Predicting falls in UK prices

New data suggests UK generics prices are linked closely to the number of competing players by a simple linear relationship.

Way back in the late 1990s when fluoxetine came off patent in the UK, its price crashed from over £15 (US$28) to about £3 in just a few hours, principally due to the number of manufacturers chasing market share.

If anything, the UK generics market has become more cut-throat in recent years as blockbuster after blockbuster have lost their monopoly. Market prices fall rapidly to a fraction of the brand's listed trade price, and products like amlodipine can be bought for pence, after paying pounds for the brand just a few months earlier (**Generics** *bulletin*, 5 November 2004, page 25).

Market competition is to blame (or to thank) for the rapid price falls, but is there any way of predicting the likely discounts once generics are available?

This was the question asked by WaveData, the UK pharmaceutical pricing experts. "We have often wondered if there was a relationship between the eventual price of a generic, and the number of competing manufacturers," explains WaveData's managing director Charles Joynson. "So we put together some figures to find out."

WaveData looked at the current listed trade price of some brands and the average market price of the equivalent generics in December 2004. The average market price was calculated for each presentation from at least 30 prices currently being offered in the UK by manufacturers and wholesalers to independent retail pharmacists and dispensing doctors. From these average market prices, WaveData then calculated the percentage by which the generic had been discounted. For a brand listed at £10, for example, with an average generic price of £3, the discount would be 70%.

The number of competing manufacturers for each product was reached simply by taking the number of firms showing up in WaveData's Pharma TouchStone data since generic launch.

"We could have looked at the number of manufacturers with licences," comments Joynson, "or the number actually manufacturing. But we chose instead to look at the number manufacturing and selling into the UK market at any time since generic launch."

Neither did WaveData make any allowances for the amount of time any particular generic had been on the market. But as it turned out, this seems not to have been necessary. WaveData discovered a linear relationship between the number of generic competitors and the amount of discount that was independent of the ingredient concerned, or the length of time it had been on the market.

Figure 1 shows a scatter of the 55 different presentations looked at by WaveData; while Figure 2 lists the ingredients involved.

WaveData applied a 'best straight line' to the data which confirms the linear relationship. The formula y = 12.286 x suggests that the number of manufacturers is equal to approximately 12-times the discount. Put another way, if there are eight competitors in the UK generics market for a particular product, then the average market generic price will be discounted by about 64% compared with the equivalent brand's trade list price.

"Obviously this exercise raises as many questions as it answers," comments Joynson. "For example, is there a relationship between the speed with which the generic price falls and the number of manufacturers, or is there some other factor involved?"

The spread of the points around the trend line could be related to the 'managed entry' of new generics, he suggests, to stock availability, or perhaps to the cost of manufacture. "We need to do more research," he admits "but our preliminary results are interesting, and we seem to have found a definite relationship." **G**

■ **For details** call Charles Joynson on +44 (0)1702 425125; Fax +44(0)1702 425129; E-mail cjoynson@wavedata.co.uk.
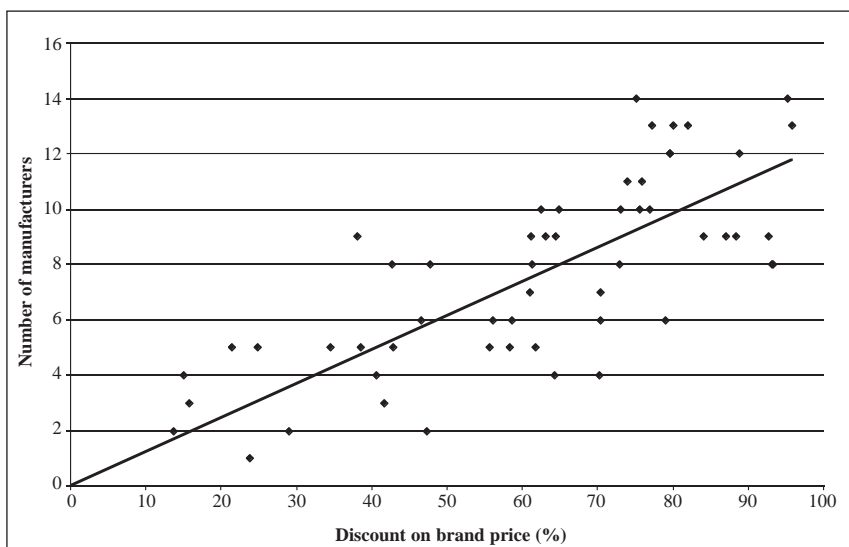

Figure 1: More than 50 data points suggest a link between the number of generic players offering a generic product and the extent the product's average market price is discounted, compared with the trade list price of the equivalent brand (Source – WaveData)

Allopurinol	Mebeverine
Amlodipine	Mesalazine
Beclometasone	Mirtazapine
Carvedilol	Moxonidine
Celiprolol	Nabumetone
Citalopram	Naftidrofuryl
Co-Amoxiclav	Nicardipine
Doxazosin	Omeprazole
Famotidine	Paroxetine
Flutamide	Pergolide
Fluvoxamine	Pravastatin
Gabapentin	Ramipril
	Simvastatin

Figure 2: Each of the above ingredients provided at least one data point for Figure 1. An average market price was calculated for a product presentation from at least 30 price offers during December. This was related to the number of players offering the presentation to give a data point (Source – WaveData)