

New tariff forces down pharmacy margins

Pharmacists in England and Wales are smarting over the latest moves by the Department of Health to control their 'purchase profit' for dispensing generics. Drug Tariff prices for most generics – those in Category M – have been slashed from 1 October as the department tries to restrict the annual purchase profit to the agreed £500 million (US\$1 billion) when Category M was introduced in April 2005.

Estimates of the cuts in the purchase profit – the difference between what pharmacists pay in the marketplace and the price reimbursed by the government – vary from £400 million to £470 million, but the bottom line for pharmacists is that the prices at which they are reimbursed have plummeted to new lows. Warwick Smith, director of the British Generic Manufacturers Association (BGMA) points out the department's adjustment was aimed at maintaining the agreed level of purchase profit, and therefore should not directly affect ex-factory generics prices.

In a free market, however, pharmacists may seek lower market prices in response to the tariff changes. The reimbursement prices of some drugs have fallen by as much as 80% overnight as a result of the tariff changes, according to WaveData, which will give pharmacists much pause for thought, and perhaps reason to shop around more diligently, demanding better deals.

A typical example of a heavy price faller is doxazosin (see Figure 1). On 30 September, pharmacists were paid £2.61 for dispensing a 28-tablet pack of doxazosin 2mg, but on 1 October, the reimbursement price was £0.63, representing a 76% price decline. Put another way, pharmacists' purchase profit fell from £2.27 to £0.30 overnight, based on the average market price of the product at the time. Nevertheless, it should also be noted that their profit margin is still about 48%.

Category M prices follow what's happening in the marketplace, albeit a few months in arrears, and take volumes into account. Generics companies supply quarterly data to the department on their sales and transaction volumes of Category M products from which a 'volume-weighted average price' can be calculated. This price is then uplifted by the department to arrive at a pharmacy purchase profit that is supposed to be in line with the national annual budget of £500 million for pharmacists' mark-up.

Obviously, the government has been too generous in the recent past, but problems have arisen with certain products like enalapril, for example, which has been rising in price recently. Enalapril prices shot up by about 50% on average in September (*Generics bulletin*, 5 October 2007, page 15), which means they are currently greater than those pharmacists are paid by the government for dispensing the products (see Figure 2).

One of the biggest tariff price changes has been for simvastatin, which accounts for a lion's share of all the packs dispensed in the UK. The price disparities behind Figure 3 are enormous: the mark-up for pharmacists on the average market price of a 28-tablet pack of simvastatin 10mg before the tariff changes was 824%, giving a profit margin of 89%. The mark-up is still 100% – and the profit margin 50% – but pharmacists have seen the reimbursement price fall by 78% and their purchase profit eroded by 88% on every pack they dispense, which is bound to focus their minds, if not change their purchasing behaviour.

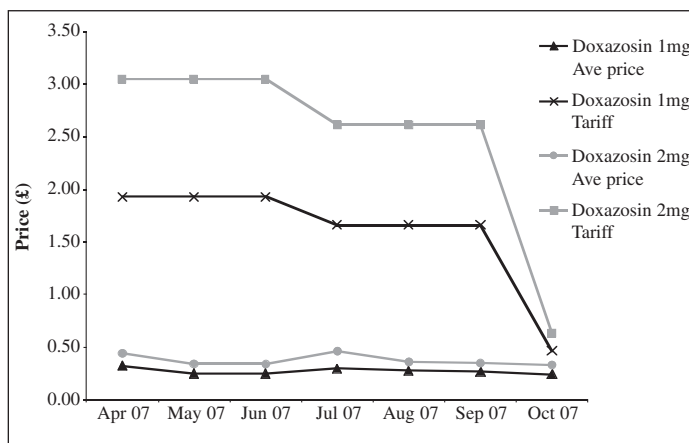


Figure 1: Recent average monthly market prices for 28-tablet packs of doxazosin compared with quarterly Drug Tariff reimbursement prices (Source – WaveData)

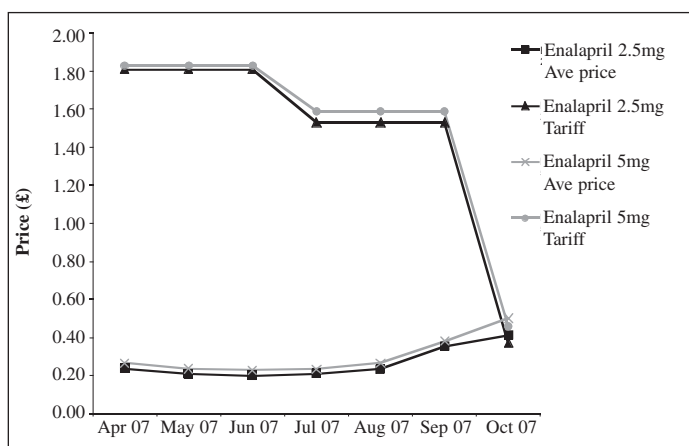


Figure 2: Recent average monthly market prices for 28-tablet packs of enalapril compared with quarterly Drug Tariff reimbursement prices (Source – WaveData)

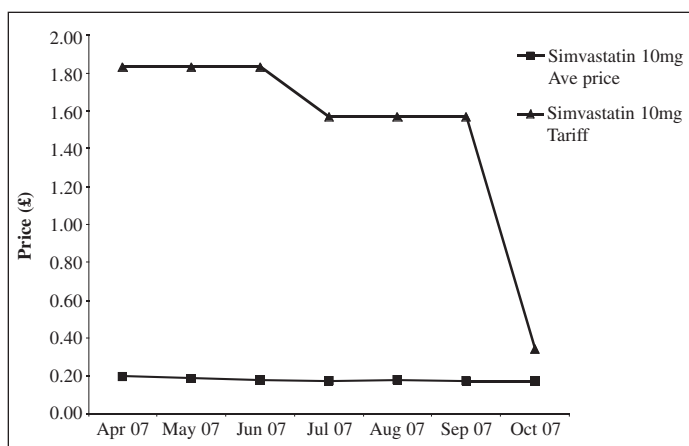


Figure 3: Recent average monthly market prices for 28-tablet packs of simvastatin compared with quarterly Drug Tariff reimbursement prices (Source – WaveData)

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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