



Pricing Research for the Changing Pharma Sector

Background

- Based on our experience of conducting pricing research in the pharmaceutical space, as well as being part of the pharmaceutical market research community for the past 20 years, it is striking how much the pharmaceutical sector has changed, and continues to change.
- A significant change is that pharmaceutical companies do not tend to do just pharmaceuticals anymore. Browse through the websites of the major pharmaceutical companies and you will see a diversified portfolio of life science interests in addition to pharmaceuticals – such as, diagnostics, genomics, medical devices, animal health, consumer healthcare products, vaccines, biologics, information management, generics and biosimilars (SEBs).
- In addition, a range of companies – often offering technology services – are encroaching into the area of healthcare provision which directly impacts how patients are treated, including how pharmaceuticals are prescribed.
- These changes are influencing the business models offered by companies operating in the pharmaceutical space. Companies need to understand what value they are offering to their customers for each of their healthcare products, and how they should best be priced.
- There are some unique challenges to pricing in pharmaceuticals given the ethical balancing act between maximizing revenue and reducing patient access. There are also challenges with managing pricing between patient segments and between markets, as well as pricing challenges between pharmaceutical companies with co-marketing arrangements.
- Pricing research also needs to take into account the multiple stakeholders and the value they place on products provided by pharmaceutical (and related) companies. Apart from patients/consumers and healthcare providers, in recent years there has tended to be increased influence of payor groups in terms of allowing market access and providing reimbursement.

Pros

- Pricing research methodologies in pharmaceuticals can be useful split into those which support the more established business model, and those which support alternative models
- The more established pharmaceutical business model is geared to a fairly rigid product lifecycle; characterised by a long product development phase, very substantial capital investment, high attrition rates, a set patent expiry date to mark the end of the lifecycle and

high variability in terms of ROI. All these factors play a role in setting pricing strategy. In 2005, the CEO of Novartis Daniel Vasella commented to the New York Times that:

“Only 30 percent of our products ever earn more money than we invested, providing a real profit. So you need a number of products that are really profitable, because most aren't. These profits make it possible for us to both continue to invest in R&D and market all the products that help people but don't make money”.

Pricing Research through 5 Critical Stages of the Product Lifecycle in the Pharmaceutical/Healthcare Sector

	Stage 1 Exploratory	Stage 2 Detailed Planning	Stage 3 Market Entry	Stage 4 Maturity	Stage 5 End of Product Life
Established pharmaceutical model	Phase I-II Pricing exploration to assist in understanding the business potential of different indications and value propositions	Phase III to Launch For the defined TPP, understand the likely uptake amongst key segments at various price points, and develop an optimal pricing strategy across countries	Market Access & Reimbursement At a national, regional & local level, provide compelling pricing + value propositions to payer groups in order to negotiate 'the fourth hurdle' most effectively	Post-Launch Monitor pricing of competitors, and incentives to distribution agents, with an eye on the competition and prescribing environment	Patent Expiry Manage the pricing at known patent expiry date compared to generics or biosimilars (SEBs); particularly by working with established brand equity
Further considerations for alternative healthcare models	Scope Value Proposition Understand the basis of how the healthcare product creates value & to whom, in order to make a 'go' / 'no go' decision regarding development	Define Pricing Proposition Develop a detailed pricing plan based on appropriate pricing research & pricing models with an approach which would ideally create barriers to entry for competitive products	Deploy Launch Sequence Identify the relevant consumers and payor groups and deploy a launch sequence for market entry	Market Monitoring In an environment without patent protection; monitor pricing pressures, competitive threats and relevant technology developments	Obsolesce & Transition The end of product life can be quite unpredictable (if it happens at all) and pricing research can help manage the transition to the next generation of products

- Other business models can have a more flexible product lifecycle and face different pricing challenges. For example, technology-based products can consider Opex versus Capex pricing structures. Generics and biosimilars might face price wars. Rather than facing patent expiry, these products may face an end to their product life through technological obsolesce and/or competitive pressures. The timing of this can be quite uncertain, while some products do enjoy a very long life.
- For the established pharmaceutical business model, we find that there are different needs according to 5 critical stages of the product life cycle. We can also find this approach useful for the alternative business models described above, although this would be evaluated on a case-by-case basis.