

A top-down view of several petri dishes containing agar with various colors: blue, green, red, and yellow. A blue loop is visible in one of the dishes.

Deloitte.

Pricing in Life Sciences

Positioning value at the centre

Annual trends survey

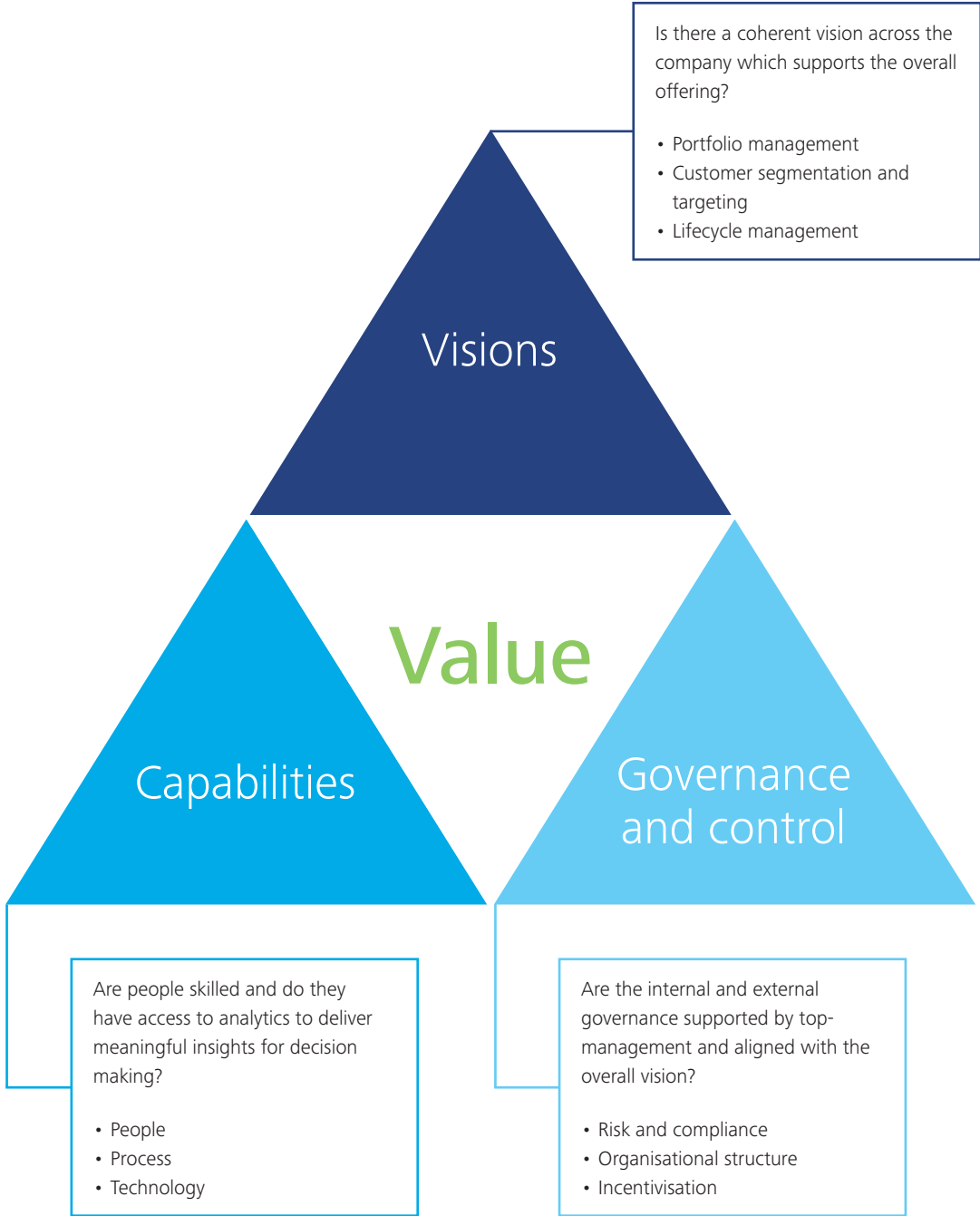
June 2015 – Deloitte Switzerland
Audit. Tax. Consulting. Financial Advisory.

Contents

Positioning value at the centre	1
Executive summary	2
Vision	4
Capabilities	6
Governance	8
Conclusions	9
Sample and methodology	11
Contacts	12

Positioning value at the centre

Deloitte’s research and experience based on 500+ projects with clients across the Life Sciences sectors shows that three key components are required to unlock sustainable commercial value.

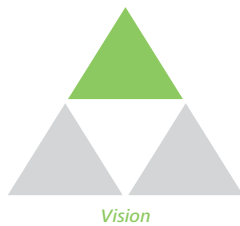


Executive summary

As payers continue to apply pressure on the 'cost of healthcare', industry leaders have identified new opportunities to improve margins through better differentiation of offerings and careful management of margin leakages.

Deloitte conducted its annual survey on pricing and profitability management practices amongst senior pricing executives of leading global Life Sciences companies. The study focused on key trends impacting companies active in the pharmaceutical, biotechnology, medical technology and generics sectors in Europe.

