

PerSpectives

Reengineering the pricing decision:
Going beyond a single curve

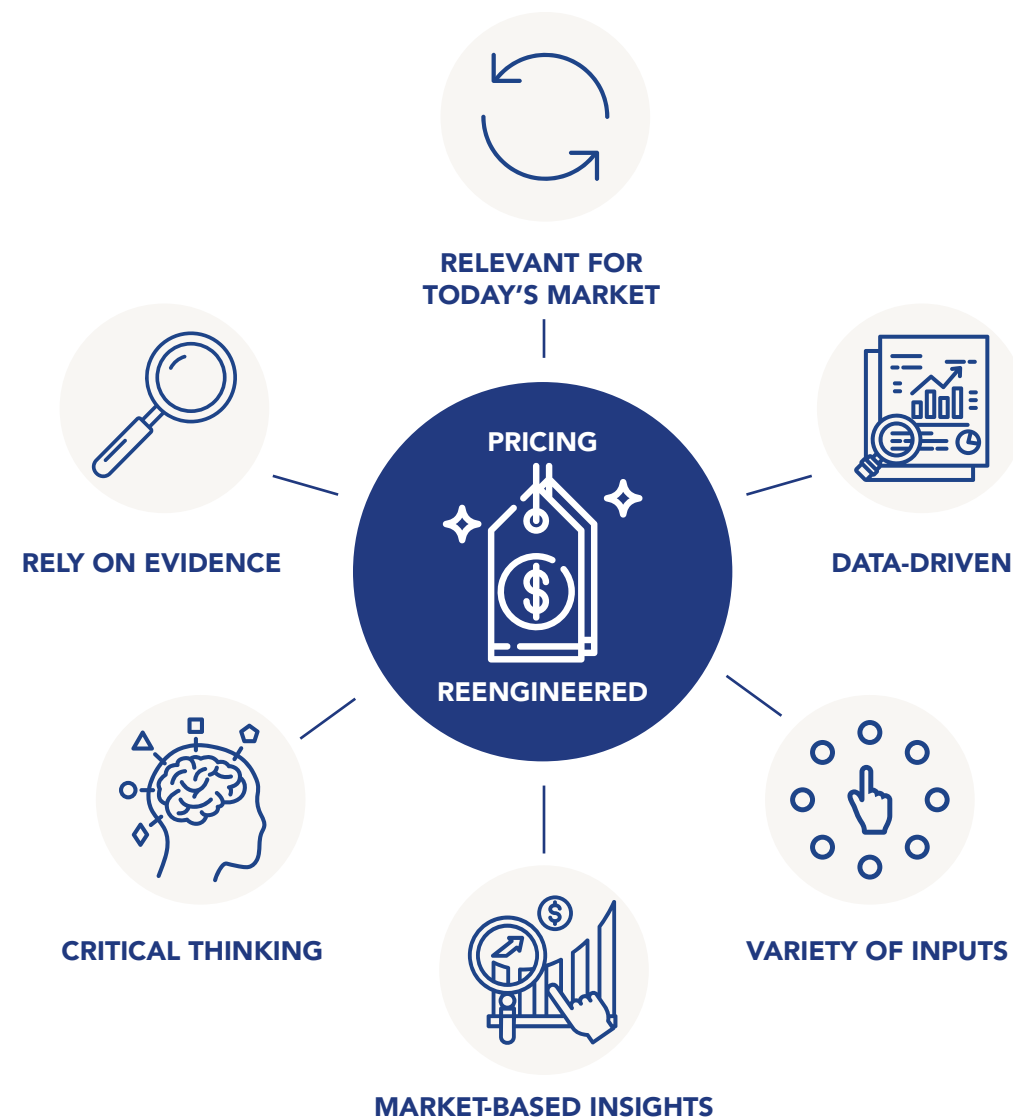
Executive summary

Setting a new specialty drug price is a daunting, high-stakes game. The pricing decision—which often must consider small patient populations and increasingly price-sensitive stakeholders—is a justifiable anxiety-producer.

With all the marketplace changes of the past 20 years and the expectation that the future will be equally volatile, the typical one-study approach to pricing is far too simplistic for the complexities of today’s environment. Perhaps that’s why it so often tends to produce uncertainty, a lot of second-guessing, and a sizable hole in the marketing budget.

