Sustainable healthcare systems: the role of therapeutic value and value-based pricing

Dr. Josee Hulshof, Paul Sogokon

Background:

1. Pharmaceutical expenditure as % of GDP has been stable or slightly declining in most European countries in the last 10 years, in spite of concerns about skyrocketing pharmaceutical prices.
2. The flattening of the growth curve of pharmaceutical expenditure is consistent with the “patent cliff”: the going off-patent of many blockbuster drugs.
3. The pharmaceutical market in Europe shows three kinds of approaches to pricing strategies: value-based pricing, competitor-based pricing and cost-plus pricing.
4. Through value-based pricing a fair price reflects therapeutic value, economic value and maybe societal value. In competitor-based pricing a fair price mimics the price of direct competitors. Cost-plus pricing sets the price by adding a fair margin to the cost of manufacturing and handling.

Objectives:

1. Describe the segmentation of the European pharmaceutical market by applicable pricing strategy: 
   1) Innovative patent-protected products, priced by clinical and economic value
   2) Medicines with interchangeable alternatives (generics, biosimilars), competitor-based priced
   3) Low-priced small-molecule generics and OTCs, cost-plus priced with narrow margins
2. Understand the nature of the contribution of value-based pricing to the sustainability of pharmaceutical expenditure in Europe
3. Demonstrate that value-based pricing, in combination with the other pricing strategies in their respective market segments, will enable developed healthcare systems to contain growth of total pharmaceutical expenditure at a sustainable level

Methods:

1. Analyze value/HTA assessment and cost-containment policies in European markets
2. Review healthcare and pharmaceutical expenditure in Europe, and the distribution thereof between patent protected medicines, generics, and OTC drugs
3. Use the Simon-Kucher project experience with pricing strategies of innovative products, mature products, generics/biosimilars, and OTC medications, as well as commercial pricing and contracting strategies (e.g. commercial discounting and tendering)

Results: Pharmaceutical innovation with sustainability

1. Over the last decade practically all European markets moved towards more or less formalized value/HTA assessments of products submitted for reimbursement, setting allowable launch price by a combination of therapeutic, value, economic value, budget impact and international price referencing
2. Products with a significant added therapeutic value continue to achieve premium prices, though the required added clinical value for a price premium is increasing, and often the covered patient sub-population is restricted
3. Simultaneously, the majority of EU countries adopted rules for fixed reference pricing, clustering products after patent expiry with respective generics at market entry, invariably leading to a steep decline in the cost of treatment
4. At the lowest price segment of the market, an increasing number of small-molecule generics and OTCs is sourced at very low prices, often from low-income countries
5. Regional authorities, sick funds, budget holders, hospitals and other sub-national payers further negotiate discount rules and drive generic substitution, showing commercial behaviors similar to fast-moving goods
6. The checks and balances in this finely woven fabric of pricing dynamics in the pharmaceutical market generate a pattern of sustainable growth in which therapeutic innovation with added clinical value continues to find its place

Conclusions:

- In most European countries total healthcare expenditure as % of GDP is stable around the 9 to 11% range since 2008, and pharmaceutical expenditure has been stable around 2% of GDP
- Concerns about unaffordable pricing of some innovative treatments have drawn significant attention, however, assessment procedures scrutinize their added value and are deployed to adjust pricing and restrict coverage to narrow indications and small patient numbers
- The upward budget impact of value-priced innovative treatments is compensated by the growing market share of combination-based or cost-plus priced generics and OTC drugs
- The hypothesis is confirmed that value based pricing supports sustainability of pharmaceutical expenditure in a context of increasing competition based or cost-plus priced generics and OTC drugs

References:

2) Simon-Kucher project experience
3) EFPIA, The pharmaceutical industry in figures, 2011 (table about 2010) and 2007 (table about 2006)

Contact persons:

Dr. Josee Hulshof
Senior Consultant
Bonn
josee.hulshof@simon-kucher.com
Tel. +49 228 9843 160

Paul Sogokon
Associate Consultant
Bonn
paul.sogokon@simon-kucher.com
Tel. +49 228 9843 160

Simon-Kucher & Partners
We are a global consulting firm with 730 employees in 30 offices worldwide. With almost 30 years of experience, we are regarded as the world’s leading pricing advisor. Our clients are leading companies from a broad range of industries (e.g. media, transport, automotive, financial services, high-tech, pharmaceuticals, telecommunications, utilities, commodities and construction).

To find out more, go to www.simon-kucher.com