The study identified trends in four areas, each representing opportunities for value-capture:



- Shift towards value-added products and services across the board to protect against price erosion and price wars.
- Perception of pricing as a key decision driver for R&D support.



- Focus on advanced tools for price setting and optimisation of commercial terms in pharma and biotech, after years of investment in pricing and profitability analytics.
- Need for pricing analytics in the majority of generics and medtech companies.



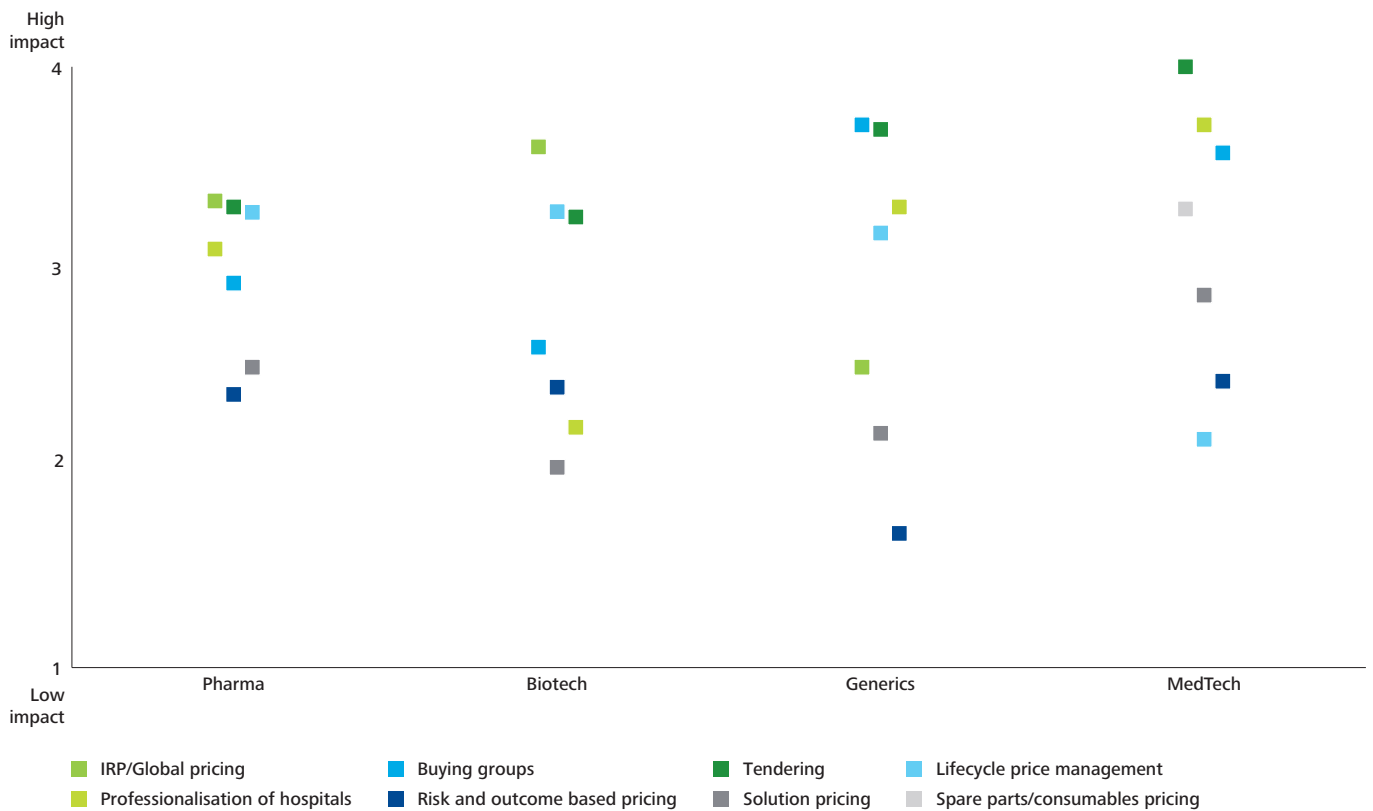
- Flexibility of processes and shared decision-making between global and individual countries seen as key success factors by the majority of companies.
- Variation of pricing and profitability management ownership across companies, ranging from pricing as a dedicated function to its integration with finance and R&D.
- Setting of pricing decisions at global level, however markets are accountable for profit realisation across portfolio.



- Integration of pricing and profitability with other commercial functions e.g., sales/contracting and marketing without necessarily reporting to them.
- Creation of commercial centres of excellence by industry leaders, to act as knowledge centres across market functions.

When asked about key trends impacting the industry, responses differ significantly across sub-sectors. International Reference Pricing (IRP) still has the highest impact on innovative products, while the impact of tendering, emergence of buying groups and professionalisation of buyers is more pronounced in generics and medtech.

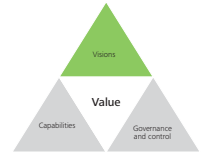
Industry trends split by sub-segments



Most companies have been bundling products for decades, however, until now, few have bundled value-added services in their offering. Solutions and therapies, composed of products and service bundles, are an effective way for providers to strengthen their position towards tenders by reducing the single products pricing transparency to their competitors. In 2013, Medtronic anticipated this trend and signed a contract with the UK National Health Service (NHS), to equip and maintain all their catheterisation laboratories.

