



CRA Insights: Life Sciences

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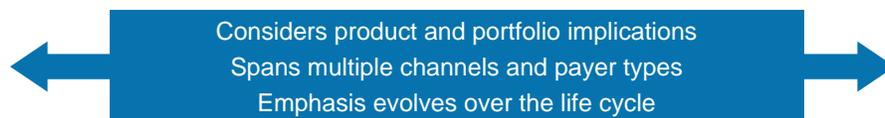
June 2011

Strategic pricing: leading your organization to maximize portfolio value

With the FDA's recent stinginess in approving new products, the reduced productivity of pharmaceutical and biotech R&D initiatives, and increased competition for acquiring or licensing new compounds, it has never been more important to maximize the value of existing portfolio assets. Among the most critical decisions for optimizing franchise value is pricing, from launch to well beyond patent expiration. However, the web of pricing complexities seems impenetrable even to skilled marketers and strategists. The veritable alphabet soup of pricing acronyms alone (AWP, ASP, WAC, AMP, FAMP, non-FAMP, PHS, BP, etc.), not to mention the layers of complex contracts (with GPOs, MCOs, PBMs, SPPs, etc.) demands the specialized expertise often contained in Strategic Pricing.

Strategic Pricing groups in pharmaceutical and biotech companies fill the critical function of cutting through the institutional complexity to identify critical aspects of the portfolio strategy and support that strategy with sound pricing decisions. An effective Strategic Pricing group will possess the regulatory knowledge, functional expertise, strategic vision, and portfolio-wide perspective to lead the organization toward maximum portfolio value. Smart organizations will lean heavily on Strategic Pricing throughout the product's life cycle and will work closely with Strategic Pricing to develop value-maximizing strategies in response to key market events. Then Strategic Pricing will use its deep knowledge of contracting arrangements, regulatory requirements, and customers to execute those strategies effectively, carry out contract terms, and comply with local and national law.

With so much at stake, Strategic Pricing groups should be regularly re-evaluating their capabilities and ensuring appropriate involvement in key pricing activities. Best practices can be organized into Strategy Development and Strategy Execution activities as outlined below:



Strategy development

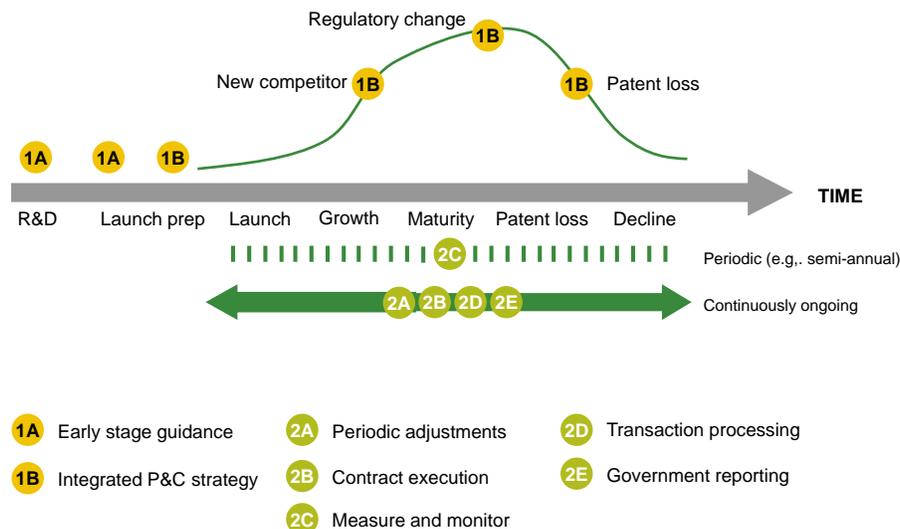
Although “pricing strategy” is common vernacular in most pharmaceutical and biotech organizations, pricing can more accurately be thought of as a key tactic that supports a larger portfolio or product strategy. Thinking about pricing (and contracting) in these terms suggests more involvement by Strategic Pricing groups throughout the development of the overarching product or portfolio strategy.

Early stage assessment

Early in a product’s life cycle, critical development decisions are made that require an assessment of pricing issues. For example, certain pricing and market access risk can be mitigated with appropriate clinical evidence; Strategic Pricing can recommend endpoints that produce the evidence base needed to support the target price level. Similarly, early valuations and forecasts will be more accurate when informed by a deep understanding of pricing issues, and these valuations can influence critical product development decisions. Although considerable uncertainties often exist regarding the pricing landscape, Strategic Pricing groups should be involved in providing accurate pricing guidance, testing key assumptions, identifying pricing opportunities and risks, and providing input regarding clinical development and positioning.

