

Taking the long view on pricing strategy

Generic prices behave in a free market exactly as they do in any other market that is not constrained by government or payer intervention. Prices for consumer electronics and cellphone call charges decay over time in the same way as newly-launched generics, according to Charles Joynson, managing director of WaveData, the UK-based generics-pricing specialist.

Joynson believes the detailed price-erosion analysis WaveData has done mainly in the UK – in a free market with reactive reimbursement rules – has parallels in other generics markets for which reference prices do not apply. “The UK has served as an interesting study area,” he says, “but it is probable that even with different market sizes, licence holders and reimbursement rules, generic price declines in other countries will be broadly similar, even if the precise mathematics differ in each case.”

One of the observations Joynson has made is that while many UK companies use price data for commercial decisions, few of them look to the longer-term, and even fewer use their knowledge to forecast sales or plan their production needs.

The complex pricing model that WaveData has created takes into account, among other factors, the number of licence holders operating in the market, the value of the brand before patent expiry and the reimbursement price. Examples of WaveData’s forecast for the average prices of two generics launched within the past six months – finasteride and perindopril – are shown in Figures 1 and 2.

Joynson notes the relationship between the average market price paid by independent pharmacists and dispensing doctors in the UK is in a closed-loop relationship with the reimbursement price paid to them by the government. This is because the government bases most generic reimbursement prices on quarterly sales data provided to it by generics suppliers.

Average market prices are used by WaveData to produce a smooth decay curve. Averages get around the ‘noise’ from heavily discounted prices, for example, of products that are reaching their sell-by dates. Other lessons have also been learnt: “The number of licence holders for any generic product affects the price more than the number of manufacturers, Joynson says, adding: “But the relative size of the licence holder in terms of turnover or overall market impact seems to make no difference. The market responds just as quickly to a new low price from a small operator with little stock, possibly because buyers use these prices as negotiating chips.”

Price bounces and seasonality for non-seasonal products are two of WaveData’s more unexpected findings. “About 5% of the generics we studied – such as lansoprazole and omeprazole – showed price bounces, mostly due to their price falling below the cost of goods of some licence holders, forcing them to withdraw,” Joynson explains. “The remaining players then raise their prices briefly before the gradual erosion returns.” He adds that these price bounces are often “like ripples on a pond” (see Figure 3).

Seasonal price variations that cannot be explained by disease factors are probably a reflection of holiday periods, Joynson believes, noting that price highs often occur in April and August, but price lows usually happen in June and November “when larger numbers of fully-staffed generics firms are competing to satisfy a heavier demand”.

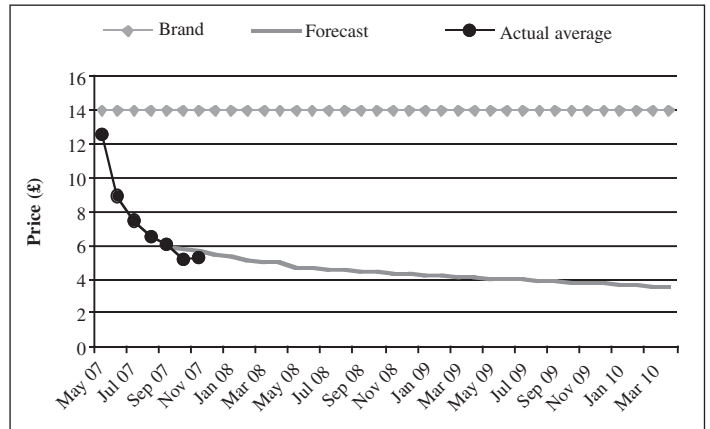


Figure 1: Decay in the average UK prices to independent pharmacists of 28-tablet packs of finasteride 5mg since launch, compared with the brand's trade price, and extrapolated with WaveData's monthly price forecast for the next two years (Source – WaveData)

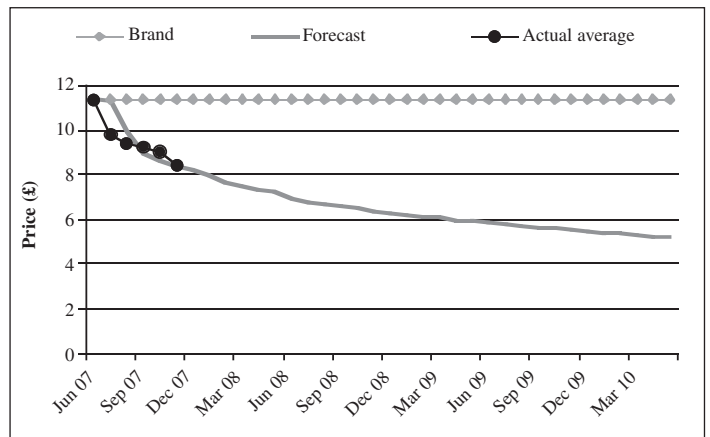


Figure 2: Decay in the average UK prices to independent pharmacists of 30-tablet packs of perindopril 8mg since launch, compared with the brand's trade price, and extrapolated with WaveData's monthly price forecast for the next two years (Source – WaveData)

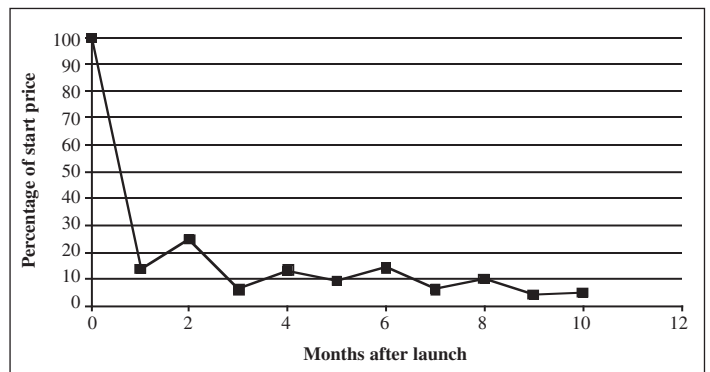


Figure 3: Some generics have price bounces in the period after launch which in the longer term turn into background seasonality (Source – WaveData)

PRICE WATCH UK highlights generics price changes in the UK market and appears exclusively in every issue of **Generics bulletin**, courtesy of the Pharma TouchStone service of WaveData.

WaveData collects and collates pricing information from a number of European countries. In the UK, pricing information about generics, brands and parallel imports is gathered from offers made to independent retail pharmacists and dispensing doctors by wholesalers, suppliers and product manufacturers.

WaveData collates this data and publishes the results giving customers fast, accurate, real-time access to current generic prices. WaveData's Profesy price-forecasting tool can be found at www.wavedata.biz.

■ **For further information** see www.wavedata.net or contact Charles Joynson, WaveData Limited, Concorde House, Comet Way, Eastwood, Essex SS2 6GD, UK Tel: +44 (0)1702 425125; Fax +44(0)1702 425129; E-mail cjoynson@wavedata.co.uk. Website: www.wavedata.co.uk.