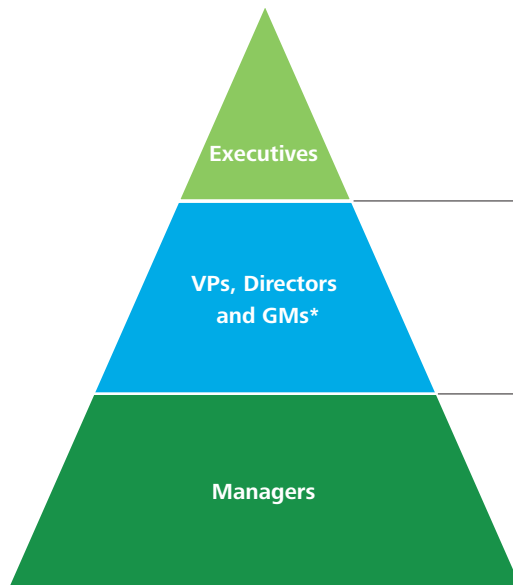
Most companies have been bundling products for decades, however, until now, few have bundled value-added services in their offering.

Vision



Value selling and management are indicated as key factors to drive differentiation and achieve higher prices.

Pricing continues to be considered as part of companies' top priorities by the majority of interviewees (69%). Elements such as sales and marketing effectiveness and customer relationship management are gaining traction, but are not regarded as "must-wins". When asked about the critical "must-wins" within pricing, responses differ significantly based on seniority of respondents, illustrating a disconnect – 30% respondents reported that they lacked clarity and guidance from top leadership.

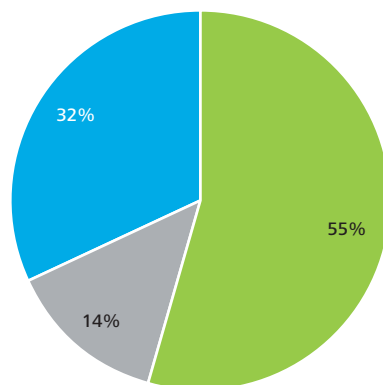


Must-wins for 2015

- Train people to adapt selling techniques to evolving payer types e.g., procurement.
- Shift focus of the salesforce from discussing price to positioning and selling value.
- Integrate IT tools to have single source of truth.
- Upgrade tendering process and associated systems.
- Upgrade systems to facilitate decision making.
- Enhance pricing tools to reduce time spent.
- Increase alignment between pricing strategy and incentives.
- Improve support to sell value e.g., provide value stories.

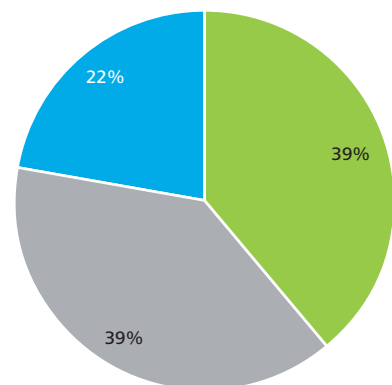
Value selling and management are indicated as key factors to drive differentiation and achieve higher prices. The majority of respondents (55%) understand the value-drivers of their product offering, with 39% further utilizing this information in the context of value-stories. Although the utilisation of value-based pricing mechanisms increased year-on-year (40% in 2013 compared with 54% in 2014), few respondents were actively satisfied with the level of sophistication of their company.

We understand what customers value in each product

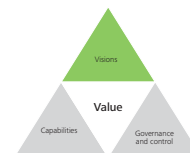


■ Agree ■ Neutral ■ Disagree

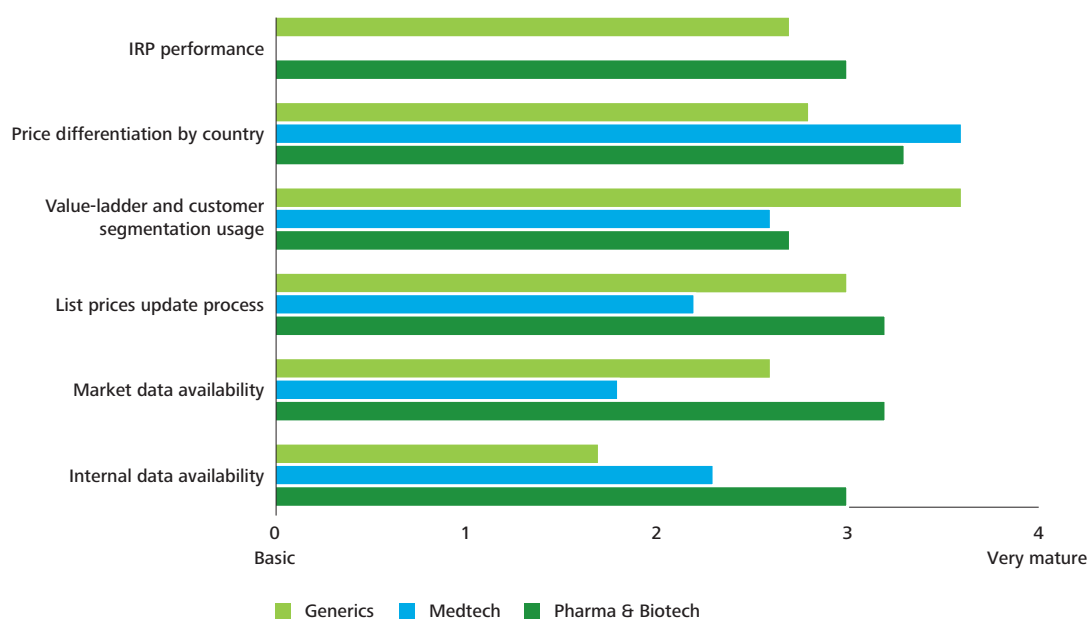
We give full consideration to Pricing in value-stories



