



# **TIERED PRICES**

## **(or Differentiated Prices or Market Segmentation)**

### **What is it ?**

- **A strategic use of price differentiation based on customers wealth (irrespective of volumes purchased) in a system agreed upon by the global society, including the political power and social security institutions.**

# WHY ARE TIERED PRICES ECONOMICALLY FEASIBLE

↪ **If we look at what the cost of a product is composed of :**

**1) The most tiny part (often < 15 %) is represented by the variable costs :**

- \* **raw materials**
- \* **packaging**
- \* **variable utilities**
- \* **direct labor**
- \* **container**

## WHY ARE TIERED PRICES ECONOMICALLY FEASIBLE

↪ **The essence of the cost is represented by non variable costs :**

➤ **Fixed production costs :**

- \* Staff
- \* Supervision
- \* QC / QA
- \* Industrial planning
- \* Industrial engineering
- \* Industrial site management
- \* Site utilities
- \* Maintenance
- \* Depreciation

➤ **R & D**

➤ **Administration costs**

- \* Marketing & selling
- \* Administration

And

➤ **The Profit**

- 
- **THESE NON VARIABLE COSTS (INCLUDING PROFITS) CAN BE ARBITRARILY ALLOCATED, WHICH EXPLAINS THE PRICING FLEXIBILITY.**



**N.B.**

- 1) This evolution in the ratio direct / indirect costs is one of the characteristics of modern economies**
- 2) This trend would still be more important if we were considering distribution costs and taxes**

120

100

80

60

40

20

0



PROFIT

R & D

Administrative &  
Marketing Costs

Indirect Costs  
of Production  
(fixed)

