



Drug Pricing from Hemisphere to Hemisphere

A guide to global pricing management

Model **N**

WHITE PAPER

How you price your drugs is a big – and important – decision. There’s a lot that goes into launching a drug, as each country differs greatly in terms of their populations, regulations, and how they perceive value. Before launching a drug, manufacturers need to spend time analyzing their market access strategies, supply chain capabilities, and target country regulations.

Pricing is a complex, and often manual, process. Many companies do not have a dedicated, comprehensive system that enables their teams working around the world to have visibility into global pricing. In turn, this lack of collaboration results in internal misalignment on global pricing decisions, and without real-time data and analytics, these teams can struggle to take the right action in both the short and long term.

Additionally, the industry’s shift to value-based pricing has created urgency around the ability to price effectively by value and indication. In some cases, based on the condition the drug treats, companies may be able to achieve pricing inelasticity, which shifts the focus from pricing strategies to optimizing market access.

This white paper outlines how you can better manage product pricing around the globe from launch to retirement – and ultimately, boost your margins.

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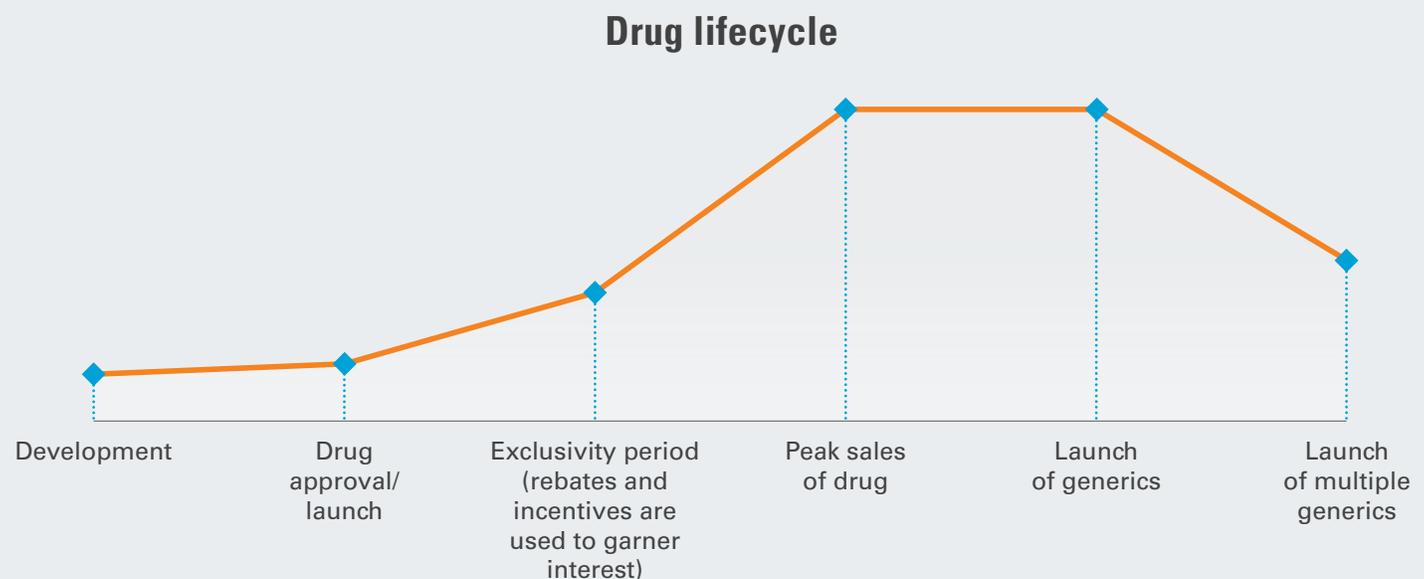
Model N Global Pricing Management

The importance of getting pricing right

Mispricing and mismanaging prices globally can be costly. Poor product launches and inaccurate market forecasts lead to multi-million dollar mistakes. Since 2010, the average cost to bring a drug to market has increased by 67%, and forecast peak sales have decreased 53%.¹ And according to Bain & Company, 50% of all launches in an eight-year timeframe underperformed their financial expectations – and 25% failed to even reach 50% of their forecasted revenue.² That means it's become more important than ever to maximize revenue right from the start.