■ Agree ■ Neutral ■ Disagree

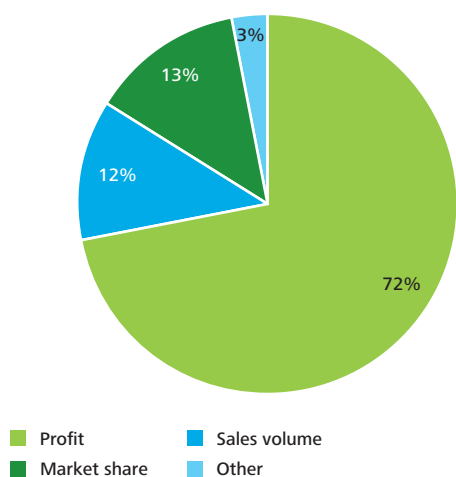


Sophistication of price management and the price setting process greatly differ across sectors. The impact of international reference pricing (IRP) has led pharmaceutical and biotechnical companies to allocate dedicated resources to ensure market access, resulting in increased maturity of the industry. Generics companies that have historically been less impacted by IRP, have nevertheless developed significant capabilities to manage list prices and perform price segmentation to protect their relatively lower margins.



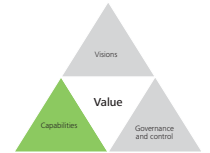
Both generics and medtech respondents reported significant challenges in obtaining and using both internal and external data.

Element maximised by the strategy of the company



Another indicator of the importance of value as a profit-driver is the shifting focus from volume to profit reported by a majority of respondents. Although 65% of respondents report that targets and incentives are not yet fully aligned to the pricing strategy, management is increasingly encouraging sales representatives to walk away from deals compromising profitability to avoid setting precedents.

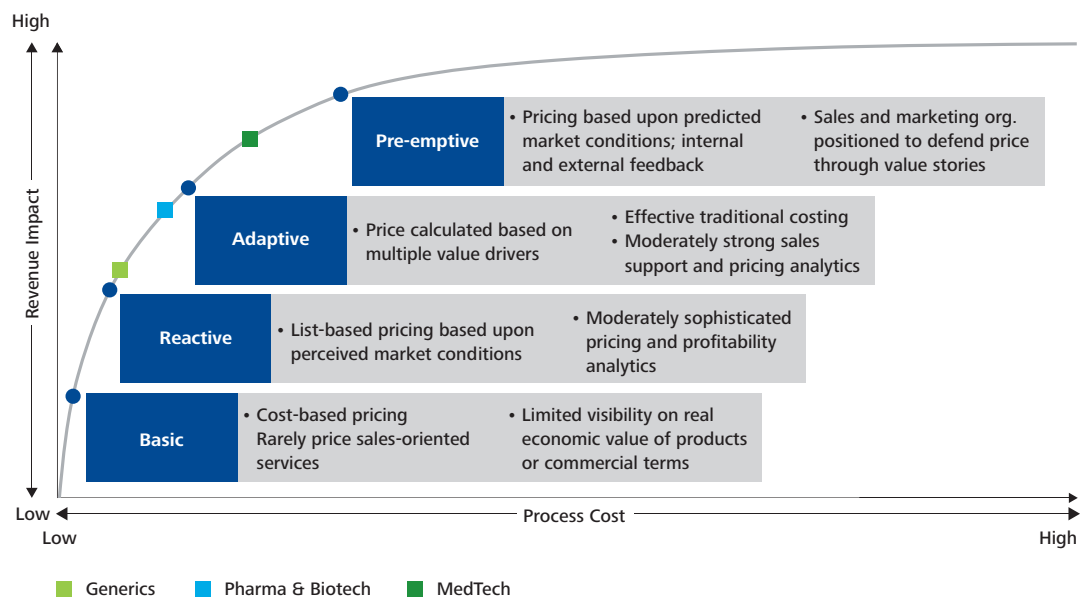
Capabilities



When compared against the mean of Deloitte's maturity framework, the level of sophistication differs significantly between sub-sectors, with medtech leading the way.

Although the majority of respondents recognise the need for enhanced value-based pricing and selling capabilities, only **18%** report having these capabilities in-house. While **55%** consider themselves "at-par", the remaining **27%** estimate that they are below par.