Direct Costs

120

100

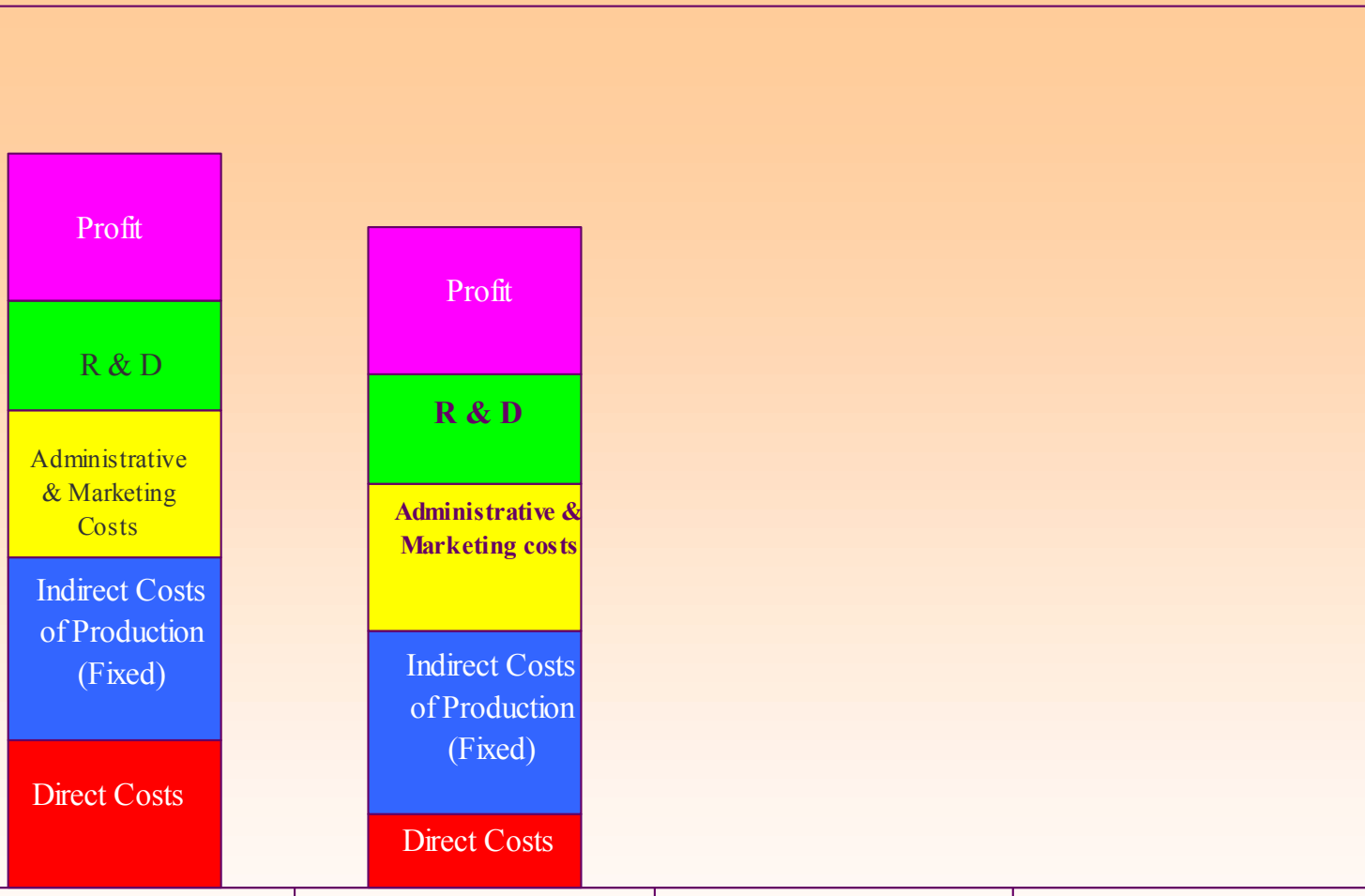
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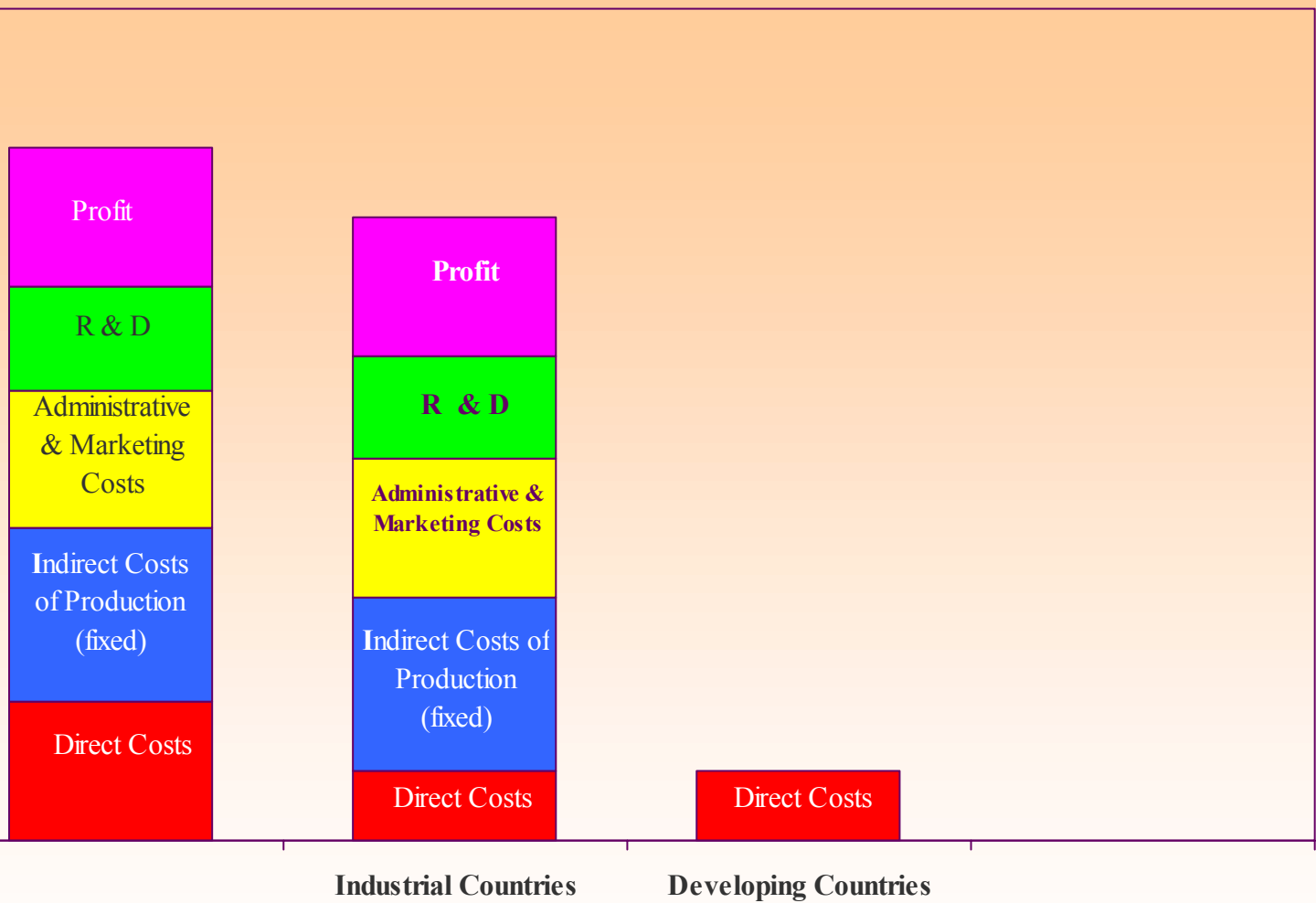
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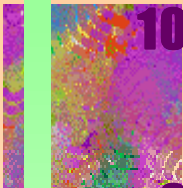
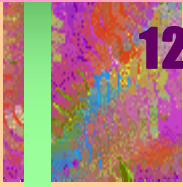
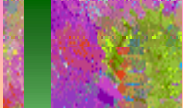