At Payer Sciences, we think it’s time to reengineer the pricing decision. Today’s complex pharmaceutical marketplace calls for an updated, data-driven approach—one that relies not on a single result but on a variety of inputs that tap into market-based insights, are subject to well-structured critical thinking, and rely on a preponderance of evidence.

Here’s how we defined a new, disciplined approach to help our client establish an optimal price for their rare disease specialty therapy.



The biggest decision

Of the myriad decisions that attend launching a new specialty brand, the pricing decision is the most consequential. Launch pricing can open access or shut it down. It can leave millions of dollars on the table or fuel cash flows for years to come. It can generate backlash among patients, physicians, and politicians. And it is a stake in the ground that is not easily moved.

But setting the right price has grown to be an increasingly complicated challenge, especially when breaking new ground with a specialty therapy in a previously nonspecialty category. Manufacturers must consider a web of interacting decision-makers and stakeholders, with their own varying incentives—and they must also be ready for what may be coming from federal and state policymakers who have repeatedly shown a willingness to act on moderating drug prices.

Despite these formidable challenges, the methodology used to make pricing decisions has remained largely as it was decades ago when things were a bit simpler:



A costly and complex pricing study is commissioned. Results are quantified and socialized up and down the organization. The brand team and C-suite agonize over the right price, sweating it out as the PDUFA date approaches. A pricing committee blesses a final price. The drug is approved, the label finalized, and that’s when the CEO goes behind closed doors to choose a number. Sometimes it’s close, but sometimes it’s quite far from the “final” pricing recommendation. Everyone crosses their fingers and hopes for the best.



Sound familiar?

What do we get from a pricing study?

The value of the pricing study is in its ability to elicit how customers perceive the clinical value of the brand in the current marketplace. But things get wobbly when we ask these same customers to turn perceptions into predictions of uptake or coverage. And when we plug all that data into a quantitative model that churns out an “optimal” price, we are conferring an air of precision that is beyond the reliability of the inputs.

For one thing, in the pricing research setting, stakeholders respond as if in static silos with perfect information, while in the real marketplace they operate interdependently and with incomplete information.

Also, questionable at best is the accuracy of self-predicted uptake or coverage based on perceptions of a product profile. A lot can change once labels are finalized, marketing is underway, competitors are responding, medical press is commenting, and prescribers are observing the efficacy and safety of the drug with their own patients.

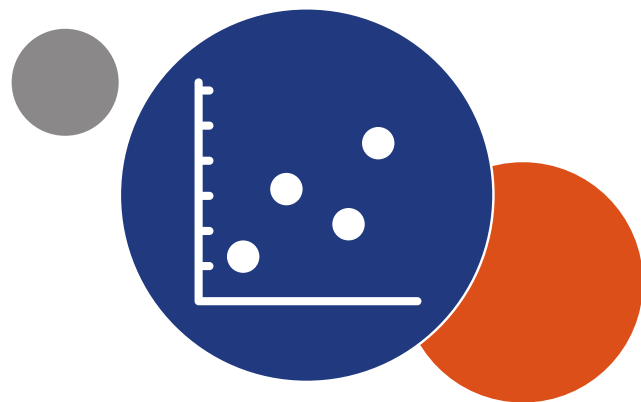
Reengineering the pricing decision in specialty markets

At Payer Sciences, we’ve helped clients reengineer how their pricing decisions are made. Determining price is part art and part science. With the right tools and the right process, manufacturers can bring more rigor to the decision—potentially, at less cost—so they can go to market confident they’ve made the best possible pricing decision for the brand.

Our approach to pricing relies on structured interrogation of 2 core sources of insight:

Analytically culled observations
of actual prices in the marketplace

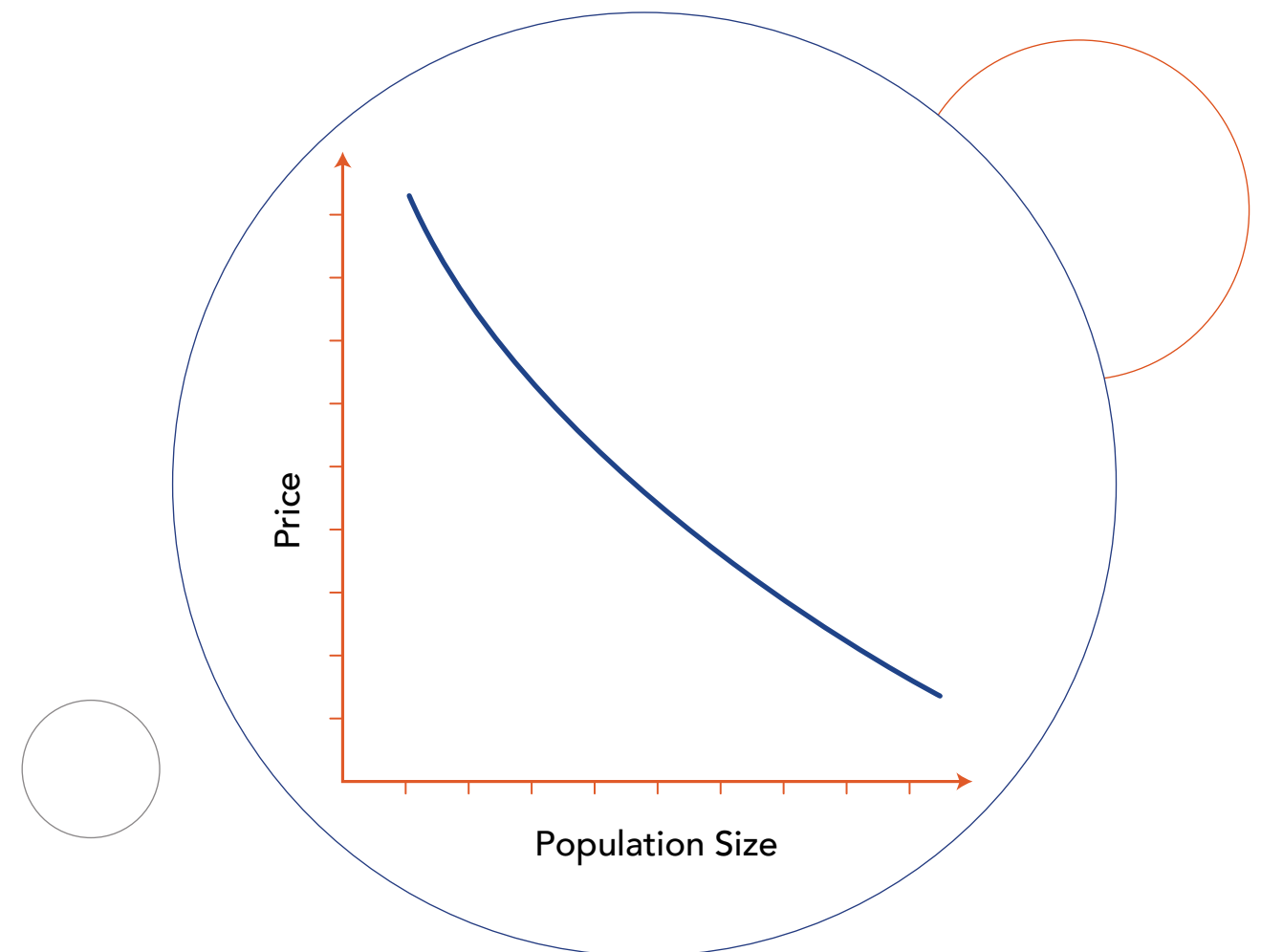
Qualitative judgments
of clinical and other sources of value by brand/market experts



Analytically culled observations

Skillful analysis of actual in-market prices among competitors and analogs can play a valuable role in reaching a pricing decision—whether at the outset to define price ranges for the pricing study, following the pricing study to help validate the results, or as the first step in a comprehensive evidence-based approach that does not rely on a pricing study.

