

Enabling bio/pharmaceutical pricing strategies by integration across customers & constructs

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EphMRA 2010, Berlin, Germany



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GOALS

Illustrate how modern techniques of strategic marketing research can be used to develop value-based pricing strategies for bio/pharmaceutical products

1. Identify the roles of customers - payers, physicians, pharmacists and patients - that need to be assessed within the value-based pricing paradigm
2. Specify the three key customer constructs that should be assessed to ascertain value
3. Show how to integrate across customers and constructs for value assessments
4. Share select insights from customer assessments that inform the integration
5. Share one key output achieved by integration over customers and constructs

Value based pricing strategies are shaping product pricing decisions in all major bio/pharmaceutical markets, such as the U.S., Germany, U.K. and France

CUSTOMERS & VALUE BASED PRICING

Integrating disparate customer assessments is at the core of the value based pricing paradigm

Expected Customer Benefits

PATIENTS

- Receive drugs with proven benefits
- Where co-payments are applicable, have a say in product pricing
- Reap benefits of competition and wider access

PAYERS

- Support drugs with proven cost to benefit advantages over alternatives
- De facto represent provider, patient and healthcare system interests
- Have a say in product pricing decisions

PHYSICIANS

- Often shape product evolution from molecule to proven drug
- Have more access to wider array of treatments
- Influence product pricing through utilization decisions reflecting value based tradeoffs

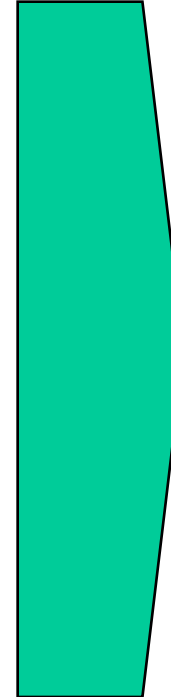
PHARMACISTS

- Make formulary access decisions based on rational cost to benefit analyses
- Influence product pricing decisions based on value assessments
- Factor HCP feedback into value based access decisions

End Goal

Bio / Pharmaceutical Product Manufacturers

- Set product prices to reflect customer value assessments
- Prices reflect self & competitor value assessments
- Strive to establish and communicate product value to its customers
- Integrate value based assessments across multiple customers to determine product pricing strategy
- Encourage innovation that aims to develop highly differentiated, value generating products



CUSTOMER CONSTRUCTS

Integrating over customer behaviour constructs is vital to value based pricing

Preference

- Assessing customer preferences for features that define a bio/pharmaceutical product
- Determining customer price preference expectations
- Estimating customer price / feature trade-offs that determine product value perceptions

Choice

- Understanding the relationship between feature preferences and product choice
- Determining the influence of price in driving product choice in a set of competing product alternatives
- Understanding the relationship between product price and formulary access
- Estimating the relationship between product price, formulary access and product choice

Market Share

- Understanding the relative importance of price in the marketing mix (product features, distribution channel access, promotional effort & price)
- Estimating the interactive influence of product features, price, access and promotional effort on market share
- Calibrating a reliable model based representation of market share as determined by preference and choice

Reliable measurement and integration over customer behavior constructs set up a framework to measure the impact of price on market performance on the basis of value assessments

ENABLING INTEGRATION

Integration across customers and constructs is best achieved by relying on valuable marketing research methodologies

Methodology	Research & Modeling w/ Customers such as..	Key Goal
Gabor-Granger, von Westendorp	Payers, Patients, Pharmacists	Assess price expectations and sensitivities
Pure Conjoint, Adaptive & Hybrid Conjoint Analyses	Physicians, Pharmacists	Estimate customer preferences and value for product elements
Pure Discrete Choice, Hybrid & Choice-Based-Conjoint Analyses	Physicians, Pharmacists	Predict customer choice in a set of alternatives as a function of value-based trade-offs
Maximum Difference Method	Physicians, Payers, Patients, Pharmacists	Estimate relative value for a large number of product elements
SUR (Seemingly Unrelated Regressions), Simultaneous Equations	Physicians	Estimate relative impact of sales & marketing mix (including price) on market share and revenue
Causal Models (e.g. LISREL)	Physicians, Patients, Payers, Pharmacists	Estimate influence of attitudes, value based perceptions, experience, satisfaction and other latent constructs on preference and choice

INCREMENTAL INSIGHT: PHYSICIANS

For Illustration Only

Estimating the relative importance imputed by physicians to elements of the product's value proposition reveal insights that help shape value based product pricing decisions