Industrial Countries

120  
100  
80  
60  
40  
20  
0







120

100

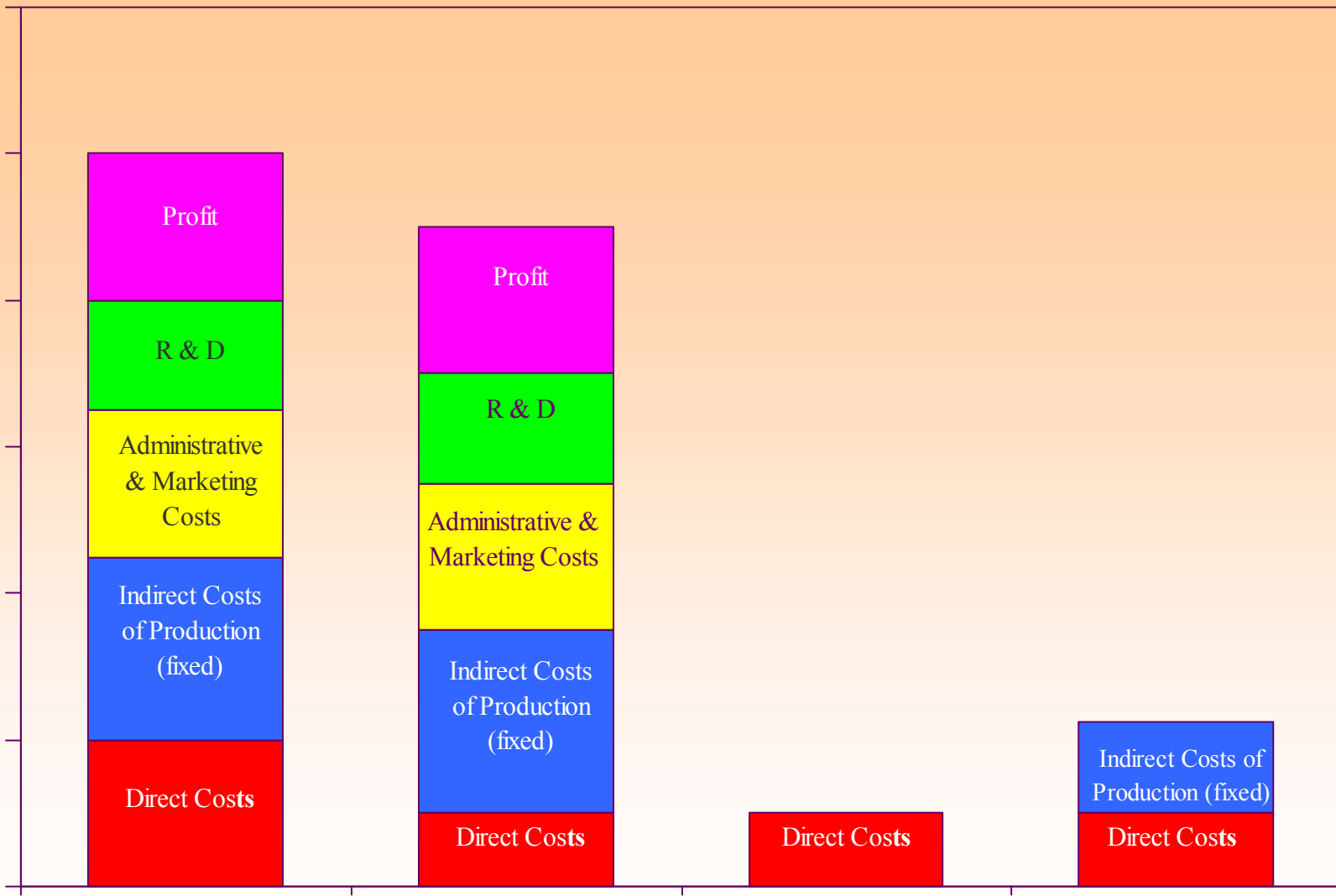
80

60

40

20

0



Industrial Countries

Developing Countries

Direct Costs

Indirect Costs of Production (fixed)

Administrative & Marketing Costs

R & D

Profit

Direct Costs

Indirect Costs of Production (fixed)

