

Bounces may be extreme seasonal effects

Seasonal effects may be the reason why the UK prices of many generic products have one or more 'bounces' – sudden upward blips – during the period of price decline following launch. Pricing specialist WaveData has reached this surprising view after trying to establish when these bounces may occur in the average prices of generics offered to independent pharmacists and dispensing doctors, and how high the prices may rise when they do occur.

As we pointed out a few issues ago, price bounces are one of the mysteries of UK generic pricing (*Generics bulletin*, 16 February 2007, page 19). Typical of the phenomenon are the proton-pump inhibitors omeprazole and lansoprazole. Both have so far exhibited two price bounces since launch, as Figure 1 shows.

WaveData was intrigued to discover that for products with more than one price bounce there was almost two years between the peaks, according to Charles Joynson, the company's managing director. "At first, we were unsure of what this two-year gap meant," he said. "But we were suspicious that it hinted at something important."

Digging deeper into its extensive pricing database, the company discovered that almost all generic products exhibit some degree of seasonality. "This was to be expected for products used to treat seasonal illnesses, such as hayfever or coughs and colds," Joynson remarked, "but finding that almost all the products were seasonal in their pricing was a big surprise."

He now believes the bounces are a more extreme manifestation of the seasonality associated with each product, and a consequence of whatever initiates the seasonality in the first place. "The normal explanation given for bounces is that the trade price of the product falls below the cost of goods for some manufacturers," Joynson explained. "Consequently, they withdraw from the market and the price rises for a short period, before falling again when they return."

But Joynson's next discovery was that the annual price patterns associated with each product were highly consistent in at least two-thirds of the cases. And this consistency in price pattern often applied to all forms and strengths of the same molecule, regardless of whether the prices of tablets or capsules were being analysed. Omeprazole was unusual, Joynson observed, as the various forms followed seasonality patterns, but the patterns were different from each other, as Figures 2 and 3 show. "Tablets seem to follow one pattern with a price high in August; while capsules follow another which peaks in February."

"We are only just beginning to see patterns emerging from the mass of data," Joynson added, "but it looks as if seasonal products will fall into 'families' which share high and low points during the year."

One common feature, he pointed out, was that November seemed to be a low price point for many products. However, he could not say at this stage whether this was the result of a pre-Christmas 'sell in' by suppliers, or it was linked in some way to disease patterns. "This should become clear with time," Joynson maintained.

He also observed that big price bounces were often preceded by large price falls, but subsequent bounces were of a lower intensity and tailed off occurring with time. "Like a pebble thrown into a pond, rapid price change may be the initiating factor," he remarked. "Bounces are an extreme form of early-stage seasonality, but eventually they subside into background seasonality."

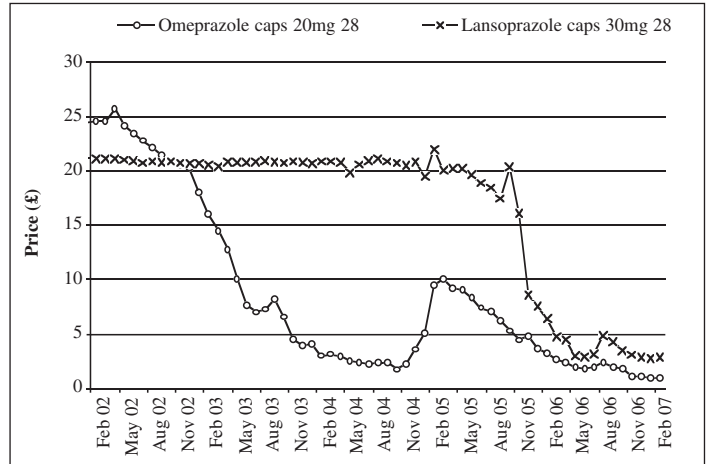


Figure 1: Price decay of 28-capsule packs of omeprazole 20mg after launch in April 2002, and lansoprazole 30mg after launch in December 2005. Both show two bounces (Source – WaveData)

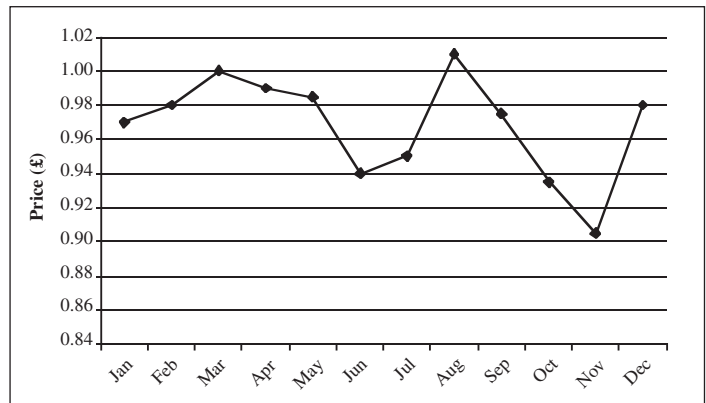


Figure 2: Average market prices of 28-tablet packs of omeprazole 10mg follow a seasonal pattern with a low in November (Source – WaveData)

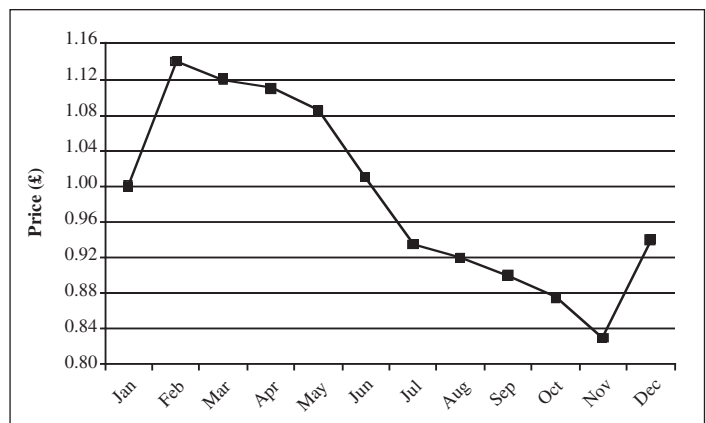


Figure 3: Average market prices of 7-capsule packs of omeprazole 40mg follow a different seasonal pattern to omeprazole tablets, but both patterns feature lows in November (Source – WaveData)

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.

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