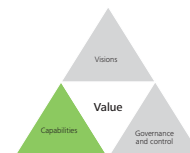
When compared against the mean of Deloitte's maturity framework, the level of sophistication differs significantly between sub-sectors, with medtech leading the way, followed by biotech and pharma companies. Generic companies display pockets of excellence within specific areas, such as, rebate management and supply chain, but currently lack most of the capabilities required to use a value-based pricing strategy.



Value creation represents only half of the opportunity for margin enhancement. Although profitability management initiatives such as discount, rebate and surcharge optimisation are now standard for most companies, survey respondents continue to view these as potential drivers for increasing profit. In fact **67%** of respondents reported that discount and rebate optimisation are key to value capture, whereas only **17%** are seeking to adopt sophisticated ways in which to differentiate products and services based on customer specificities.

When asked about the importance of analytics solutions, **45%** of respondents mentioned pricing and profitability analytics, **20%** mentioned price execution (e.g. discount and rebate management systems) and another **20%** mentioned price setting. Bid and quotation management systems were viewed as important by only **14%** of respondents.





Of particular interest is to note that the perceived need for improvement differs significantly across sectors, as highlighted in the following heat map.

	Pharma + biotech	Medtech	Generics
Pricing analytics	High need for improvement	Average need for improvement	Very low need for improvement
Pricing optimization	Low need for improvement	Very low need for improvement	High need for improvement
Pricing execution	Very low need for improvement	Very low need for improvement	Very high need for improvement
Bid and quotation	Average need for improvement	Very high need for improvement	Average need for improvement
Profitability analytics	Very high need for improvement	High need for improvement	Average need for improvement

■ Very high need for improvement
 ■ High need for improvement
 ■ Average need for improvement
■ Low need for improvement
 ■ Very low need for improvement

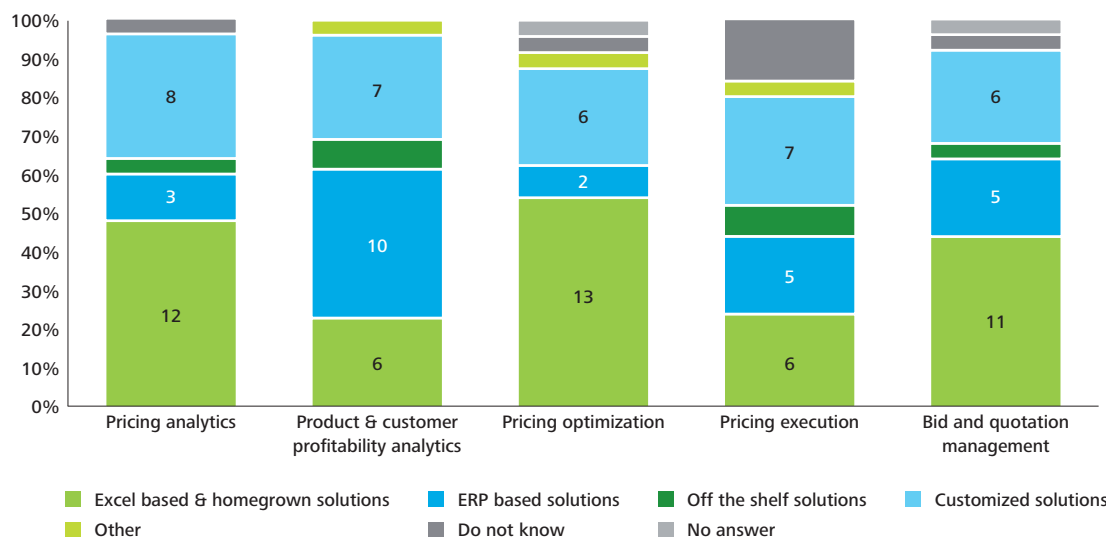
The need for improvement is consistent across the board with the position of each company on the maturity framework.

Pharma and biotech respondents highlighted the need for increased data visibility, and deprioritised the immediate need for sophisticated tools to optimise price setting and commercial terms. Given the emphasis on building the Market Access function in recent years, it is unsurprising that capabilities related to price-setting are well developed. Due to the emergence of complex cross-selling schemes e.g. such as solutions, therapies and other complex product/service integrated offerings, price analytics remain an important parameter.

Medtech respondents mentioned systems for bids and quotations (including tender management) as their key capability gap. This is expected given the considerable improvement in coordinated tendering from healthcare providers. With the emergence of national tenders, a refocus of the current sales capabilities is critical.

Generics respondents reported the need to improve their price setting and execution capabilities, in an attempt to end price wars that have decimated margins. With an increasing number of generics companies now developing innovative products, the generics industry needs to rethink its pricing strategy, and improve its ability to position value, as pharma and biotech companies have been doing for years.

Although market leaders have allocated significant resources to optimise their pricing position, the majority of the industry still relies on standalone spreadsheets and access to Enterprise Resource Planning (ERP) systems to support decision making in pricing. However, this situation is described as sub-optimal by the majority of pricing managers and directors. In their view, system integration and data centralisation are key drivers of visibility and reliability. This latent need clearly represents an opportunity for solution vendors that have spent the last few years developing user-friendly end-to-end pricing and profitability management solutions.