But along with the growing pressure to get pricing right, global pricing management has proved to be a logistical headache. Each country uses different pricing regulations. While many rely on international reference pricing (IRP), whereby one country cross-references prices from other countries to influence prices in their country, the rules vary widely.

With so much riding on pricing decisions, it's critical that you have access to accurate pricing and reimbursement data, so you can effectively roll out and manage product launch and pricing strategies. But if you're like most companies, you're employing substandard and siloed methods and technologies for collecting and analyzing this valuable data.



¹ Deloitte. "Ten years on: Measuring the return from pharmaceutical innovation 2019."

² Rafael Nataneck, Christoph Schlegel, Michael Retterath, and George Eliades. "How to Make Your Drug Launch a Success." Bain & Company, September 6, 2017.

Challenges with reference pricing

The United States does not regulate medicine prices, which enables drug companies to set their prices for whatever the market will bear. But the U.S. is unique. In Europe – the second largest pharmaceutical market behind the U.S. – governments negotiate with drug makers to limit prices. In a survey by the World Health Organization, 36 of the 41 countries analyzed rely on IRP for some drugs and 26 use it as the sole determinant for their pricing policies.³

IRP is not limited to Europe. Australia, Brazil, Canada, Japan, New Zealand, and South Africa are other major markets that leverage reference pricing.

The countries that use IRP all apply different approaches. When determining average prices, most countries use less than 10 countries in their reference baskets – but those numbers can vary greatly too. For example, the Netherlands has 4 countries in their basket and Belgium has 24.⁴ And determining prices isn't just about the number of countries in the reference basket. Some countries use an average of reference prices, some take a weighted average, and others simply rely on the lowest price within their basket.

Then there are the countries that do not use reference pricing, but have their own set of rules for pricing. In the United Kingdom, prices are set based on assessed clinical value and agreed-upon rates of return.⁵ And in Germany, the government uses clinical evaluations, manufacturer negotiations, and an arbitration system to establish pricing for new drugs⁶

This complex web of pricing schemes means that pricing decisions in one country impact other countries. Reviewing and understanding the global impact of a pricing change in one country is crucial and complicated. Take for example Germany, a country that is often included in numerous European countries' reference baskets. According to a study conducted by Applied Health Economics and Health Policy, a one euro price decrease on a drug in Germany will reduce reimbursement prices by 0.15 euros in Austria and 0.36 in Italy.⁷



36 out of 41 European countries rely on IRP and 26 use it as the sole determinant for pricing policies.

³ Jacqueline LaPointe. "Exploring International Reference Pricing for Pharmaceuticals." PharmaNews Intelligence, November 15, 2019.

⁴ James C. Capretta. "A Closer Look at International Reference Pricing for Prescription Drugs." RealClearPolicy, March 29, 2019.

⁵ Ibid.

⁶ Tom Stargardt and Jonas Schreyögg. "Impact of cross-reference pricing on pharmaceutical prices: manufacturers' pricing strategies and price regulation." Applied Health Economics and Health Policy.

⁷ Ibid.

Managing all this data associated with global pricing can be impossible without a robust system that can be used by all global pricing teams. Without accurate and accessible information, decisions that are made could have a sizable and direct impact on global revenue.

In addition to managing the data, you also need to keep information – from rules to formulas – on the complex network of reference basket countries up to date and accurate.



Capture formulas and apply them based on the drug type in the IRP calculation.



Analyze impact on country price due to uncertain future events before you make a change.



Run simulations to identify what to do and what not to do.

Embrace innovative contracting



Innovative commercial pharma contracts, which blend pricing and rebate incentives to drive greater product demand, can help you increase market access and overcome some of the challenges associated with reference pricing. Read [“Maximize the value of innovative commercial contracts”](#) to discover the three things you should consider as you look to leverage innovative approaches to contracting.

