



*Should the Cure for Cancer Cost
the Same in California and
Calcutta?*

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OBJECTIVE INSIGHTS

Business Analysis for the Health Care Industry



Outline

- ❖ **What are the Economics and Ethics of Pricing Across Countries?**
- ❖ **Should Pharmaceuticals be Priced Within a Narrow Band Worldwide?**



Studies

- ❖ **U.S. Prices \neq Rest of World**
- ❖ **Effort to Show This**
- ❖ **Effort to Explain This**



Efforts to Show This:

❖ **GAO Reports**

- **Companies Typically Charge More in the U.S. Than in the U.K.**
- **Companies Typically Charge More in the U.S. Than in Canada**



Efforts to Explain This:

- ❖ **PMA Argument: No. of Hours Worked the Same**
- ❖ **Japan Antivirals 2-7 Times U.S. Price**
- ❖ **What Price?**
 - Direct Price?
 - Average Wholesalers Price?
 - Retail Price?



Same Price In All Countries?

- ❖ **Inflation**
- ❖ **Currency Exchange Rates**
- ❖ **Price Controls**
- ❖ **Price Decreases**
- ❖ **Taxes**
- ❖ **Import/Export Restrictions**
- ❖ **Political Changes**
- ❖ **Health Care Structure**
- ❖ **Patent Expiration Dates**
- ❖ **Patent Law Changes**
- ❖ **Negotiated Prices**
- ❖ **Piracy**



Headlines

- ❖ **Pricing chaos in Italy**
 - Threatened a 10% price cut
- ❖ **Italian pricing borders on farce**
 - No one seems sure new system still in effect
- ❖ **Italian budget proposes new price cut**
 - No 10% across-the-board price cut; 3-12% price cut instead
- ❖ **Major product price cut in France**
 - Gov't cut prices of 7 major drugs; volume sales too high
- ❖ **Pakistan seeks new price formula**
 - Take into account world prices for raw materials
- ❖ **South African pricing system set to change**
 - Possibility of changing to cost plus or net pricing
- ❖ **U.S. firms lash out at Italian price cut**
 - Higher the sales, higher the cut
- ❖ **French Price Wrangle Continues**



Pricing the Same Worldwide

- ❖ **It is Irrelevant!**
- ❖ **Drugs Should Not be Priced the Same Across Countries**
- ❖ **Prices Appropriate for Each Market (Micropricing)**



What is a Price?

- ❖ **Free Speech**
- ❖ **Price is Transfer Point**
- ❖ **Transfer of Physical, Material Wealth**
 - \$, £, ¥ For Product
 - By the Owners of the Wealth



Ethics and Society's Stake

❖ **Both Parties Gain**


- "Gain cannot be made without some other person's loss."
 - ◆ Publilius Syrus
- Positive-Sum System

❖ **Society Benefits:**

- Consumer and Producer Surpluses

❖ **Pharmaceuticals**

- Reduce Morbidity and Mortality
- Improve Quality of Life
- Save Money



Ability To Pay \geq Willingness To Pay

- ❖ **Some Things Are Beyond The Limits of Our Wealth**
- ❖ **Many Things Are Not**



Example: HSV, CMV, and Stroke

- ❖ **Different Formulations of Aciclovir**
 - 38-41% of use is topical in Italy & U.K.
 - Not available in Japan
 - U.S. and European formulations different
- ❖ **Different Ways of Treating HSV**
 - More severe patients treated in U.S.
 - Cold sores and mild genital herpes in Germany & U.K.
- ❖ **CMV Retinitis:**
 - Ganciclovir has >80% of uses in U.S.
 - Ganciclovir has <50% of uses in France
- ❖ **Stroke Prevention**
 - Ticlid (Ticlopidine) sells \$40 in U.S. and \$300 in Japan



Health Care Differences

- ❖ **9,000 British Patients a Year Die Because no Kidney Dialysis**
- ❖ **1,379,000 Canadians on Medical Care Waiting Lists**
- ❖ **Russian Health Care System Close to Collapse**
 - Male life expectancy has fallen to 14 years below OECD average
 - Infant mortality up
 - More people died than were born in 1993
- ❖ **Japanese Doctors Profit by Prescribing**
 - Doctors prescribe and dispense
 - Patients feel cheated if few Rx's



Health Care Differences (cont.)

- ❖ **Medicinal Plants Used to Treat 40% of Chinese**
- ❖ **Traditional Healers:**
 - Apply dung to umbilical cord of newborns
 - Female circumcision
 - Don't wash hands before deliver baby or inspect wounds
- ❖ **Pharmaceuticals Irrelevant to 80% in Third World**



How do People, Cities, States & Countries Differ?

- ❖ **Income**
- ❖ **Average State of Health**
- ❖ **Life Expectancy**
- ❖ **No. of Children**
- ❖ **No. of Telephones**
- ❖ **Educational Level**
- ❖ **Availability of Running Hot & Cold Water**
- ❖ **Infrastructure**



Three Scenarios

- ❖ **Price Same Worldwide and Price High**
- ❖ **Price Same Worldwide and Price Low**
- ❖ **MicroPricing: Customer-Specific Value-Based Pricing**



Price Same Worldwide and Price High

- ❖ **Price is Appropriate for Developed Countries**
- ❖ **Price is Too High for Developing Countries**
- ❖ **People Cannot Afford in Developing Countries**
 - Reduced Societal Wealth
 - Morbidity and Mortality



Price Same Worldwide and Price Low

- ❖ **Price is Appropriate for Developing Countries**
- ❖ **Price is a Bargain in Developed Countries**
- ❖ **Product May Not be Developed**
 - Reduced Societal Wealth
 - Morbidity and Mortality
- ❖ **Company May Not Have Resources to Develop New Products**



MicroPricing: Customer-Specific Value-Based Pricing

- ❖ **Price is Appropriate for Developing Countries**
- ❖ **Price is Appropriate for Developed Countries**
- ❖ **Product Developed if Medical and Marketing Need**
 - **Highest Societal Wealth**
 - **Cost and Life-Saving Medicine**



Conclusion

- ❖ **Prices are Different**
- ❖ **It is Hard to Price the Same Worldwide**
- ❖ **Valid, but Irrelevant**
- ❖ **Price is a Transfer Point**
- ❖ **Exchange Helps (Almost) Everyone**
- ❖ **Drugs Reduce Morbidity, Mortality, and Cost**
- ❖ **People Buy if Value \geq Cost**
- ❖ **Value Varies Dramatically, so Should Price**
- ❖ **Restaurants Handle Diverse People**
- ❖ **Micropricing**



Restaurants

- ❖ **Handle people with dramatically different price sensitivities by offering a wide selection on the menu**
- ❖ **Three Friends go to Dinner ...**
 - One Very Poor
 - One Very Rich