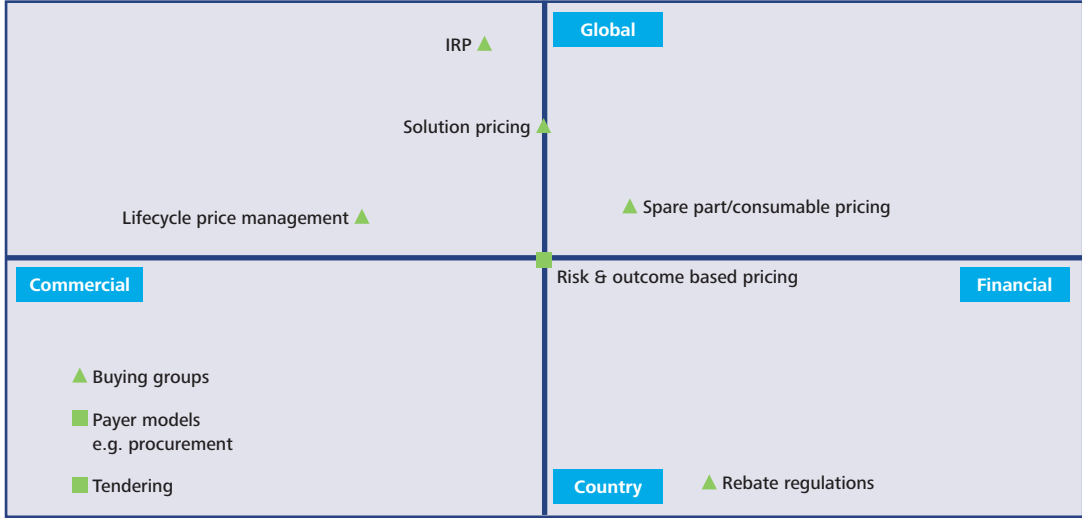


Governance



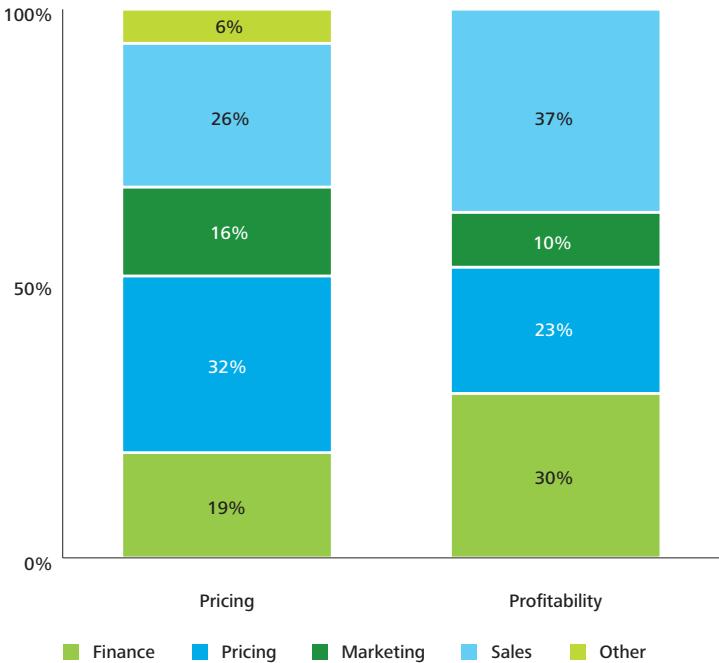
Due to the variety of external factors impacting pricing and profitability management, coordination across functions and between the global and local country companies is much needed. Different companies have a different level of centralisation for both historical and strategic reasons. Nevertheless a significant portion of pricing related challenges requires local solutions and involvement e.g. tendering, rebate regulations.

Key trends and level of responsibility



There are two facts worth noting when it comes to ownership of the pricing and profitability process, and governance:

- More and more companies have dedicated pricing teams, however, a significant part of the ownership still resides within the sales department.
- **90%** of survey respondents believe that their governing structure allows sufficient flexibility at the regional level to adapt guidelines defined globally.



Conclusions

The 2014 Deloitte Pricing survey for Life Sciences in Europe reveals three fundamental aspects of how companies perceive pricing and react to challenges AND opportunities:

1

Pricing is on top of the executive agenda

Despite the number of mergers, acquisitions and divestures that have happened in 2014, cost containment measures continue to pressure industry margins. Given that pricing initiatives have a higher return on investment compared to ordinary cost-optimisation measures¹, they are still considered good instruments with which to create shareholder value.

2

To address pricing challenges, a coordinated commercial approach is required

Pricing practitioners indicate the need for pricing initiatives to include commercial aspects e.g. sale-effectiveness and incentive measures in order to be relevant. This is a clear shift and signals the readiness of most companies to improve value creation through commercial excellence, resulting in better differentiation and customer experience.

3

Market-leaders recognise their weaknesses and build on their strengths

There is no company that displays an above-average maturity in all pricing dimensions. However, leading companies have learnt to recognise their own strengths, and attempt to influence the industry toward their area of expertise by lobbying payers. For instance, some companies have implemented a perfectly controlled tender response process, to improve their chances in highly-tendered markets, whereas others offer an end-to-end management of patients from initial treatment to full recovery, to create differentiation and avoid the creation of tenders.