Global launch challenges

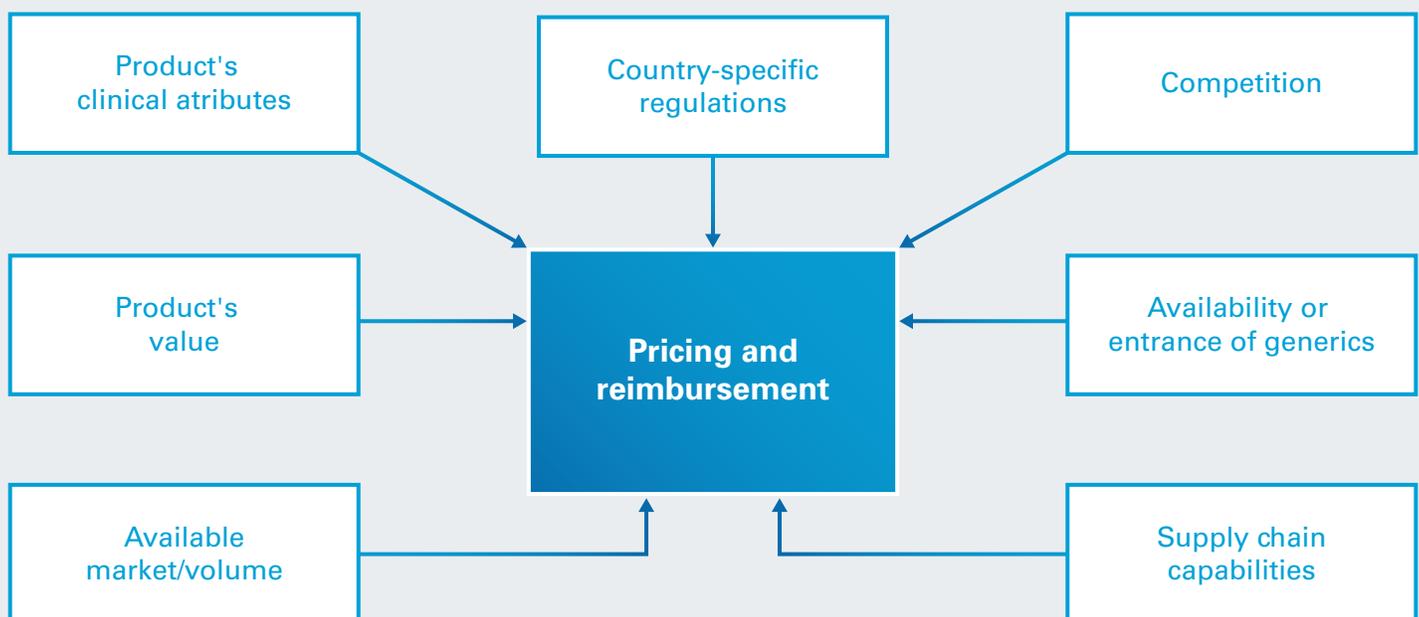
With growing competition, longer research and development cycles, and condensing time to peak sales, the importance of correctly launching a drug has skyrocketed. A market launch sets the path for future success or failure: About 70% of products that miss revenue expectations at launch will continue to do so, and 80% of products that meet or exceed expectations will continue that trajectory.⁸ Unfortunately, this means that if a drug misses its launch projections, the likelihood it will recover revenue in future years is highly unlikely.

Simply identifying and prioritizing the countries that pay the highest prices for drugs isn't a winning strategy. You need to take a look at multiple aspects and approach your launch plans on a global scale. Just one aspect could impact your overall revenue. For example, if you were to focus on entering only the markets that would pay the highest price first, you may miss out on markets that could provide more volume and thus more revenue earlier in the drug's lifecycle.

28%

of a market access budget is spent on the launch strategy.

Considerations for launch strategy



⁸ Jeff Ford, Natasha Elsner, Tom Fezza, and Ankit Arora. "Key factors to improve drug launches." Deloitte.

Keeping all these market realities in mind is critical to developing a successful launch plan. There are 196 countries in the world, including Taiwan. If you only include the top 30 markets in your launch plan, you could miss out on 15% of your potential revenue. And if your product is targeting a niche population, this oversight could be costly, as often these reside outside of developed markets.



According to Deloitte, a key reason for missing launch expectations is limited market access – caused by lack of coverage, greater than expected discounts or rebates, and unfavorable formulary placements.⁹

When determining your launch strategy, pay careful attention to reference pricing. You may find that avoiding certain markets is actually a profit-maximizing strategy. Of the new medicines launched since 2011, 90% have been made available in the U.S., but only 50% were launched in France, 48% in Switzerland, and 46% in Canada.¹⁰ Reasons for this could include required concessions, length of negotiations, and the possibility that low reimbursement prices could trigger lower prices in reference markets.

