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Pharmaceutical Executive

The Best Price for the Most Revenue

A global life-cycle management strategy should be baked into a drug's initial price at launch.

Life science companies face increasing pressure to manage declining margins while funding R&D and meeting shareholder expectation to generate steady increases in revenue. Achieving optimal pricing across geographies at every stage of the product life cycle is a key component of any sustainable global revenue building platform. But this mission critical goal is made more difficult today due to the increasing complexity of price referencing, often among dozens of countries, each with a commitment to reducing national drugs spend.

Pricing sits precisely at the crossroads of governments' budget constraints and life science company interest in maximizing the revenue stream. Governments are addressing their budget challenges through increased scrutiny of the clinical value a product brings to market, leading to unprecedented pricing and volume pressures on new launches as well as in-market products. Companies are withdrawing products or foregoing a launch in a particular country due to the disparity in how payers/government agencies and companies perceive a product's value. As a result, pricing has been elevated to a senior management challenge with significant political and reputational implications.

The trend prompted us to pose a few questions to a selected number of life science pricing executives:

- How do you know if your price and country launch sequence strategies will deliver the optimal revenue stream?
- What happens when a critical country launch is delayed?
- What is your reaction when a country launches out of sequence, or at a price below your floor?
- What key performance indicators define a successful launch?"

The most frequent response was, "We are familiar with the market landscape; we know what works, we've been launching products in this fast changing environment for years." However, the fundamental question of how do you know if your strategy is the right one in maximizing returns to the business remained largely unaddressed.

The interviews did yield some useful insights, as follows:

A strategic imperative

Pricing and market access are top strategic priorities for life science companies. Most participants admitted their organizations are not efficient or transparent in addressing current global price practices. Organizational capabilities are often cobbled together and do not adequately support today's business requirements.

This can result in lost revenue and lower productivity. Failure to monitor and manage global pricing can translate into significant revenue losses. Without proper affiliate insight and forecasting, global organizations can miss financial targets and find themselves taken hostage by unanticipated market events.

Pricing teams also face demands to run frequent data analyses to simulate alternative market scenarios. This can be a drain on productivity and slow the pace of decision-making. One executive we spoke to explained how each pricing scenario requires extensive computer processing, literally on an overnight basis, which then must be restarted with new assumptions to reflect rapid changes across markets. Such slow processing limits the number of effective scenarios considered and leads to organizational bottlenecks.

Simple improvements

Effective pricing and strong inventory governance are a necessary element of any revenue maximization plan. Companies must oversee regional and country specific pricing activities through prospective reviews, global analysis and approval. It is no longer acceptable to base pricing decisions solely on local country/affiliate objectives. Strategies must be drafted around an integrated, global perspective; they exist to promote the interest of the company overall. A centralized strategy to place global revenue priorities over the affiliates' interests requires organizational alignment to provide the appropriate country level incentives that will enable the country to follow suit and adhere to the global pricing position. Without alignment, affiliates may resist buying into the strategy and derail corporate goals.

Currently, many global pricing teams lack the operational mandates to manage the organization's pricing strategy across geographies. Countries launching outside the optimal sequence or below the approved regional floor are likely costing the organization millions in prospective revenues foregone. For life science organizations to remain successful in addressing market pressures, they can no longer afford unchecked affiliate autonomy. Integrated, coordinated management of go-to-market strategies, in-market product pricing and inventory is key to getting it right.

Product launch support—the right way

Launch teams deliver launch strategies with one purpose: to maximize revenue. Within those teams sits a pricing member dedicated to developing a corporate pricing strategy through a comprehensive market analysis scoped to produce a specific launch price recommendations. Yet some executives believe they continue to miss the mark either in decision support, strategy, or execution.

Contributing to this pricing strategy development are complicated individual country pricing mandates such as external reference pricing rules and price controls. In this environment, country interdependencies can impact other country's reimbursement prices, and therefore global revenue.

These analyses are currently "underserved" by relying on older, sub-optimal analytical tools such as Excel. For example, if a life science organization launches a product and considers the sequence opportunity across 75 countries within a 90-month period, they are actually considering 8,960 to the 2,030th power of possible price/launch date sequence combinations. Clearly, there are productivity limitations in considering all these iterations with basic tools. Recognizing not all combinations are viable, industry experts can utilize market knowledge, advanced analytics and global goals to create the best market launch scenario.

Many companies build their own pricing analysis tools using a siloed approach, by brand or therapeutic area. This method prevents best practices sharing and creates challenges to replicate or standardize, leading to subpar pricing analytics and decision support. Calculating the complexities of external price referencing and parallel trade requires advanced analytics that can evaluate any number of variables and millions of scenarios. In addition, tough decisions require trade-off analysis comparing different launch sequences and in-market price scenarios to estimate the corresponding revenue. Variables should be adjusted to simulate potential market situations and deliver the forecasted outcome with a high degree of confidence in their accuracy.

Pricing challenges don't end once the product is launched. Life Science organizations are reporting selling price erosion during the past several years due to external market forces, including government pricing pressures, parallel trade and global reference pricing modifications. Even a slight price change in a country may have a significant impact on prices, revenues, and margins that reverberate around the globe. In-market simulation capabilities are needed to evaluate market impacts as country specific reform and legislation become realities. It is vitally important to understand downstream impacts on other countries, regions and at the corporate level in anticipation of market movement. With the help of fast, easy to run analysis, deeper insights into the individual market dynamics will become more evident, enabling organizations to negotiate with countries based upon the right metrics. Good metrics are vital to success in a transparent pricing world.

Solution: Pricing Intelligence Center

Creating a centralized yet cross-organizational intelligence pricing center will provide:

» A platform for data repository and integration
» Fact-based decision making that is repeatable and standardized to enable options comparisons
» Advanced analytics such as optimization, simulation, "what-if" analysis, and forecasting
» Central enterprise communications vehicle to deliver clear corporate strategies and guidelines, to enable market intelligence reporting, and to capture best practices

Without a single integrated version of the truth, many hours are spent unproductively explaining and adjusting data and analysis. This is time better spent elsewhere.

Best-in-class operating agreements

We concluded from our conversations that to achieve optimal revenue for a brand demands best in class capabilities:

» Corporate objectives will drive the optimized launch price and sequence to obtain access to the largest number of eligible patients, at the greatest reimbursable price
» Country goals will be in concert with corporate objectives
» Country launch date and price corridoors will be analytically rigorous using market analytics and emperical data points
» Price events will be simulated to assess and minimize negative global revenue impacts
» Global Pricing or Market Access Teams will be the hub for communicating launch and in-market pricing decisions, evaluating and adjusting for exchange rates and historical prices
» Affiliates will be responsible for populating the central repository with sales volume forecasts and country reference price rules

Today's pricing and market access teams deliver corporate pricing analysis to the organization both at the corporate and affiliate levels. Fortunately these are seasoned teams that understand the market nuances and the products. Yet with so many senior executives questioning the strategies and the supporting analytics for these critical pricing decisions, it's important to critically evaluate the methodologies, use the benchmarking studies and question standard hypotheses. Without doing so there's no way to answer that fundamental question—"How do you know you got the best price?" PE

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