Integrated “pricing and contracting strategy”

At certain milestones in the product life cycle or in response to market events, an integrated pricing and contracting plan needs to be developed or re-evaluated. These milestones and events include preparation for launch, launch of a new branded competitor, important regulatory changes, patent expiration, and OTC conversion. Strategic Pricing groups ensure that the pricing and contracting plan is aligned to support the organization’s overall strategic response. Key outputs of the pricing and contracting strategy include list price recommendations and channel and segment-specific contracting templates that serve as guidelines for customer-specific contract offers.



Strategy execution

Due to the institutional and regulatory complexity of pharmaceutical pricing, Strategic Pricing groups must oversee complex processes associated with executing the intended strategy. These range from purely tactical processes (e.g., transaction processing) to initiatives intended to support or inform the strategy. Best practices dictate involvement with at least the following execution initiatives.

Periodic price adjustment

For most products, it is necessary to increase list prices periodically to respond to competitors and optimize profits. When a price adjustment event is triggered—whether it is a scheduled review, competitor pricing action, or other event—Strategic Pricing should follow an abbreviated, but still in-depth, analysis to confirm the decision to adjust prices and work out details such as the amount of the increase, timing of execution, and communications to customers.

Contract execution

When a new strategy is being rolled out or as contracts come up for renewal, specific contract offers will need to be developed, vetted internally, analyzed for profitability, and executed with the customer. Strategic Pricing's critical role is to ensure that contracting activities are aligned with the intended strategy. Too often (in part owing to passionate and vocal account executives) every contract is viewed as a "must-win" situation, leading organizations to deviate from their intended strategy, often with costly profitability and dangerous competitive implications.

Monitoring and evaluation

Among the most often neglected pricing activities is monitoring the effectiveness of the strategy, including the profitability of individual contracts. Strategic Pricing groups should regularly assess whether the pricing and contracting approach is delivering the level of access needed to support the brand or franchise strategy. In addition, contracts should be evaluated to determine whether the additional share generated from contracted access levels is sufficient to justify the rebates being paid. Effective routine access and contracting reviews will generally require customized tools that integrate, analyze, and display access, market share, and rebate information. Failure to implement a structured monitoring plan can result in perpetually underperforming contracts that drag down profitability and may prompt aggressive competitor contracting responses.

Transaction processing

Every quarter, most pharmaceutical companies process thousands of transactions with hundreds of different customers governed by scores of contracts with dozens of different customer types. It is difficult to overstate the importance of an efficient "back room" for transaction processing. However, despite its importance and the complexity of its tasks, too often the back room hijacks the brand or franchise, dictating what types of contracts and transactions it deems "feasible." Unfortunately, evaluating strategies through the lens of an inflexible back room can constrain creativity. An aspiration for Strategic Pricing groups should be to maintain a back room that is "strategy agnostic," meaning that they can adapt, within reason, to whatever pricing and contracting approach will most effectively support the business needs.

Reporting and compliance

With its myriad commercial and government contracts as well as government price reporting requirements such as ASP, AMP, and Medicaid Best Price, price reporting and compliance are activities that every company simply must get right. These critical reporting functions can be housed within Strategic Pricing finance, forecasting, or elsewhere; but regardless of where they are located, clear and open communication processes are required to allow for accurate reporting amid changing business needs. Again, if at all possible, reporting complexity should not get in the way of pursuing the right strategy.

Comments on process and organizational design

The activities outlined above represent best practices that all companies should generally undertake. However, how the pricing function is organized and the specific individuals or groups responsible for each activity can (and should) vary by company. Factors influencing process and organizational design may include: number of and diversity of products sold, number and diversity of transaction processed, complexity of pricing issues faced, and size and structure of organization.

In some cases (for example, smaller companies with just one or two key products) Strategic Pricing functions may be best located under the purview of the brand team, with tactical functions undertaken by finance or another business partner. In other situations (for example, large companies with great diversity of products, contract types, and customers), a Center of Excellence model, with functional experts supporting multiple products, may be justifiable and provide deeper expertise and sophistication. Whatever the organizational design, the interrelatedness of tasks must be respected, with communication processes clearly outlined to enable seamless development and execution of the product or portfolio strategy.

Investing in strategic pricing

Nothing frustrates a pharmaceutical sales force like poor access, and nothing depresses financial performance like overly generous discounts and rebates—developing excellence in pricing practices, along with effective communication of product and portfolio value can help mitigate these risks and support the intended brand or portfolio strategy, thereby maximizing the value of existing and new product assets.

About CRA's Life Sciences Practice

We provide life sciences companies, law firms, and regulatory agencies across the globe with the industry experience and analytical expertise needed to address the industry's toughest issues. Our reputation is for rigorous and innovative analysis, careful attention to detail, and the ability to work effectively as part of a wider team of advisers.

CRA has offices throughout the world, including European offices in Brussels, Frankfurt, London, and Paris; United States offices in Boston, Chicago, New York, Oakland, and Washington, DC; and other international offices in Bahrain and Toronto.

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