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WHEN AMERICA SNEEZES, THE WORLD CATCHES A COLD:

How Changes to U.S. Drug Pricing Will Affect the Globe

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As the dust settles from one of the most bitterly fought U.S. presidential elections of modern times, one thing is clear: The spiraling costs of U.S. healthcare are firmly in the sights of politicians. While healthcare covers a multitude of areas, the cost of prescription drugs is viewed as unfair and unsustainable by both the right and the left wings of American politics. With President Joe Biden and his team now in office, pharmaceutical companies need to pay close attention to his policies on prescription drug pricing, as they are likely to have a profound impact in the U.S. and beyond.

Change Is Coming

In 2019, prescription drugs accounted for 17% of U.S. healthcare spending ($511.4 billion),[1] and sales in the U.S. have been increasing by an average of 6% in the last five years.[2] At the same time, the U.S. market typically contributes around 45% of total revenue for global pharmaceutical companies.[2] These two facts combined provide a compelling political argument that U.S. citizens not only pay more than those in comparable countries but also subsidize the growth of big pharma. Though the pharmaceutical industry has rapidly created vaccines to address the COVID-19 pandemic, perceptions of price gouging are likely to persist, not least because the price of COVID-19 vaccines will vary across the globe, highlighting price inequality.

Though traditionally the Republican party has been supportive of the pharmaceutical industry, during Donald Trump's presidency repeated attempts were made to rein in drug prices, culminating in the issuing of an executive order in September 2020. Though President Trump was defeated, and the executive order did not come into effect, President Biden has continued to put pressure on the industry, with a stated intent to tackle drug pricing. Specifically, he has proposed the following:[3]

- Limiting launch prices for drugs that face no competition and are being abusively priced by manufacturers
- Limiting price increases for all brand, biotech, and abusively priced generic drugs due to inflation
- Allowing consumers to buy prescription drugs from other countries

With the Democratic party securing a slim majority in the Senate, the incoming administration now has a greater chance of enacting bolder reform than relying on Executive Orders and key appointments alone. This should place the pharmaceutical industry on watch that the status quo will not remain unchanged indefinitely. President Biden's team may use the threat of external reference pricing to extract other concessions, and all indications are that change is coming. At best, laws could be passed in 2021 and come into effect in 2022 that would have profound implications for companies planning to launch in this time frame.