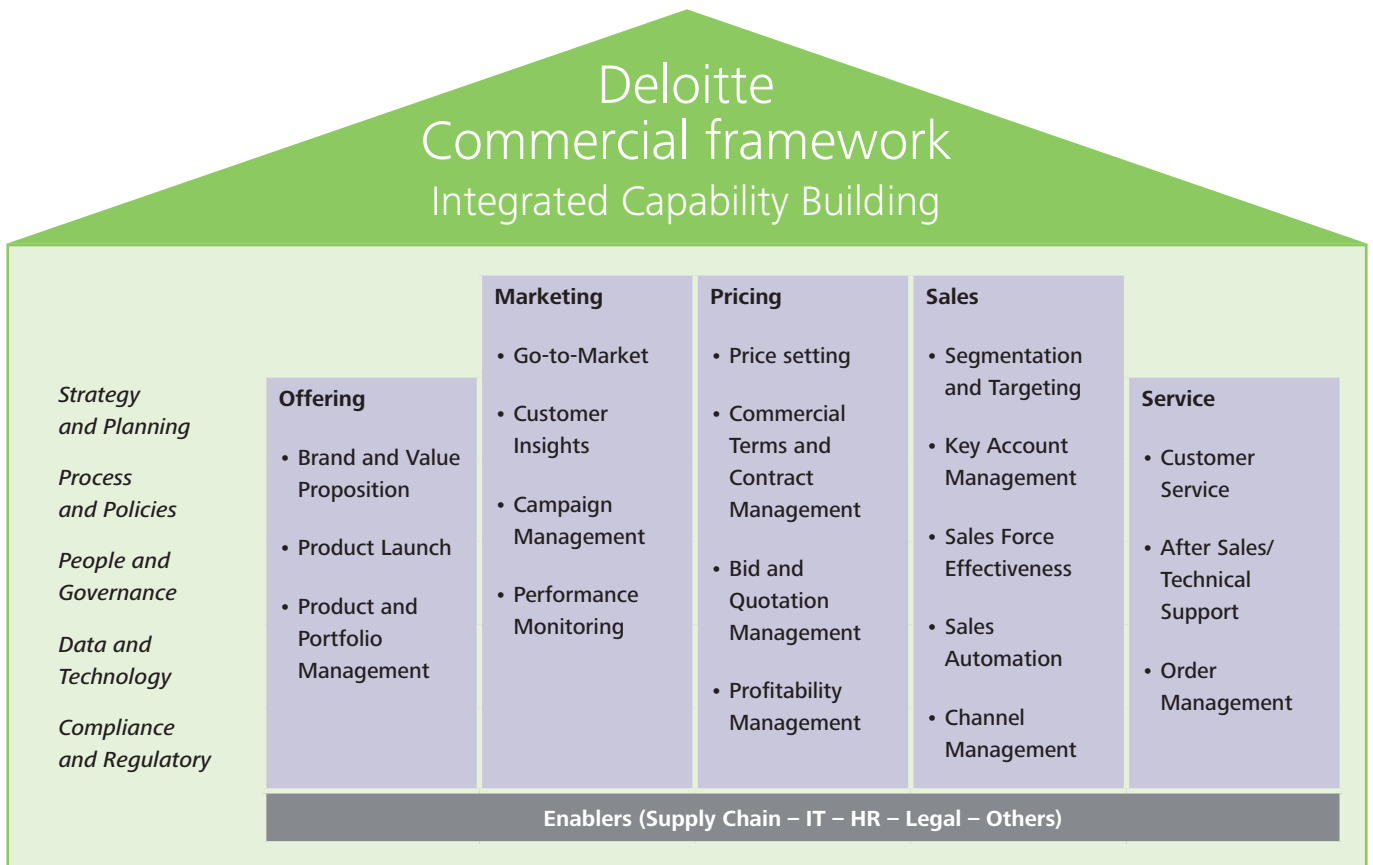
Given the relative lack of stability of the Eurozone, and high deficits of large countries like the United Kingdom, pressure on prices and margin is likely to continue during 2015.

It is clear that, to be successful in managing price management, leadership support will be crucial to ensuring cross-functional coordination.



¹ Deloitte research. A 1% of improvement in price results in a 12.3% profit increase on the average, as compared to a 6.7% profit increase for 1% variable cost optimisation and 2.6% for fixed cost optimisation.

