adapted?
17. Describe the basic model of international marketing strategies.
18. What are the peculiarities of international marketing research?
19. Give a description of the stages, typologies and methods of international market research of drugs.
20. What sources of information used in conducting marketing research overseas pharmaceutical market?
21. What applies to the basic elements of the goods in international marketing?
22. What are the technical and economic parameters determined by the competitiveness of goods on the international market?
23. Give the comparative characteristics of two types of international marketing mix: standardization and adaptation.
24. What features of the life cycle of export goods?
25. Which factors should be considered when developing an effective commercial policy?

26. *Describe the main types of commercial policy in international marketing.*
27. *What methods of strengthening the competitive position in the international market using the firm when choosing target markets?*
28. *On what grounds medicines characterized as falsified?*
29. *What are the ways to deal with the realization of counterfeit medicines are used in foreign countries?*
30. *What are the distinctive characteristics of pricing in the international market?*
31. *What are the signs of the classification as the basis for the separation of prices in international trade?*
32. *What kinds of prices, depending on the characteristics of the markets?*
33. *Name and describe the basic pricing strategies used by pharmaceutical companies in introducing innovative medicines on the international market?*
34. *What are the main stages of the pricing companies entering foreign markets, and describe each of them?*
35. *What approaches are based on the pricing policies of firms operating in foreign markets?*
36. *Describe the key aspects of pharmaceutical prices in other countries with developed market economies.*
37. *Indicate the differences in the organization of commodity distribution in domestic and international markets.*
38. *What types of goods movement participants channels characteristic of international marketing?*
39. *List and expand the essence of the methods of distribution of goods in international marketing.*
40. *Provide and describe the different variants of goods movement planning in foreign markets.*
41. *What are the distinctive characteristics of the construction of an advertising campaign at the international level?*
42. *What is the value of PR-activity of the companies for effective promotion of medicines in foreign markets?*
43. *What is so special promotion of OTC and prescription medicines in overseas markets?*
44. *Name and describe the main directions of international marketing management.*
45. *What is the role of representative offices of foreign pharmaceutical companies on the national market?*
46. *Which implies the control of international marketing?*
47. *In what areas of research conducted pharmaceutical companies in foreign markets?*

Tests

1. Complete the list of functions of international marketing:

- A. Analytical
- B. Production
- C. ...
- D. Research
- E. ...
- F. Control

2. The pharmaceutical company, planning to enter on the international market, assesses the existence and content of inter-governmental trade agreements, a system of state regulation of foreign trade, the level of customs duties of goods, currency legislation in the exporting country. Which group of factors of the international environment, these conditions include?

- A. Policy
- B. Legal
- C. Economic
- D. The socio-cultural

3. To reduce the risk of business on foreign markets companies evaluate the factors of economic environment on the potential market. Which of the following factors are not relevant to the economic?

- A. The type of economy
- B. The structure of the population
- C. Approaches to pricing and tax laws
- D. Economic growth
- E. The general economic situation
- F. The nature of social values and motivations
- G. The extent and nature of state intervention in the economy
- H. The stability of the currency

4. What form of output on a foreign market is activities associated to the sale and release of products in another country to transfer its in the property of the foreign contractor?

- A. Joint ventures
- B. Exports
- C. Import
- D. Direct investment
- E. The franchise

5. Indicate what form of output on a foreign market belong to varieties of joint ventures:

- A. Licensing
- B. Contract manufacturing
- C. Direct export
- D. Indirect export
- E. Joint ownership
- F. Joint marketing
- G. Joint ventures

6. Companies coming out on the foreign markets, to achieve the goals are developing optimal marketing strategy. That does not apply to the stages of developing an international marketing strategy:

- A. The basic rationale for marketing activities
- B. Development of methods for expanding the sphere of influence in the field of foreign trade
- C. Organization of international production
- D. The preparation and conclusion of international trade contracts
- E. Formation and optimization of the functioning of firms in an international environment

7. The company offers products for the foreign market, which sold on the domestic market, without having in any changes in their structural characteristics. This is the strategy:

- A. Differentiated marketing
- B. A standardized marketing
- C. Undifferentiated marketing
- D. An adapted marketing
- E. Integrated marketing

8. The company, coming out on the foreign market, takes into account the demand for the product and ready to modify its program and activities to promote a specific market. This is the strategy:

- A. Differentiated marketing
- B. A standardized marketing
- C. Undifferentiated marketing
- D. An adapted marketing
- E. Integrated marketing

9. Complete list of the types of international marketing strategies, which are formed by firms in the light of the competitive environment of the world market and its own competitive position in it:

- A. Basic
- B. The confrontation
- C. The cooperative
- D. ...

10. What are the differences in the partner countries should take into account the firm in order to ensure comparability of international marketing research?

- A. Policy
- B. Language
- C. The geographical
- D. Cultural
- E. Behavioural
- F. Demographics
- G. Information

11. Complete the list of technical and economic parameters that determine the competitiveness of goods on the international market:

- A. The price of consumption
- B. The class of products
- C. Technical specifications
- D. ... Parameters
- E. The ergonomic options
- F. ... parameters
- G. ... parameters

12. The company, going to the foreign market, is looking for new products that are technologically and market relations are similar to existing products. What type of commodity policy applies the firm?

- A. Concentric
- B. Vertical
- C. Horizontal
- D. Conglomerate

13. The company entered on the international market with a new product, which is a continuation of the already implemented the product and its production does not require the firm's significant technological change. This product policy:

- A. Concentric
- B. Vertical
- C. Horizontal
- D. Conglomerate

14. The company exports its new product that is not associated with the existing it before, and therefore require the development of new technologies and new markets. This type of commodity policy is:

- A. Concentric
- B. Vertical
- C. Horizontal
- D. Conglomerate

15. Bring in compliance types of prices of free markets and their classification groups:

- A. Published
- B. Calculation
 - a) background
 - b) the contract
 - c) solid
 - d) the price of international trade
 - e) the stock prices and auction prices
 - f) moving
 - g) followed by the price fixing
 - h) the price proposals of large firms
 - i) the average export and import prices
 - j) the prices of actual transactions

16. What type of pricing strategy applies the pharmaceutical company, if the segment of the market, which sold medicinal products, strong competition is no different, as the primary price achieves the main goal of pricing?

- A. The strategy of “skimming”
- B. The strategy of “market penetration”
- C. A strategy to maintain prices
- D. A strategy to reduce prices
- E. The strategy for raising prices

17. Bring in compliance the specific participants in international commodity circulation channels, and its classification groups:

- A. Proper marketing agencies
- B. Side marketing intermediaries of their country
- C. Marketing intermediaries abroad
 - a) the export department
 - b) the export organizations or representatives
 - c) the trading houses
 - d) imports representatives
 - e) the retail chain stores
 - f) the authorized representative of the company
 - g) the transit trade of the enterprise
 - h) the commissioners

18. Pharmaceutical company, developing an advertising campaign for the international market, takes into account economic, social and cultural differences in the importing country. What type of advertising used by the firm?

- A. Standardized advertising
- B. Information advertising
- C. An aggressive advertising
- D. Adaptive advertising

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У підручнику наведено основні теоретичні положення маркетингу й особливості фармацевтичного маркетингу, зокрема маркетингових досліджень лікарських засобів як товару, їх розробки і просування на ринок, товарної та асортиментної політики фармацевтичних і аптечних підприємств, ціноутворення, оптової та роздрібною реалізації, використання комплексу маркетингових комунікацій на фармацевтичному ринку. Описано сутність і специфіку міжнародного маркетингу у фармації.

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Алекперова Наталія Валеріївна

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