Preference for Switch Candidates

Preference for Biologic Naïve Patients

Preference Driver	Self Explicated importance	Derived* importance	Self Explicated importance	Derived* importance
Efficacy (total)	13%	13%	14%	26%***
Safety	12%	15%	13%	12%
Labeled Indication	10%	5%	10%	2%
MOA	11%	4%	10%	2%
Mode of Administration	10%	4%	10%	9%
Dosing Frequency	10%	3%	10%	15%***
Sub-Q Dosing Amount	9%	5%	9%	4%
Patient Co-Pay	13%	22%	13%	17%
Access Restrictions	13%	30%**	13%	13%
Total	100%	100%	100%	100%

*Based on multi-attribute preference models

** Significantly more important in terms of impacting biologic preference for switch candidates than for biologic naïve patients, at a confidence level of 95%

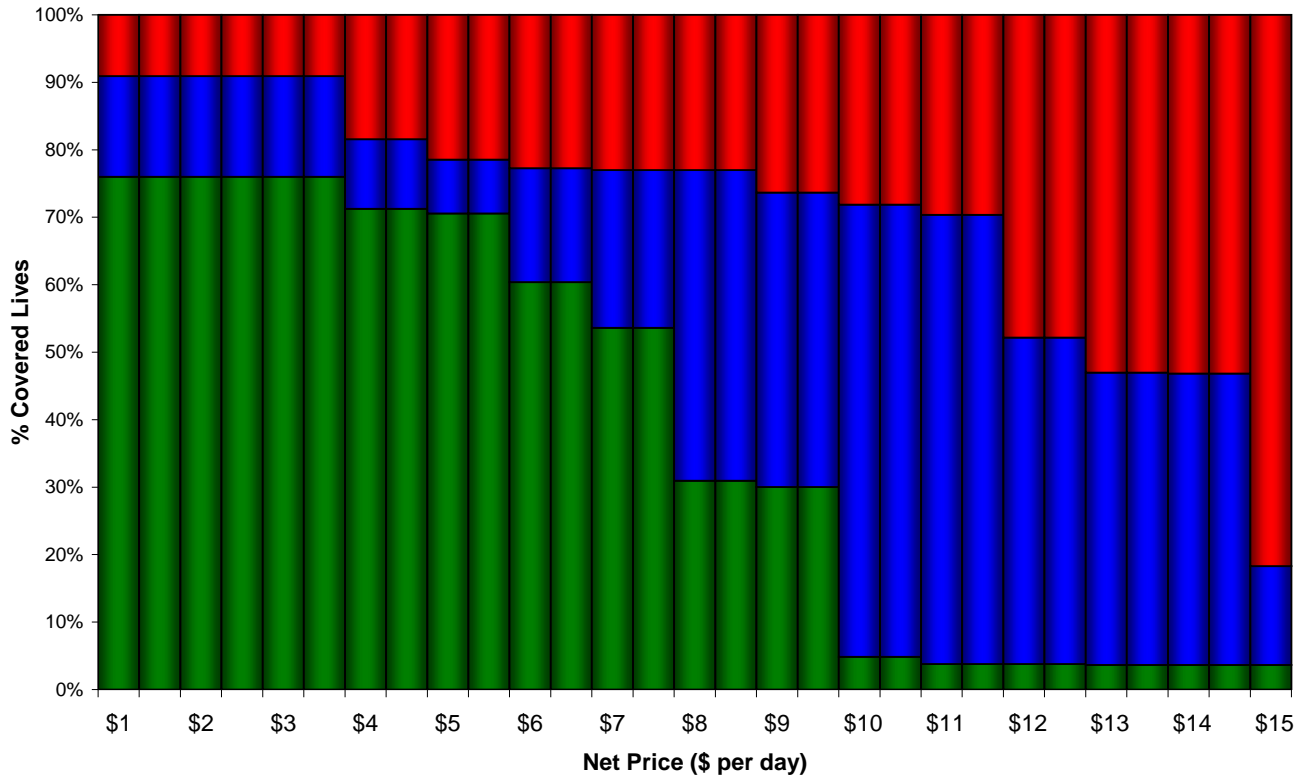
***Significantly more important in terms of impacting biologic preference for biologic naïve patients than for switch candidates, at a confidence level of 95%

INCREMENTAL INSIGHT: PAYERS

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Price-Value experiments with payers provide useful information about possible formulary placement as a function of product price

