Pharmaceutical Price Pressures: Challenges and Opportunities

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Pharmaceutical Trends

Challenges

This decade had brought increased pressures on the pharmaceutical industry from practically every angle. Pharmaceutical manufacturers continue to seek out new blockbuster drugs but it's getting harder and harder to find them. In 2007, the industry spent an estimated $58.8 billion on R&D but only 23 drugs were approved. At the same time, key patents are expiring leading to a rise in generic drugs, which represent approximately 67 percent of pharmaceutical sales. The rise in managed care programs, the advent of Medicare Part D and current health care reform efforts have only added fuel to the fire.

According to Christopher C. Biddle, Partner, Worldwide Pricing and Contracting Solution Leader at CSC, during these uncertain times, tier one pharmaceutical companies are facing the greatest pressure from these factors since smaller companies typically have the benefit of patent protection and generics companies can compete solely on price.

“***Large pharmaceutical companies are getting beaten down after having an extended boom time in the 90***s,” said Biddle. “The climate has changed dramatically and they can no longer go on marketing and selling products in the same way that they did 10 years ago."

Biddle states that most top tier manufacturers are still selling against competitor’s product line by product line and they are fighting an uphill battle when their drug and the competing drug are in the same indication and very close in side effect profile, historical price and distribution method.

Christopher C. Biddle

“It doesn’t matter how many pens, leaflets or mugs you’re dropping off, doctors aren’t going to change if the drug is identical to what is already on the formularies of their patients’ insurance,” said Biddle.

“As a result, there is a great deal of pressure on life sciences manufacturers to get creative with their pricing strategies.”

As an example, according to Biddle, when a hospital has an incumbent product and is faced with an alternative, there are three key obstacles that the manufacturer must overcome: clinical buy-in from physicians, the product profile versus the competition and financial buy-in from the administration.

“For the first two – clinical buy in and product profile – the playing field is pretty level if the products are identical in terms of clinical performance,” said Biddle. “It is the third element – financial buy-in – where top tier manufacturers have a unique opportunity to compete.”

Opportunities

At a time when 60 percent of hospitals report that they’ve been impacted by the recent economic issues [1], Biddle suggests that large life sciences manufacturers, particularly those that have multiple divisions comprised of pharmaceuticals, medical devices and/or biologics, focus on the financial incentives that they can offer the healthcare industry. This involves shifting from the traditional product line by product line sales approach to a global pricing strategy through which they can offer hospitals and other customers a combined incentive or "bundled" program across product lines.

Biddle's company, Computer Sciences Corporation , provides customers in industry and government with solutions crafted to meet their specific challenges and enable them to profit from the advanced use of technology. Biddle has extensive experience in assisting life sciences companies with complex and technical needs related to pricing and contracting. He notes:

"In order to compete in today's environment, pharmaceutical manufacturers need to take a step back, look at everything as it exists now and what may happen in the future and come up with a higher level strategy for their organizations," said Biddle. "This involves looking at products across their portfolios and combining them in a contractual way that offers customers cost savings across multiple products while simultaneously maintaining full compliance with all government programs."

In Biddle's experience, this higher level approach provides a significant opportunity for top tier manufacturers to increase revenue and gain market share during these challenging economic times.

"I spoke with one manufacturer recently who was able to secure an 80 percent share of a hospital's procedures for a product that was virtually identical to an incumbent product," stated Biddle.

Biddle suggests that life sciences manufacturers need to plan ahead to maximize their return, regardless of where the economy is headed.

"Manufacturers will continue to face downward price pressures from a variety of factors – these issues are not going away any time soon," said Biddle. "And with the continued threat of drug importation and the negotiation of Medicare drug prices, they must get creative with their pricing strategies if they are to survive."

For more information on pricing and contracting strategies for the life sciences industry, contact Christopher C. Biddle at: email – cbiddle@csc.com, telephone – (610) 407-5635.

Reference:

1.Novation National Economic Impact Survey, February 2009

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