Administrative & Marketing Costs

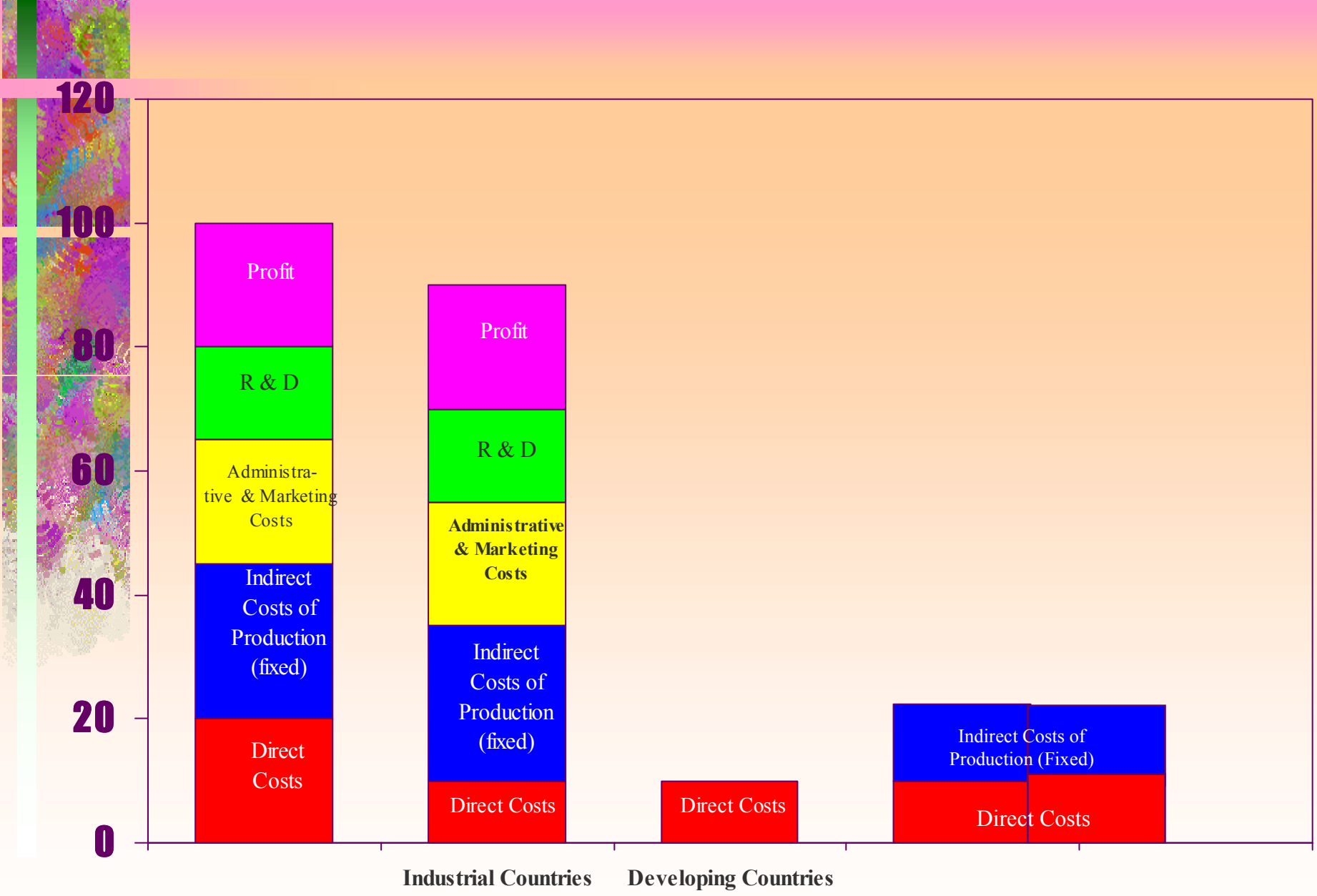
R & D

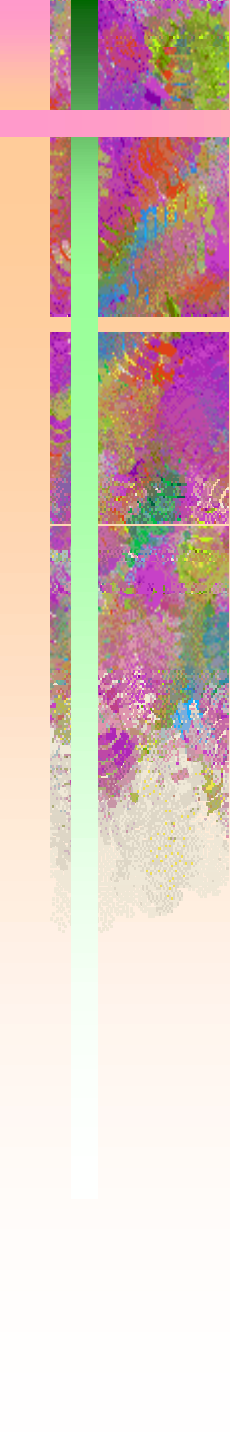
Profit

Direct Costs

Indirect Costs of Production (fixed)

Direct Costs





**FOR A COMPANY, IT IS POSSIBLE TO A LARGE  
EXTENT, TO IMPROVE THE GLOBAL  
PROFITABILITY IN SELLING ADDITIONAL  
QUANTITIES OF VACCINES AT A PRICE LESS  
THAN THE « FULLY LOADED COST »**

# THE FINANCIAL LIMITS OF THE SYSTEM

- **Tiered prices have to rely on the existence of a solid market in industrial countries**
- **These principles can apply if and when free production capacities do exist**
- **In all other cases, where building up a new production capacity is necessary, the decision making process is subject to the regular allocation of resources.**
- **And the profitability is generated only when the financial and opportunity costs and depreciation are covered.**



# **THE POLITICAL LIMITS OF THE SYSTEM**

- **Rich countries have to accept strong price differences (sense of excessive price)**
- **This problem is particularly acute when there is a monopoly situation**
- **Emerging economy countries have difficulties to accept intermediate prices (tendering system - PAHO)**



# **THE PRACTICAL LIMITS OF THE SYSTEM**

- **Risk of parallel imports**
- **Coexistence in a country of two market segments at very tiered prices**

# **CAN WE AFFORD NOT TO HAVE TIERED PRICES**

➤ **Without strongly tiered prices low-income countries will not have access to new products**

**\* They could not pay**

**\* Nor would third party payers be willing to pay**

**(Example of the conjugate pneumo vaccine)**

# CONJUGATE PNEUMO VACCINE

- **1.2 million children die every year in developing countries from a pneumococcus infection**
- **Number of births in countries eligible to the Global Fund for Children Vaccines :**
  - 90 Million (including India and China)**
- **Number of doses necessary for a full immunization course :**
  - 3 + 1 Booster = 4 DOSES**
- **U.S Price per dose : U.S.\$ 58**
- **Total budget necessary :**
  - 58 \$ x 4 doses x 90 M. children =**  
**U.S.\$ 20,88 Billion**



# CAN WE AFFORD NOT TO HAVE TIERED PRICES

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  - \* **They could not pay**
  - \* **Nor would third party payers be willing to pay**  
**(Example of the conjugate pneumo vaccine)**
- **Tiered prices are a trade-off between value and values**
- **They contribute to generating more equity**
- **Tiered prices represent an important mean of justifying intellectual property (indispensable to product development) in a context of limited access to therapy and prevention.**



**↪ When Tiered Prices are put in place, other responsibilities will appear more clearly :**

- For the rich countries, to help finance the acquisition of products.**
- For the developing countries, develop the appropriate infrastructure.**
- For all of us : to make the right priorities.**