



Value-Based Pricing: A New Concept in Pharmaceuticals

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In the face of stagnant healthcare budgets, and ever-growing demand for care, value-based pricing has real potential to bring value to patients, payers, providers and pharma companies in advanced health systems, delivering 'Hope not Hype' to critical therapeutic areas like oncology, cardiovascular, diabetes and asthma. Based on work carried out by KPMG, it was evident that the following three key steps would enable pharma companies and progress to unlock "value":

1. Keeping it simple.
2. Focusing on appropriateness of care.
3. Keeping transaction costs at reasonable levels.

External challenges are forcing pharmaceutical companies to change business models from 'sales push'-based towards more value-based models. It is no longer sufficient for drug makers to prove their new products are efficacious; they now need to demonstrate to payers and regulators that the price versus established products is justified by the improved outcomes achieved

given the added cost, preferably with both real world evidence and scientific studies prior to registration. Recent history shows that the constant innovation from pharma companies leads to a continuous flow of new (expensive) products. This has resulted in increasing public and political pressure on pharmaceutical companies and the consideration of alternative payment models such as value-based pricing. Within a value based pricing arrangement, risk is shared between pharma companies and payers, which means all parties should focus on appropriateness of use and on outcomes.

Based on a study conducted by KPMG in the US for a cardiovascular drug, it was revealed that instead of being just suppliers, drug companies can become a more integral part of care pathways, by benchmarking outcomes for different providers and sharing data on treatment regimes. Spreading better practices in this way should yield better outcomes at optimal cost, thus enhancing value for patients and the entire health system.

Value in Health Care

Value comes from achieving the highest possible health gains (outcomes) for patients, measured against the total cost of care. The other key component of value is appropriateness, both of

choice of product, and of care. Under-or over-use of a treatment, or use in inappropriate conditions, can compromise the value.

Defining value in healthcare



Based on research, health care providers and pharma companies in many countries believe that value-based pricing models can sometimes be

an adequate response to the concerns of the various stakeholders.

What Value Based Pricing of pharmacological treatment can bring to different stakeholders

PATIENT



- Better access to pharmacological treatments
- Better outcomes of pharmacological treatment
- More subgroup specified / personalised treatments
- Right to know about the pharmacological



PHARMACEUTICAL COMPANY

- Larger volumes of sales (e.g. by improving adherence, incentivizing clinicians to prescribe the drug)
- Improved position in the market / enlarging market share
- Evidence-based practice that prove efficacy of products



MEDICAL DOCTOR / HOSPITAL

- More potential for pharmacological treatment of patients for less costs
- Guarantees on the outcomes of pharmacological treatment
- Improving evidence-based medicine by collecting real-world data



PAYER

- More health care for less costs
- More certainty on cost-effectiveness of pharmacological treatment
- Guarantees on the outcomes of pharmacological treatment
- A possible reduction of the costs of follow-up pharmacological treatment due to better



SOCIETY

- More and better health care for less costs
- Access to a wide range of treatments, including expensive pharmacological treatments

ELEMENTS OF VALUE-BASED PRICING			
NR	SUBJECT	ELEMENT	OPTIONS
1	Pricing strategy	Mixture of market based vs value-based pricing	
2	Outcomes	Type of outcomes measured	<ul style="list-style-type: none"> • Short term measure • Long term measure • (Process measure)
		Timing of outcome measure	Measuring period and frequency of measurement
3	Data source	Type of data source	<ul style="list-style-type: none"> • Real world data (clinical registration, PROMs, claims, etc.) • Clinical study data
		Sample group	<ul style="list-style-type: none"> • All patients • Patients' family members • Sample of patients
4	Pricing scheme	Discount rate	
		Relating outcome to price	<ul style="list-style-type: none"> • Threshold • Graded scale • Improvement overtime
		Timing of setting final price	Description of built up of pricing scheme over time

Choices to be made if Value Based Pricing is to be implemented

A value-based pricing scheme comprises of several elements. It entails four main areas: pricing strategy, outcomes, data source and pricing scheme. For each area, various choices have to be made in accordance with the chosen pharmacological product:

1. The pricing strategy, for example, depends on the competitive market and on the chosen contract relation (with hospital). One can think of a 100% value-based approach (where outcomes fully drive payment), but also a mixture between market-based pricing (regular pricing) and value-based is possible, e.g. by having a regular price with a bonus (or penalty) based on outcomes achieved.
2. Outcome measures used to underpin the pricing scheme need to optimise the capture of value. Longer term outcome measures where there is a long time horizon between intervention and realization outcomes are less useful when payments are made quarterly or annually.
3. Enforcement of the pricing scheme depends on the availability and accuracy of data and agreement on validity of outcomes by clinicians. Ideally, the infrastructure to measure and collect data will already be largely in place which may be costly to establish and maintain.

4. The pricing scheme have to be elaborated with the contractor, taking into account timing and legal possibilities.

Based on work carried out by KPMG, following were identified as recommended to effectively translate Value Based Pricing into practice:

1. Be selective in using value-based pricing, not all products are suitable for this approach. Preconditions in selecting VBP model include:
 - i) Measurable outcomes of application of the product
 - ii) There are no generic versions of the product already or soon available in the market
2. Close cooperation with hospitals, doctors and payers is essential - design the value-based pricing schemes on a product-by-product basis
3. Consider the use of pilots involving smaller cohorts of patients to test implementation of the value-based pricing strategy- and broaden following success
4. Include the necessary precautions in the contract to make the value-based pricing contract a success, such as strict inclusion and exclusion criteria of the patient subgroups for value-based pricing

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