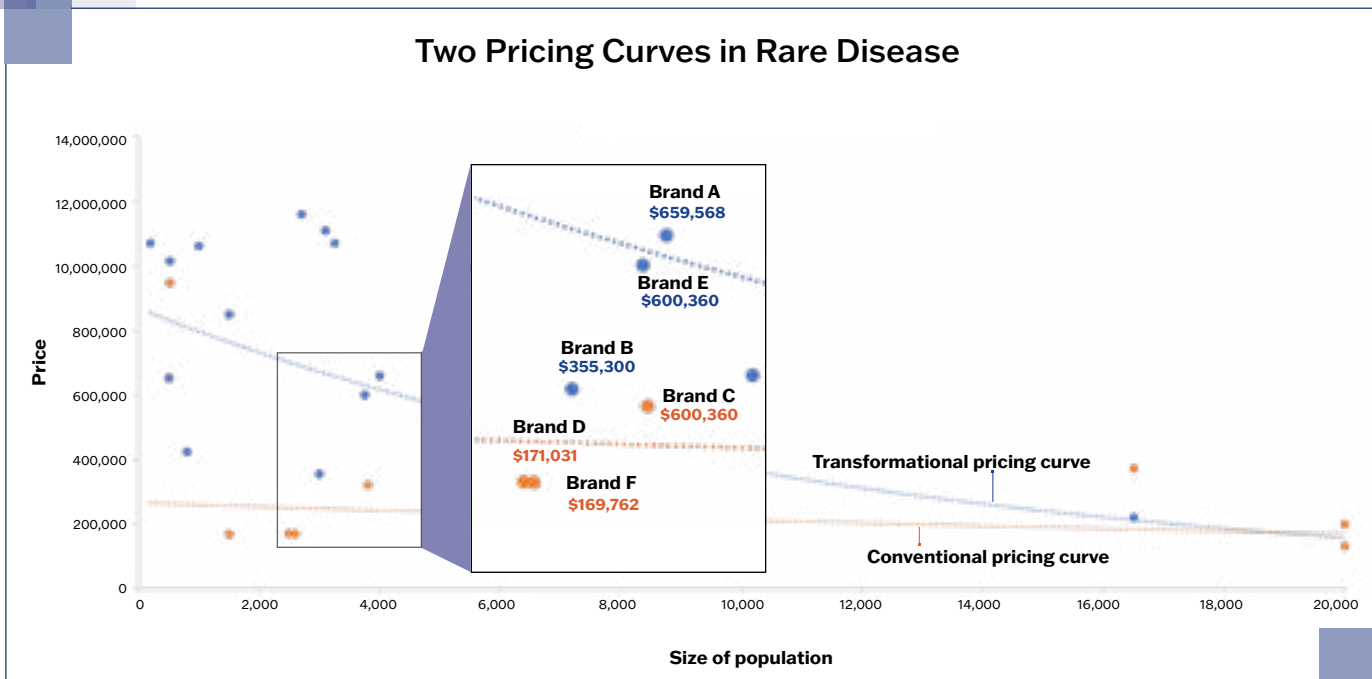
For one client’s novel rare disease brand, we began by confirming a commonsense fact: across the full spectrum of diseases and treatments, population size is highly correlated with drug price.



But we needed to understand what the population-price curve looked like *within* the narrower domain of rare diseases. When we analyzed the rare disease pricing data more fully, we found that the population-price correlation persisted, but

- The shape of the curve differed for transformational vs conventional rare disease therapies (ie, clinical value—not surprisingly—plays a pivotal role)
- Many treatments still diverged from their respective curves, whether transformational or conventional

Using the 2 pricing curves as our guide, we were able to narrow the band of potential prices for our client’s new therapy. But the range of prices was still quite wide given analogs on the market, running from ~\$170K on the low end to \$660K on the high end. Where within the band should the final price land?



Evidence-based judgments

To get to a final recommendation, our approach relied on a structured cross-functional critical thinking exercise. The goal was to make explicit, and rigorously vet, the kinds of factors that the CEO under the old model was most likely to consider at the moment of truth.

In a workshop setting, we tapped into the knowledge and experience of a wide range of experts operating within, or closely alongside, our client. Participants included

- Market access team
- Brand team
- Medical experts
- Account management
- Pricing and contracting managers
- Health economics team
- Market research analysts

In our rare disease drug example, we gathered and evaluated pieces of evidence that could influence price toward one curve or the other, toward one analog or the other. Examples of evidence included