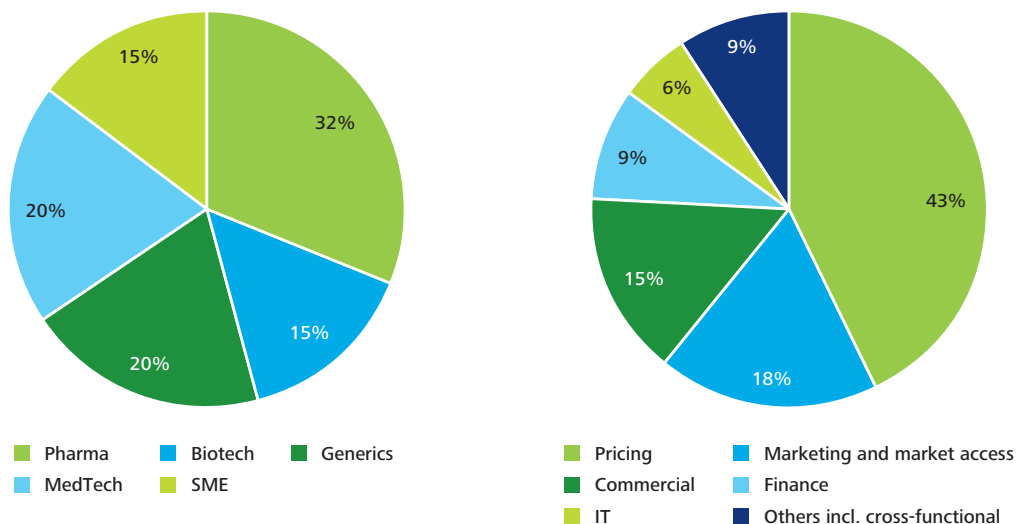
During recent months, the industry has been increasingly in the news: from price wars to lock-in market access (e.g. AbbVie's Viekira vs. Gilhead's Harvoni), to the increase in the price of certain generic drugs (e.g. doxycycline hyclate), the winning strategy is rarely purely product or price-related. More and more often, the value of an innovative product needs to be documented through outcome-based research, integrated into value stories which allow companies to justify the position of their products on the price ladder, and sold through the appropriate channels to healthcare institutions.



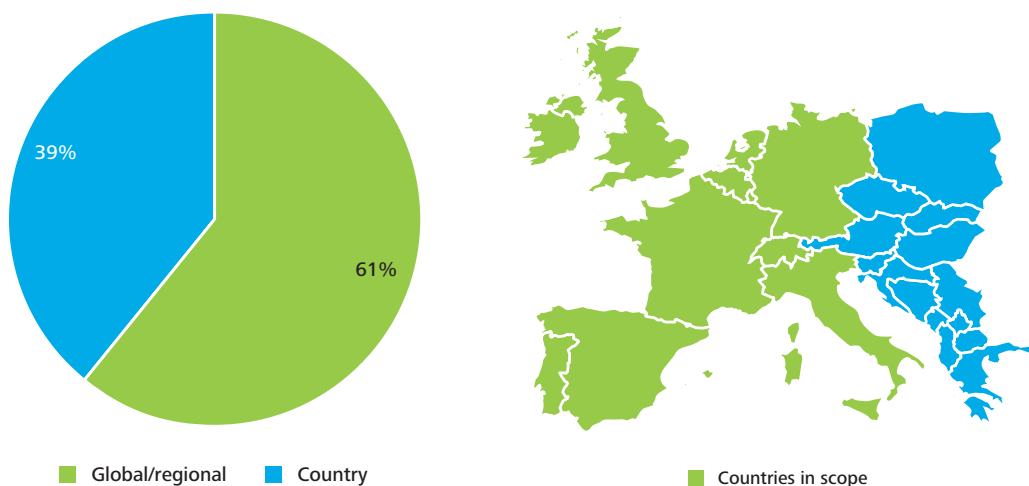
Thanks to a well-orchestrated strategy across the commercial function, industry leaders manage to reach the above average return on investment on their R&D spend, while optimising internal costs by adapting the internal processes to the new challenges.

Sample and methodology

Deloitte surveyed 25 companies across Europe. Interviewees were selected from medtech, generics, biotech and pharma key companies as well as from regulatory bodies, industry monitors and professional service providers. Industry respondents were recruited from all commercial functions, including business IT and finance to provide a comprehensive view of capabilities and processes in place.



Europe represented the key focus of interview with country-level respondents. **61%** of interviews were conducted with stakeholders having a global/regional role to provide a comprehensive view of the European governance and its links with other markets e.g. USA.



Additional insights and data points were extracted from the findings of Deloitte's 4th edition of the survey performed among participants of the European Pricing Platform Conference for Life Science. This event, organised annually in Switzerland by Deloitte, in collaboration with the European Pricing Platform and its partners, is attended by 100+ pricing practitioners and experts from Europe and the Middle-East. Together with the Life Science Executive Briefing, these events provide opportunities for decision makers to learn about upcoming trends from industry experts, as well as exchange information on best practices and network.

Contacts

For more information, please contact:



Nico Kleyn

Partner

+ 41 797 373 707

nikleyn@deloitte.ch

For further information visit www.deloitte.com/ch/pricing

Authors: Nico Kleyn, Stefano Gioni

Acknowledgement

Deloitte's special thanks goes to all participants of this survey for providing us deep and valuable insights into their company's pricing activities. Furthermore, the authors would like to acknowledge the support of Karen Young from the Deloitte UK Centre for Health Solutions.*

*See also: www.deloitte.com/view/en_GB/uk/research-and-intelligence/deloitte-research-uk/deloitte-uk-centre-for-health-solutions

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/ch/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte Consulting AG is a subsidiary of Deloitte LLP, the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte Consulting AG would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte Consulting AG accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2015 Deloitte Consulting AG. All rights reserved.

Designed and produced by The Creative Studio at Deloitte, Zurich. 44417A