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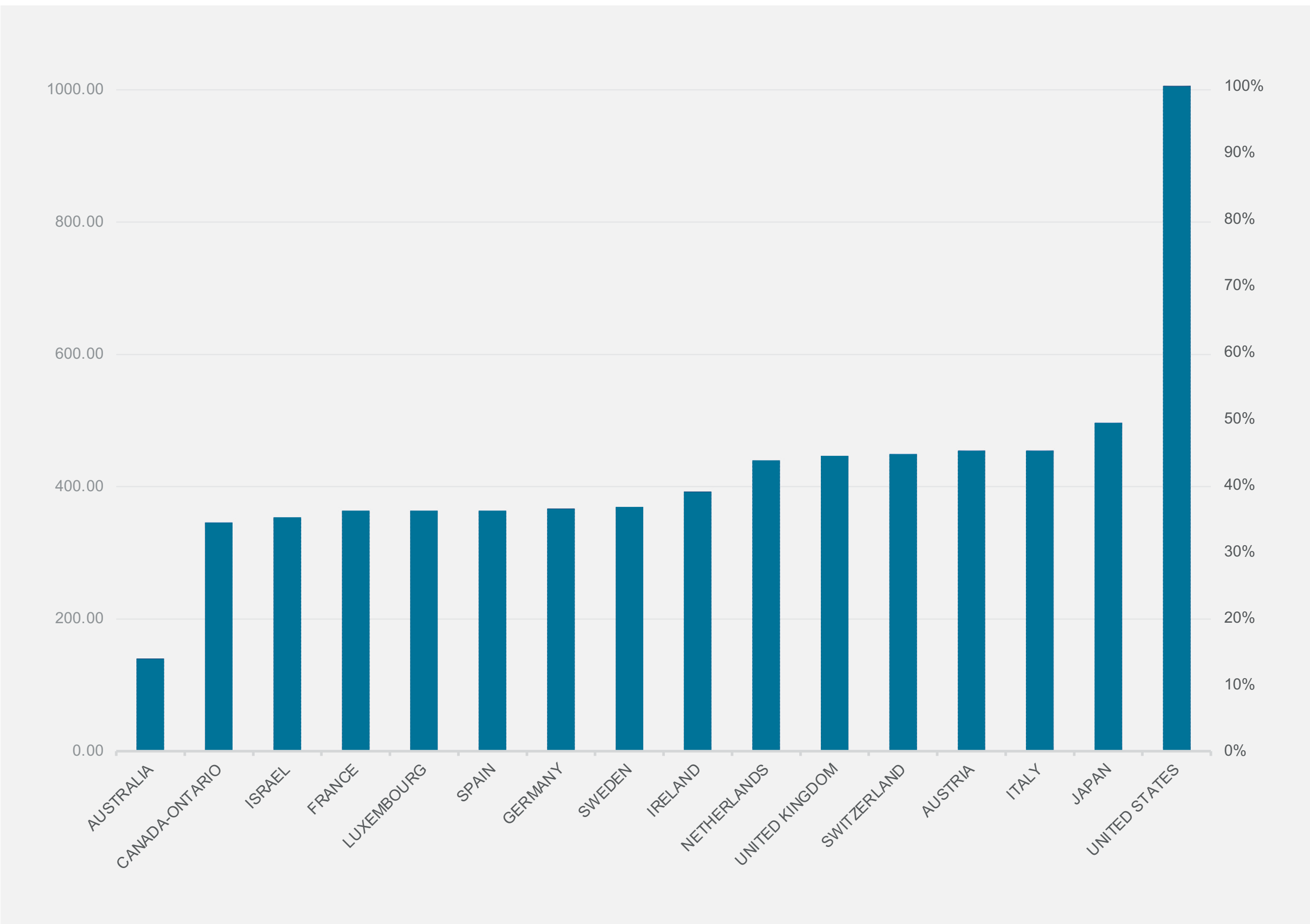
Think Local, Act Global

The specter of the U.S. referencing other markets to set the price for new products should prompt pharmaceutical companies to think carefully about how they price products around the globe. Though the basket of countries will vary, it is fair to assume that most large European countries, along with Canada and Japan, will be included in reference pricing. As the example in Figure 1 shows, these countries typically have prices 50% lower than the U.S., while Australia is 15% of the U.S. price.

FIGURE 1 - LIST DRUG PRICE ($USD) – SELECT MARKETS



This has profound implications for pharmaceutical pricing strategy, with robust global pricing governance at its heart. The absence of such governance can be extremely costly. Consider the example of one pharmaceutical company headquartered in Japan. The company implemented regional price governance, and once the company's product launched in France, the price cascaded to the Asia Pacific region 18 months later. Launch prices dropped to match France's prices, resulting in more than $25 million lost. Such global impact will be amplified in a world where the U.S. references the prices of other markets.

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5 Ps: Proper Pricing Prevents Poor Performance

Though the impact of changes to U.S. pricing policy can seem remote or even unlikely, the direction of travel is clear, and companies need to act now if they are to succeed at a global level. EVERSANA recommends pharmaceutical companies take three key steps in the next six months to ensure they are prepared for potential changes to the U.S. price environment:

- **Map the global pricing landscape:**

  Capture the pricing landscape across all markets in which the company has a commercial presence, either directly or through distributors.

- **Establish global price governance:**

  Create the necessary process and governance structure to ensure prices are determined at a global rather than regional or local level.

- **Develop launch pricing strategy:**

  Establish launch pricing strategies that cover a wide range of scenarios and timelines to ensure the global price is maintained.

Calm Before the Storm?

Many believe that the COVID-19 pandemic will have a minor impact compared to the long-term effects of climate change. Similarly, changes to U.S. drug pricing policy could well be overshadowed by global net price transparency, something that has been mooted over the years. Regardless of what happens, the companies that will weather these external shocks most effectively will be those that plan ahead of time rather than react as they occur. The era of free drug pricing looks to be coming to an end in the U.S., and now more than ever, companies have a choice as to how they act and therefore thrive in the future.

References

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