Total Lives Covered: 15.2M

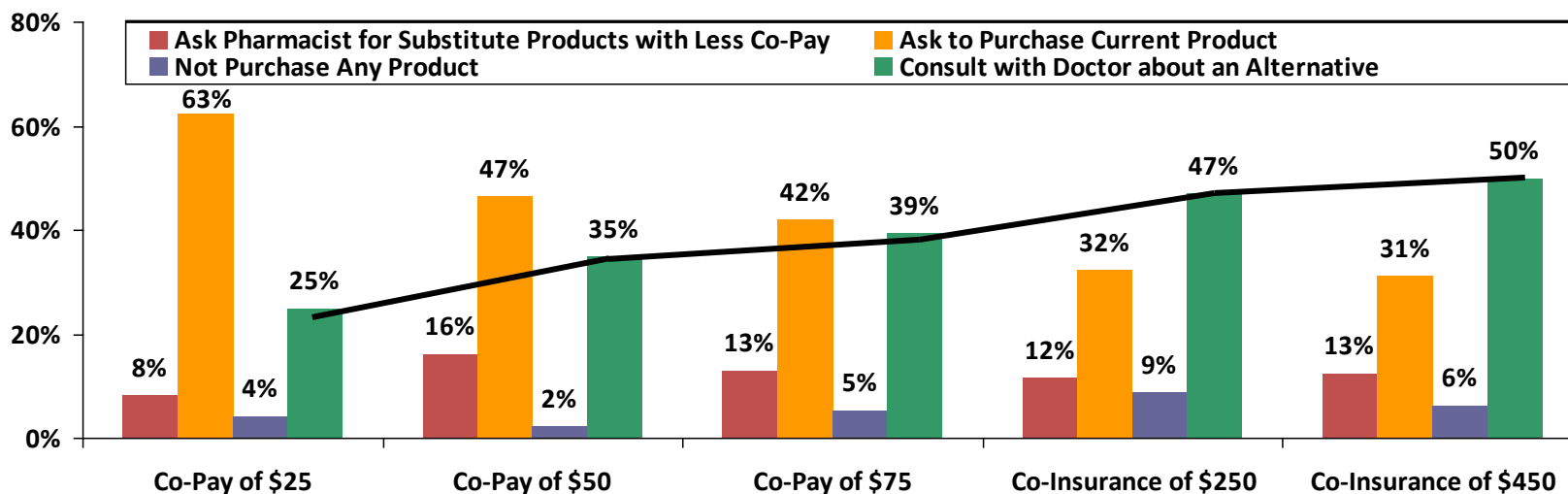
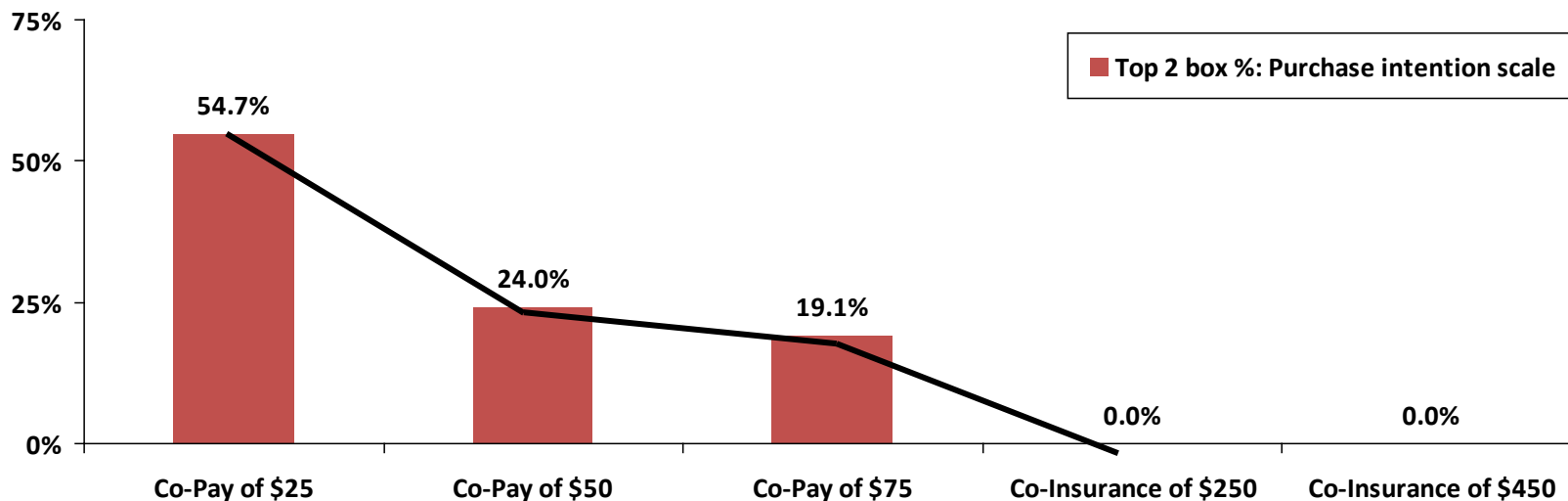


