

Making margins while the sun shines

February is the best month for making a good margin on generics in the UK market, but miss that opportunity and April is the worst month of the year for generics prices, according to new research by WaveData. August and September are also good months, possibly because most commercial people responsible for pricing in generics firms and drug wholesalers have decided on their prices before going on holiday, and are not around to monitor rivals' offers or make any themselves.

As Figure 1 shows, a similar pattern was apparent for healthcare products, including branded original drugs, parallel imports and some surgical items. Only the price dip in April and May was unique to generic products, although it is not clear why. Prices for each calendar month were averaged for the product baskets over the period 2001 to 2011.

Charles Joynson, WaveData's managing director notes that generic reimbursement prices in the Drug Tariff change relatively frequently. Their adjustment at quarterly intervals is in contrast to reimbursement prices for branded originals, which are negotiated every five years as part of the Pharmaceutical Price Regulation Scheme (PPRS).

"There is often a lag between prices available in the market to independent pharmacists and dispensing doctors and changes in the reimbursement price," he says. Referring to 30-tablet packs of cimetidine 800mg, he notes the average price rose dramatically in June 2009, probably due to shortages, yet the Drug Tariff only followed suit in October, a delay of four months (see Figure 2). "The product was switched from category M of the Drug Tariff – based on actual prices in the market – to category A in October 2009, which is based on the price lists of Actavis and Teva and the two leading wholesalers," says Joynson, noting that it was still in category A in October 2011.

"Sometimes the Drug Tariff anticipates changes in a product's average monthly price, but generally it is reactive after the event," he observes, referring to 100-capsule packs of gabapentin 300mg. This product experienced a series of price 'bounces'. These seriously destabilised its Drug Tariff price, which seemed to 'over react' (see Figure 3). Joynson points out that the first small bounce in the average price, peaking in August 2006, was preceded by a proactive rise in the Drug Tariff in July 2006. But the next and larger bounce that peaked in May 2007 was not followed by the Drug Tariff for five months until October 2007. The product remained in category M throughout this period, and was still classified in this way in October 2011.

A dramatic drop in the reimbursement price of 28-tablet packs of azathioprine 25mg tablets between October and December 2006 was ignored by the market price, which continued gradually to discount the product's price (see Figure 4). "It looked like the Drug Tariff was responding to incorrect market rumours," remarks Joynson.

"Manufacturers and wholesalers seemed unperturbed and continued offering similar prices, even though pharmacies were making a loss on the product during the October to December 2006 period," he adds, noting the subsequent price bounce has been more or less shadowed by the Drug Tariff. "The product was and remains in category M, which apart from the blip in November and December 2008, has done a reasonable job of tracking market prices and offering pharmacists an attractive dispensing margin."

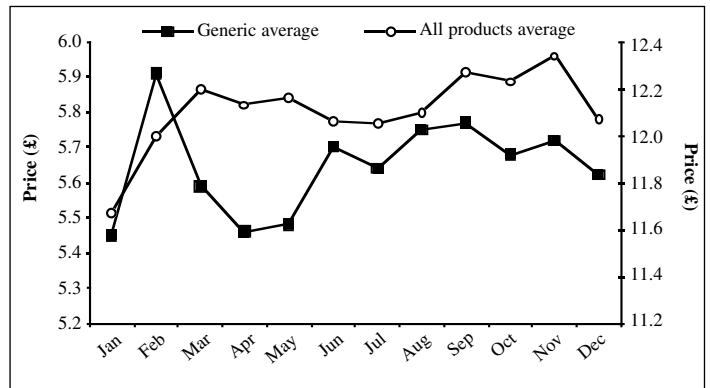


Figure 1: Average prices each calendar month for the years 2001 to 2011 of all generics and healthcare products in WaveData's database (Source – WaveData)

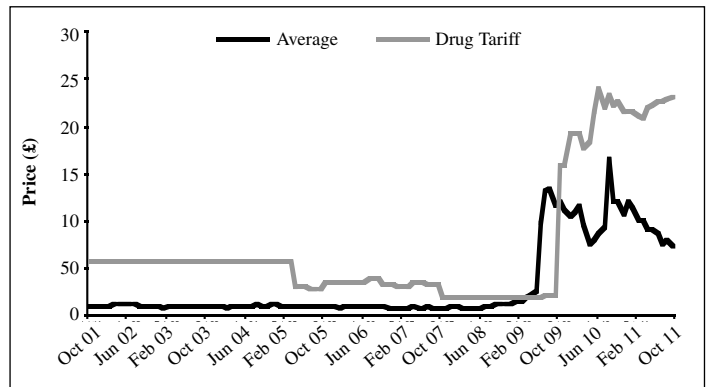


Figure 2: Monthly average generic and Drug Tariff reimbursement prices for 30-tablet packs of cimetidine 800mg (Source – WaveData)

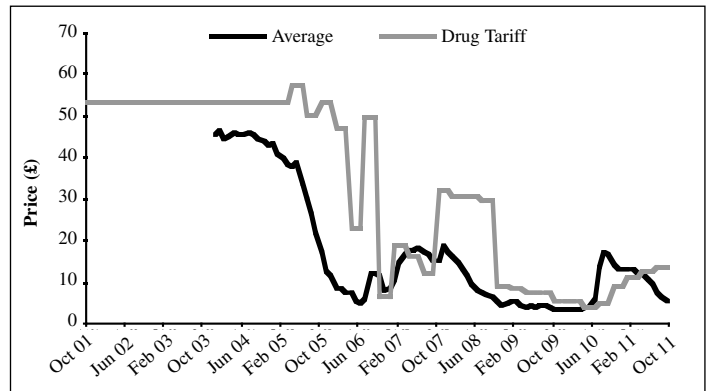


Figure 3: Monthly average generic and Drug Tariff reimbursement prices for 100-capsule packs of gabapentin 300mg (Source – WaveData)

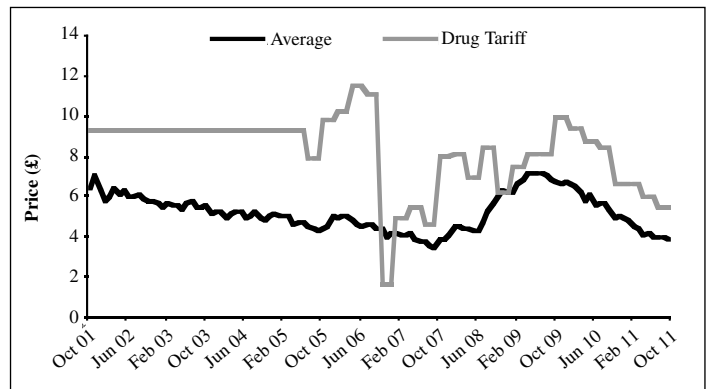


Figure 4: Monthly average generic and Drug Tariff reimbursement prices for 28-tablet packs of azathioprine 25mg (Source – WaveData)

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