

Pharmaceutical and Biotech Product Pricing

WBBA

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Outline



- Introduction
- I: Fail by using faulty pricing concepts
- II: Fail by not spending the time to analyze situation
- Conclusions

Introduction



- Capture some of the value you have created
 - Patients live longer and better lives
 - Save payers money
 - Better diagnose and treat disease
 - Preventing morbidity and mortality
 - Reducing pain and discomfort
- Pricing is a business decision

Introduction (cont.)

- Pricing should be a strategy
 - Cash flow
 - Maximize profits
 - Helping sick patients
 - Positive public perception
 - Rapid penetration
 - High market share
 - Set stage for future products
 - Stay out of political or legal problems
- Mylan Laboratories in hot water
- Pricing conferences can be dangerous
 - Price-fixing conspiracy?
 - \$723 million settlement

I: Fail by using faulty pricing concepts

- Price equal to the competition
- Ignore manufacturing costs or use the wrong costs
- Focus only on manufacturing costs
- Listen to biased information
- Always price a newer, better product higher
- Thinking that no one will pay for an expensive drug
- Dropping price to match the competition
- Waiting until the last minute
- Ignoring reimbursement issues

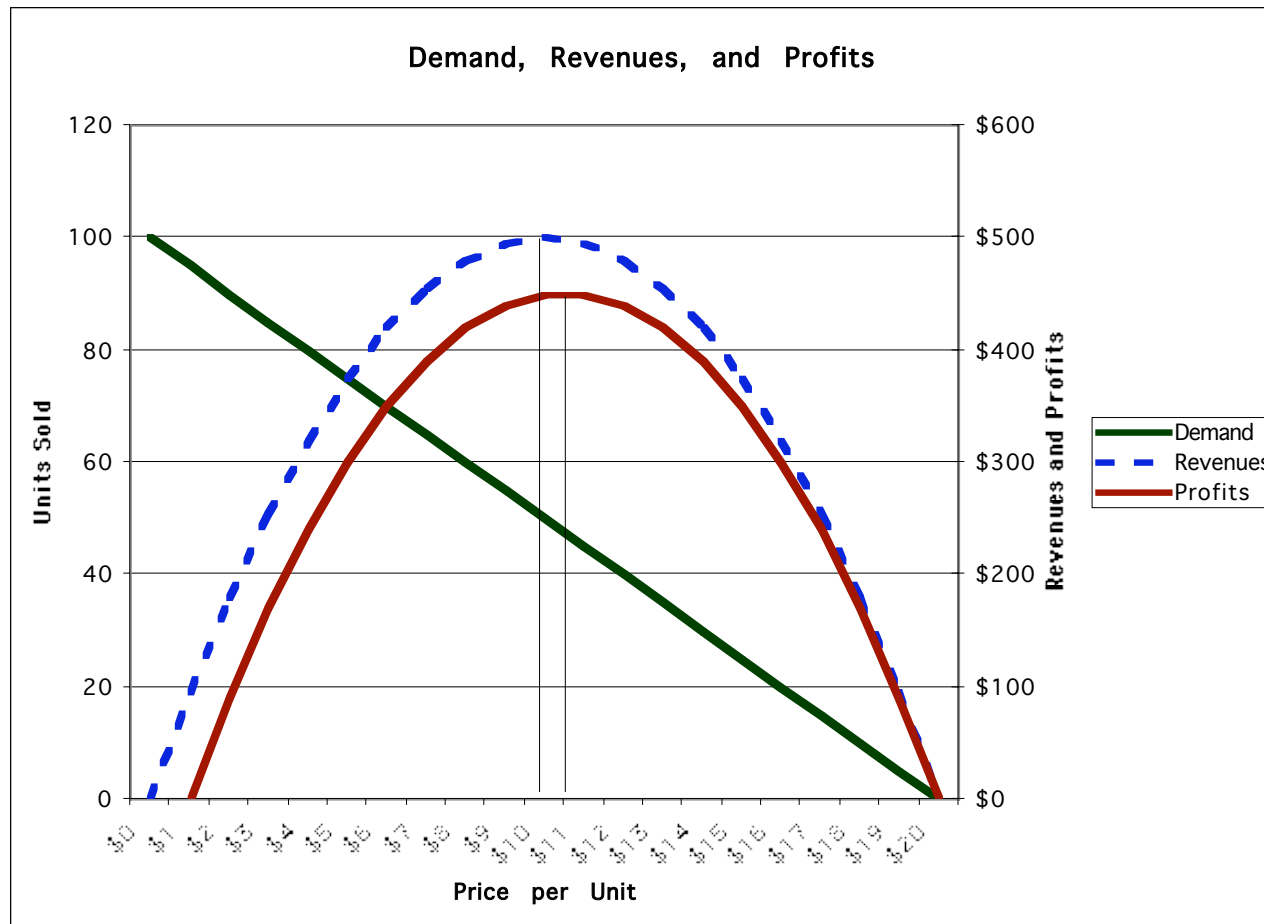
Price equal to the competition

- Does not always work
 - Wide range of prices in market
 - Thrombolytic example
 - \$2.7 billion extra
- What *is* the price of the competition?
 - \$4 per vial (to match price/mg)
 - \$1,400 per vial (to match price/day)
 - \$310 per vial (to match price/year)

Ignore manufacturing costs or use the wrong ones

- Gross margins in 90% range
- Only look at incremental, avoidable costs
 - No sunk costs
 - No overhead costs
- Provides a floor for your price

Focus only on manufacturing costs



Focus only on manufacturing costs (cont.)

■ Economic theory

- Demand curve
 - » There are always substitutes
- Revenues
 - » Peak between pricing extremes
- Profits
 - » Peak slightly higher than revenues
 - » There is *a* profit-maximizing price
 - » Anything else is too high or too low
- No reason for “reasonable gross margin” price to be the same

Biased information



- Pharmaceutical sales representatives
 - Love to win
 - See price as a hindrance to their success
 - “Price too high” = not convinced of value
- Physicians
 - Less aware of prices
 - Will give politically correct answers

Others



- Always price newer product higher
- Thinking that no one will pay for an expensive drug
- Dropping price to match new competitor
- Waiting until the last minute
- Ignoring reimbursement issues

II: Fail by not spending the time to analyze the situation

- The One-Percent Rule
- What analysis to do?

The One-Percent Rule

- *You should spend one percent of the value of the decision analyzing the decision.*

-Stanford Professor Ron Howard

- **Examples**

- Conference
- Buy a house
- Activase
- Laundry detergent

- **Still need intuition, experience, and judgment**

What analysis to do?

- Understand manufacturing costs
 - Provides a floor for your price
- Measure and understand competitor's prices
 - You will be competing in this environment
- Understand the true value of your product
 - Patients' quality-of-life
 - Economic value to payer or decision-maker
- Market research
 - Study customer groups and what they want
 - Who is key decision-maker?
 - Ask the right person the right question

What analysis to do? (cont.)

- Break-even analysis
 - How much does volume have to change to break even?
- Understand discount and rebates
- Reimbursement analysis
- Mock negotiations
- Indigent patient programs
- Sales forecast
 - How big a hit to payers?

Conclusion



- Capture some of the value you have created
- I: Avoid faulty pricing concepts
- II: Spend the time to analyze situation
 - The One-Percent Rule
 - Do the right types of analysis
- Add judgment, intuition, and experience