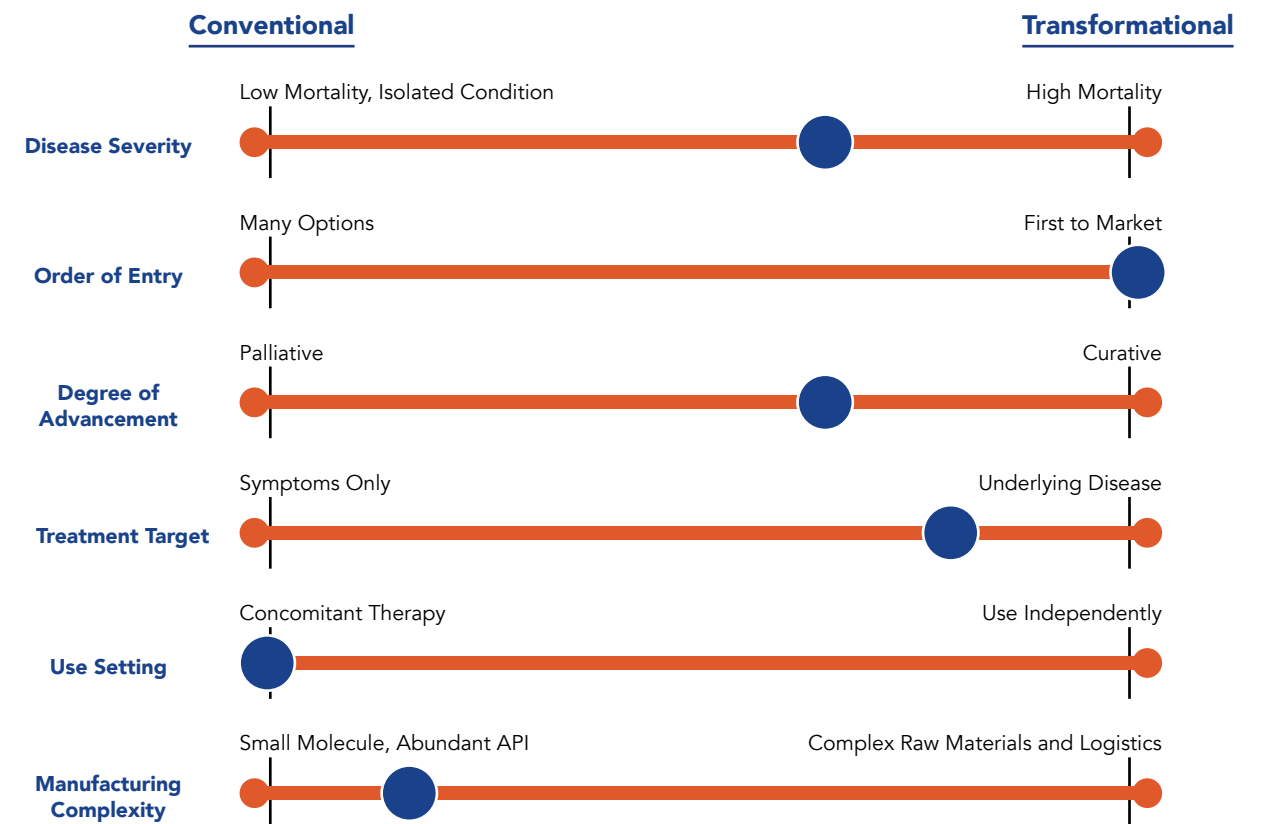
- Elements of clinical value
- Disease severity
- Number of alternative therapies
- Value of alternatives

Note that one of the sources of evidence considered at this stage may indeed be a pricing study. But instead of preassigning paramount precision to that study, the expert participants vet it—just like any other piece of evidence.

We look for similarities and differences from closely related analogs and assess which characteristics point toward the conventional vs transformational pricing curve, and the potential for a premium or discount to that curve.

In this way, the group moves forward together along an evidence-based path toward a supportable price. By enabling clients to wrestle with what each fact in evidence means for the pricing of their brand and pushing all this thinking into the foreground, we empower them to make well-informed pricing decisions that can be confidently communicated up and down the organization.

Sample Criteria



Going to market with confidence

We have no illusions that our reengineered approach fully replaces that “behind the curtain” CEO moment of decision. Rather, we seek to transform that moment to one of confidence and determination; to give CEOs the assurance of a pricing recommendation not based on one costly, opaque study, but on the substance and rigor behind the recommendation. They will rest better having decided the price based on a preponderance of evidence grounded in market-based insights and expert consensus judgments.

That’s what we think every pricing decision—with its unrivaled impact on brand success—deserves.



At Payer Sciences, we are eager to help you reach a pricing decision that is worthy of the impact it will have on the lifetime of your brand.

Learn more about us by [visiting our website](#) or click below to start the conversation.

