

Forecasting the need for price concessions

More frequent adjustments to reimbursement prices are currently being considered by the English authorities, which want to make the funding system for community pharmacy more responsive and account for “all margin within the annual sum” (*Generics bulletin*, 17 October 2014, page 25). Meanwhile, however, the Pharmaceutical Services Negotiating Committee (PSNC) – the body representing community pharmacists’ interests – continues to negotiate monthly price concessions from the authorities for products whose trade prices in the marketplace exceed those in the official Drug Tariff of reimbursement prices. Nine ingredients in 12 presentations were granted price concessions last month, which was somewhat below the usual number.

At present, actual trade prices are collected quarterly to arrive at category M reimbursement prices in the Drug Tariff, which usually have a three-month lifespan. A shorter timescale would clearly make the funding system more responsive. Meanwhile, pharmacists are dispensing some products at a loss.

Charles Joynson, WaveData’s managing director, says that analysis has shown that low prices do not drive availability issues. Neither has any association been found between the direct-marketing activities of wholesalers and product availability.

What is apparent, however, is that retail profitability – the difference between Drug Tariff and average trade price – is a significant factor in whether there are any common features in the trade-price histories of products granted concessionary prices, and whether there are any earlier, telltale signs that pharmacists are likely to be dispensing products unprofitably. Products for which a price concession is eventually granted experience some months of declining retail profitability, and eventually dispensing losses, before the concessionary price is granted. Typical examples are 21-tablet packs of co-amoxiclav 250mg/125mg (see Figure 1) and 30-tablet packs of exemestane 25mg (see Figure 2).

Of the 49 products granted concessionary prices, 34 exhibited this pattern, according to Joynson. Of the rest, 13 were already receiving price concessions at the start of the two-year period studied and the remaining handful failed to show any period of profit decline. Of the 34 concessionary products, 41% gave more than three months warning of impending losses, but another 32% lost profitability more quickly.

Another 43 products, however, were not granted a price concession and yet also experienced profit declines turning into dispensing losses during the period. Bicalutamide and esomeprazole were typical of this group (see Figures 3 and 4). “The main difference between the two groups was that products granted price concessions would have generally resulted in far greater financial losses for pharmacists than the others,” comments Joynson, who adds that 94% of all products that caused dispensing losses were in category M.

Pharmacists would have lost as much as £5.90 (US\$9.36) on average for dispensing co-amoxiclav in April 2014 without the monthly price concession, while the loss would have been £6.77 on average for exemestane last month. The comparable losses for dispensing bicalutamide and esomeprazole without price concessions were £1.08 and £3.40, respectively, both in November 2013.

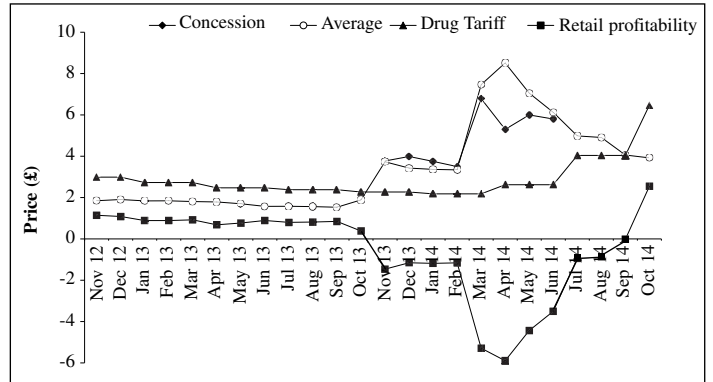


Figure 1: Average trade, Drug Tariff and Concession prices for 21-tablet packs of co-amoxiclav 250mg/125mg, showing dispensing losses (Source – WaveData)

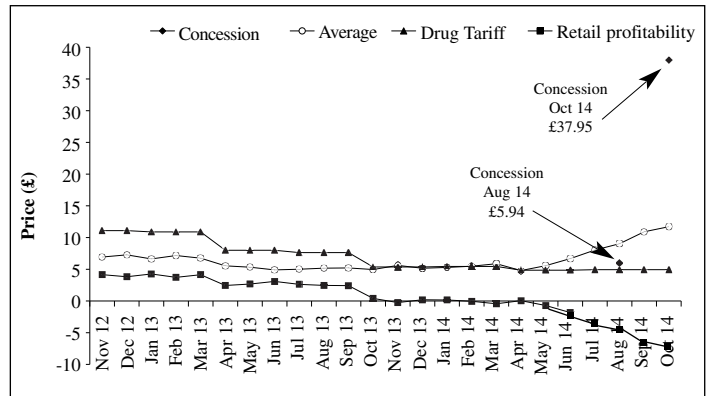


Figure 2: Average trade, Drug Tariff and Concession prices for 30-tablet packs of exemestane 25mg, showing dispensing losses (Source – WaveData)

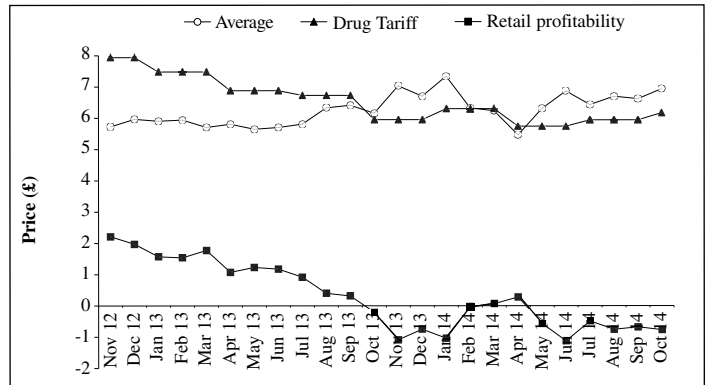


Figure 3: Average trade and Drug Tariff prices for 28-tablet packs of bicalutamide 150mg, showing dispensing profit declining into losses (Source – WaveData)

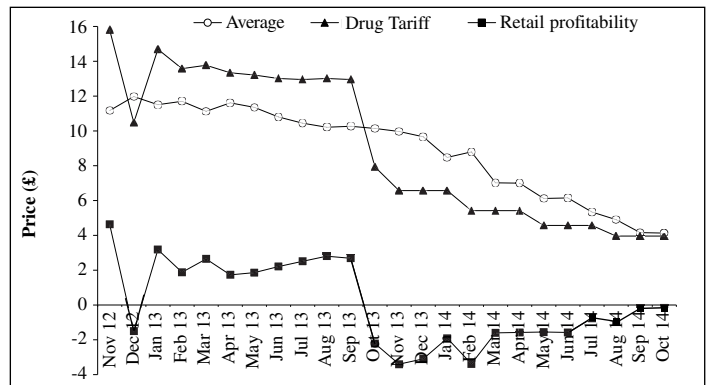


Figure 4: Average trade and Drug Tariff prices for 28-capsule packs of esomeprazole 40mg, showing dispensing profit declining into losses (Source – WaveData)

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