PRICING & REIMBURSEMENT

Guessing at prices means losing money

Generics companies are potentially losing a great deal of money because they are taking no more than guesses at the prices they should charge for their products, according to Charles Joynson, the managing director of Wavedata, the UK firm that tracks generics prices. This can be disastrous on day one, he says, but also damaging later on if price trends are assumed rather than properly analysed.

Joynson highlights three common approaches to setting prices, but argues that each one has its problems. “And all three have one thing in common,” he maintains, “they are no more than sophisticated wild guesses.”

Highlighting a UK company that recently lost over £1 million (US$1.9 million) by getting its prices wrong, Joynson explains that the three current pricing methods are either reactive, based on trends or make reference to historical data.

“A reactive response could be based on a particular competitor, a key supplier or an average, but it is still, at heart, a guess,” insists Joynson, who maintains it would result in a seemingly random series of “up and down price jerks”.

The problem with using trend lines, he adds, is that more than one can be fitted to the same data, especially if this is limited to a few months of post-patent generic prices. “Many trends could be fitted to the same data, but each one would be a guess, and none of them would be right if in reality the price was following a hidden pattern, which was not obvious from the shape of the previous decline.”

Turning to historical data, Joynson observes that prices for different strengths of the same ingredient often decline together, citing the UK example of three strengths of ramipril, whose prices all followed the same decay pattern. Yet this could also be true of completely different ingredients, Joynson adds, noting the similar price-decline curves in the UK of 10-tablet packs of ciprofloxacin 250mg, 28-tablet packs of doxazosin 1mg, and 30-tablet packs of loratadine 10mg.

“But sometimes very similar products do not follow an even remotely similar trend,” insists Joynson, noting the UK example of fluconazole capsules. “The range of price-decline curves experienced by actual generic markets can be very wide,” he explains, “from very slow through fast to ‘crash’, and the patterns themselves can be highly complex.”

Highlighting the pain of getting it wrong, Joynson underlines the “costs of guessing” in terms of pushing down prices, losses, inaccurate forecasts, and playing ‘catch up’ with competitors. “How many generics companies know how long it will take before the product price declines to their cost of goods?” Joynson asks.

Searching for the answer to this fundamental question for all generics firms, Joynson went through WaveData’s years of data on more than a hundred UK generic launches trying to find a few patterns that could be applied to most products. He quickly came up with a simple relationship between the number of competitors in a product market and the eventual generic price compared with that of the brand (**Generics *bulletin***, 14 January 2005, page 22).

This relationship – the discount to brand price in percent is about eight-times the number of competitors – was somewhat crude and simplistic. Now, however, Joynson claims to have found a single model that binds together all of the underlying factors in the pricing process and their various relationships. This model, Joynson insists, not only applies to every generic launch in the UK, but to every generic launch anywhere. And not just launches of pharmaceutical generics.

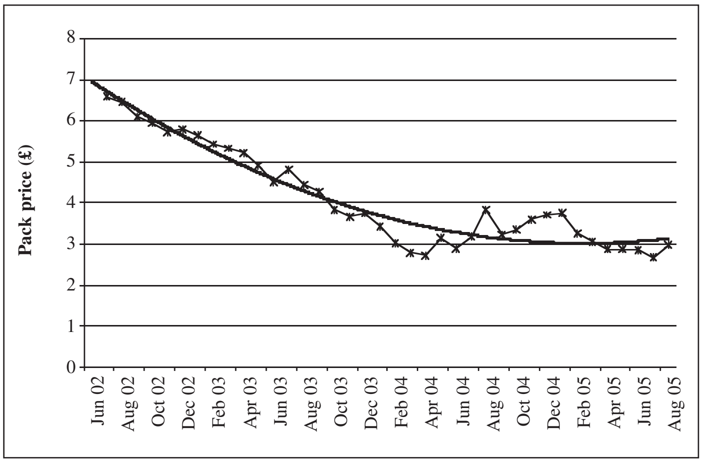

Figure 1: Each of the 100+ price-decline curves analysed by WaveData followed a pattern, like 30-capsule packs of nizatidine 150mg, but all of them could be described by a single model that adapted to future trends (Source – WaveData)

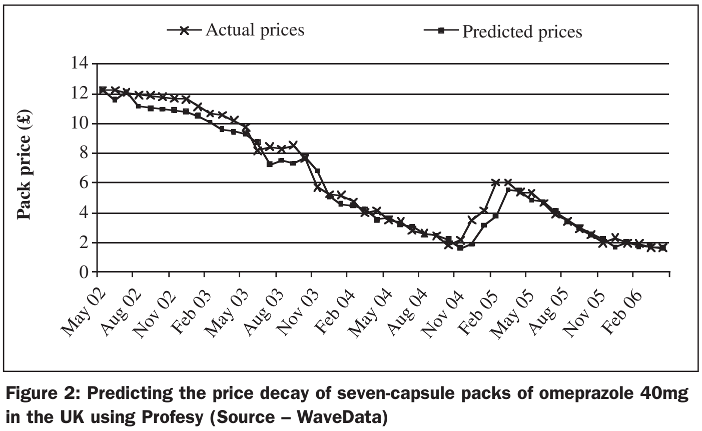

Figure 2: Predicting the price decay of seven-capsule packs of omeprazole 40mg in the UK using Profesy (Source – WaveData)

Based on market forces

“The model we have developed is based on human behaviour and the laws of supply and demand,” Joynson claims. “It is more to do with how people compete for limited resources, and as such has applications in completely different industries, like consumer electronics, where prices also come down over time.”

Joynson says that Profesy – as he has named Wavedata’s pricing model – allows future prices to be predicted with remarkable accuracy. “Every generic product can be modelled, even the ‘late bounce’ in price due to lower availability,” he maintains. “And the model applies to every generic product market, not only those in the UK.”

Just as important, Joynson continues, Profesy can adapt to change; not just in competitor activity, but also to decreases in reimbursement prices, for example. “Users of Profesy,” he is convinced, “will gain a major advantage over non-users.”

Profesy requires some basic, but not difficult information, Joynson says, such as the brand price on patent expiry, the number of marketing authorisation holders on day one, and the reimbursement price.

Access to Profesy will be through a subscription-based website at www.wavedata.biz, explains Joynson, that will allow subscribers unlimited opportunities to try out their own pricing models with complete confidentiality. An annual subscription will cost about £24,000, he adds, but trial periods can be arranged. “By taking the guesswork out of pricing, Profesy will change the game in generic pharmaceuticals,” believes Joynson. G

■ Charles Joynson can be contacted at Tel: +44 1702 425125; Fax: +44 1702 425129; e-mail: cjoynson@wavedata.co.uk.