- 1 of 3 on Formulary with possible management
- 1 of 2 on Formulary
- Only Product on Formulary

INCREMENTAL INSIGHT: PATIENTS

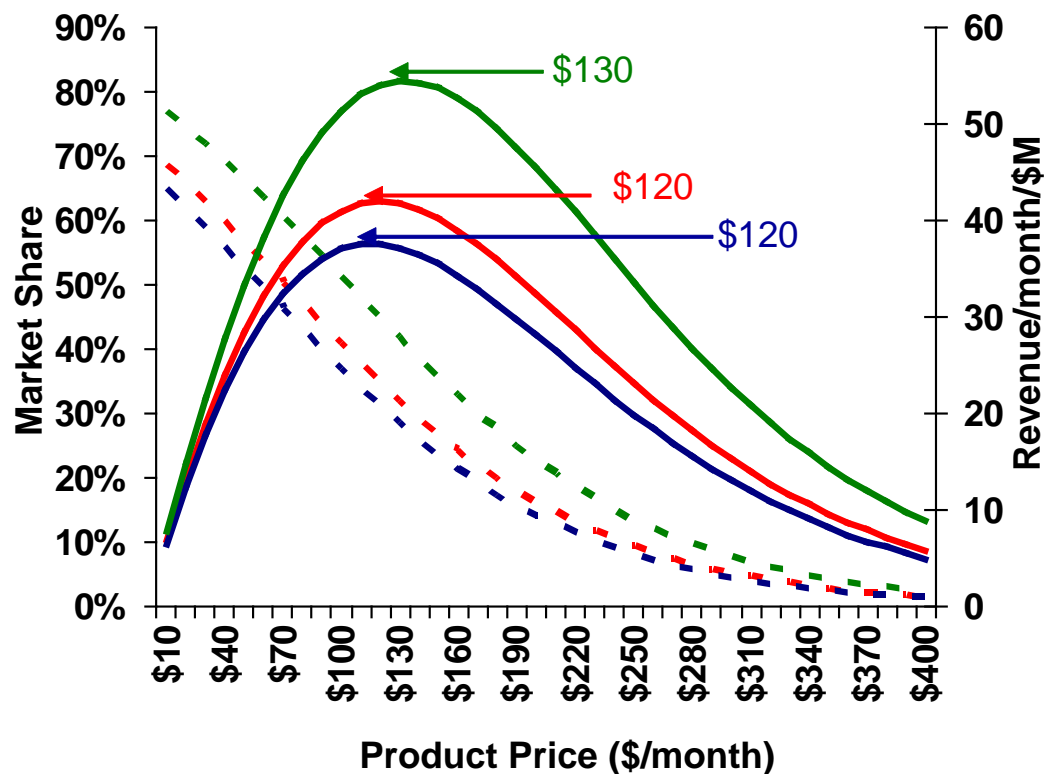
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Useful insights about patient price sensitivity can be assessed through the application of a modified von Westendorp technique



PRICE, MARKET SHARE & REVENUE

Value based pricing strategy is best developed by simulating the impact of price on market share and revenue derived by integrating over customers and constructs



-Market Share (Scenario 1)
-Market Share (Scenario 2)
-Market Share (Scenario 3)
- Revenue (Scenario 1)
- Revenue (Scenario 2)
- Revenue (Scenario 3)

TAKEAWAYS

1. Value based pricing strategies for a product are best developed by integration of insight over the product's customers as well as constructs defining their behavior in response to the product's value proposition
2. Value is a multi-dimensional construct with different meaning and implications for patients, physicians, payers or pharmacists: setting a price for a product should occur only after integrating disparate notions of value from every type of customer critical to its success
3. Integration is best achieved by relying on state of the art marketing research methodologies which are designed to measure specific constructs, as well as to provide outputs that lend themselves to linkages with outputs from methods that measure related other constructs
4. Value based pricing strategies should be recommended only after considering the net impact of price on predicted market performance, after accounting for the effects of critical market influences such as the impact of sales and marketing effort on predicted market share or revenue
5. Value based pricing for a product is best determined by a process of strategy simulation: i.e. by simulating a wide variety of conditions defined by variations in possible price, elements of the value proposition and market influences; and ascertaining the cumulative impact of such variations on performance defined by metrics such as market share and revenue