⁹ Jeff Ford, Natasha Elsner, Tom Fezza, and Ankit Arora. "Key factors to improve drug launches." Deloitte.

¹⁰ Kevin Haninger. "Setting the record straight on international reference pricing." PhRMA, July 16, 2019.

Launching a product is not a one-time activity; it’s a continuous process. There are a lot of inputs that go into this process – and these inputs will not be static. You need to gain visibility into these changes and efficiently adjust your analysis to successfully optimize your launch sequences.

A global launch strategy creates an unmanageable number of permutations	
10-country launch	20-country launch
<p>3.6+ million permutations</p>	<p>2.4x10¹⁸ permutations</p>

While you may be tempted to outsource launch sequencing, this approach is costly. With the right tools in-house, you can develop a more cost-effective, accurate, and agile approach to:

- Carefully balance price, time-to-market, and interdependencies from reference practices.
- Account for dynamic pricing policies due to a complex set of country rules.
- Leverage tools to help you manage multiple, simultaneous product and indication launches across a global landscape.
- Continuously refine and optimize your launch strategy to protect your revenue.

Key pricing success factors

To ensure global pricing is right on the money, follow these best practices for streamlining management, optimizing prices throughout the product lifecycle, and decreasing margin erosion.

1. Ensure collaboration and alignment among country, region, and global teams – as well as among pricing, market access, supply chain, and finance functions.

By using a common platform, teams can make more informed decisions about all aspects of pricing, including contract and tender commitments. This eliminates the silos that can lead to contract noncompliance, penalties, and lost revenue.

2. Leverage sophisticated tools to make informed decisions regarding launch and in-market strategies and execution.

Because a price cut in one country will cause a ripple effect across other markets, you should weigh the trade-offs before making a decision. Running simulations on IRP or other pricing scenarios enables you to see how a change to one price could impact your overall revenue.

3. Gain a deep understanding of your competitors' strengths and past behavior in all markets – not just the ones you're initially targeting.

By capturing and analyzing competitive information, including price points, reimbursement information, and value delivered – you can refine and strengthen your market access strategy.

4. Establish processes and governance.

Define clear roles and responsibilities for your teams, as well as pricing policies and out-of-policy protocols. With solid guardrails in place, you will have better visibility and control, so you can avoid issues and protect your prices and revenue.

5. Create a single repository of trusted and reliable information on referencing rules, up-to-date prices, and market access information.

Multiple data depositories and disparate systems make it hard to get information. By arming your teams with a complete picture of your pricing, competitors' prices, reimbursement data, country reference rules, indication and launch information, and sales and budget data, you can get better – and faster – answers to the business questions you have.

Model N Global Pricing Management

A core component of Model N's Global Pricing suite for pharma manufacturers, Model N Global Pricing Management helps you increase process efficiency and adhere to complex pricing regulations – so you can optimize and protect revenue throughout the commercialization process.

Global Launch Excellence

Create realistic launch sequences by combining accurate price data, volume forecasts, and optimization algorithms.

IRP simulations

Proactively drive pricing policies by monitoring pricing and reimbursement events – and evaluating the impact of pricing decisions on reference pricing ecosystems.

Competitive pricing

Capture competitive information and integrate third-party data to understand pricing trends and analyze your decisions in the full context of the market.

Data verification

Drive better data quality by periodically verifying data on country rules, prices, and reimbursements.

Analysis

Utilize built-in analytics and dashboard to design and execute your global market access strategies.

Empower your global pricing teams with Model N Global Pricing Management.

Realize better prices throughout a drug's lifecycle.



Boost margins and mitigate price and revenue erosion.



Execute pricing strategies more effectively.



Gain real-time visibility into the impact of your pricing decisions.



Drive better business governance with unified pricing and data processes.

Trusted by 48 of the 50 largest pharmaceutical manufacturers, Model N delivers the industry's only end-to-end, global revenue management platform that ensures commercial excellence.

Ready to maximize pricing around the globe?

Get the insights and controls you need to more efficiently track and govern prices, optimize launch sequences, and simulate IRP events. See what Model N Global Pricing Management can do for you – request a demo at www.modeln.com/schedule-demo.