

# Getting to the bottom of 'bouncing' prices

One of the mysteries of generic pricing in the UK is the 'bounce' in price experienced by some, but not all generic ingredients, at different times from patent expiry after their launch. Prices of the affected generics fall quite rapidly in the weeks following their introduction, but then recover briefly before falling again to an even lower level. Sometimes this can happen more than once to average product prices for the same ingredient.

Trying better to understand this effect, WaveData analysed the price decay of nearly 300 ingredients to ascertain whether product prices had experienced such a bounce, and when it had occurred after launch. The company also wanted to learn whether the circumstances surrounding the price bounce showed any common characteristics.

It soon became clear that the price bounce was confined to a small, but significant number of ingredients, and that prices could bounce on one, two or even three separate occasions. The decay in average product prices was studied for 282 ingredients, of which only 52 suffered a price bounce. Of these, 42 experienced a single price bounce, six suffered two bounces and four had three bounces.

Figure 1 presents the findings schematically for an ingredient whose average price exhibited two separate bounces. It shows a regular series of price uplifts like waves in the wake of a typical post-patent-expiry price decline. What is not so clear is what triggers the waves, why they should be so regular, and why they should sometimes happen in a series of three.

Charles Joynson, WaveData's managing director, notes that the schematic only shows an average picture, and the actual price response can vary considerably. "As to which products bounce, and which do not," he comments, "it looks from our initial analysis that bounces are more likely for products whose average prices fall rapidly."

"This fits with the hypothesis that the product price will bounce as it starts to undercut suppliers' cost of goods," Joynson explains. "Manufacturers and stockholders then react by withdrawing from the market in the hope of a price rise."

Of course, he adds, they will have to take a loss if their product's sell-by date is fast approaching. But, for the most part, market withdrawal by some players sees the average market price rise, only for it to fall again just as rapidly a few weeks later when the reluctant manufacturers and stockholders rejoin the market. This may happen on more than one occasion if the average price fall is steep enough.

The timing of the bounce seems to be determined by the steepness of the average price decline in the market. This is shown by two actual examples involving the proton-pump inhibitors omeprazole and lansoprazole. Omeprazole was the first to become a generic as long ago as 2002. At that time, competition in the UK market was much less severe, and omeprazole prices declined steadily for about 18 months before the ingredient's average price bounced at the £10 mark in August 2003 (see Figure 2). Average prices for lansoprazole, in contrast, declined much more rapidly from the end of 2005 so that there was a little bounce after about five months and another one at around eight months (see Figure 3).

Joynson notes that the Profesy forecasting tool is already able to model price behaviour, but admits it needs refining once it is understood why average prices can sometimes bounce as many as three times. **G**

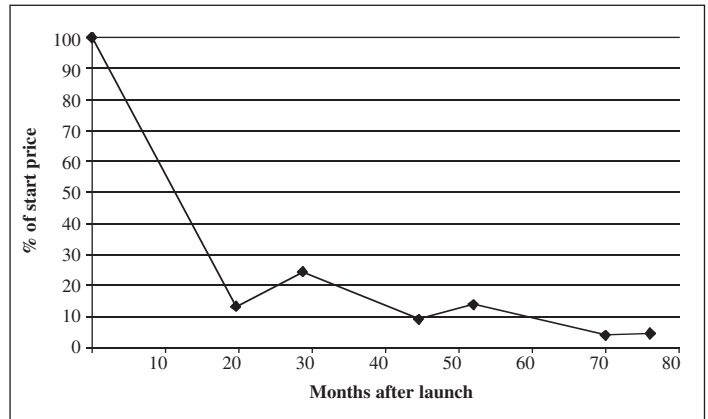


Figure 1: Typical price decay of an ingredient experiencing two price bounces following patent expiry (Source - WaveData)

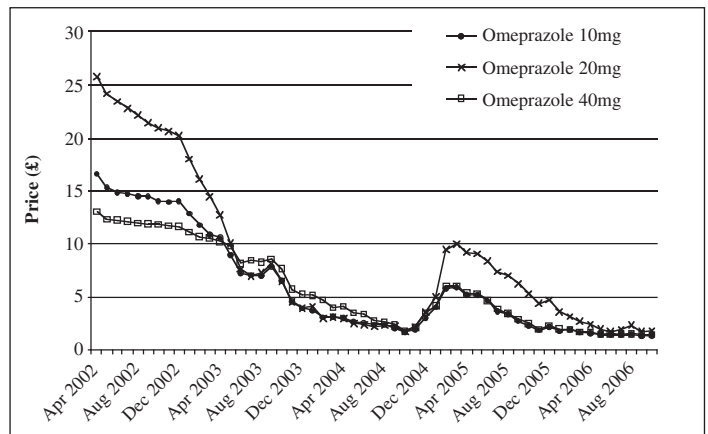


Figure 2: Price decay of average market prices for 28-capsule packs of omeprazole 10mg and 20mg, and seven-capsule packs of omeprazole 40mg, after launch in April 2002, showing two bounces (Source - WaveData)

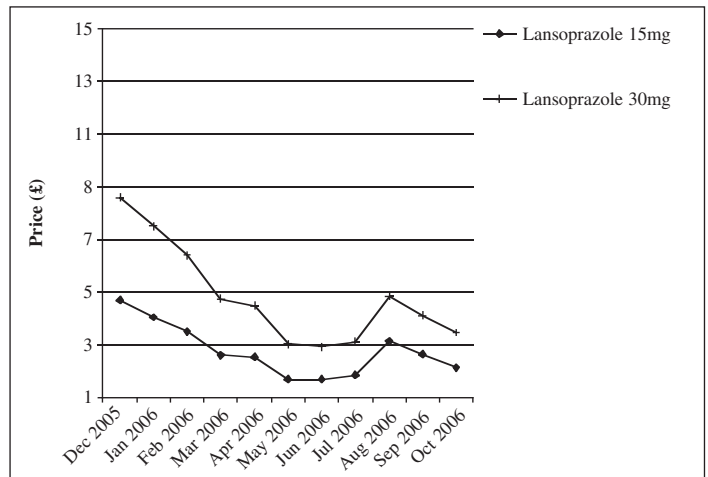


Figure 3: Price decay of average market prices for 28-capsule packs of lansoprazole after launch in December 2005, showing two bounces (Source - WaveData)

**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](http://www.wavedata.biz).

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