

INN sight article by Peter Wittner, March 2012

Peter has been in the pharmaceutical industry for 30 years of which the second half has been mainly in the areas of generics. He has worked for the former Evans Medical and then Norton Pharmaceuticals (now part of IVAX) where he was responsible for European Sales & Marketing. After leaving Norton Peter set up his own consultancy in 1993 and operated independently until 1996 when he joined the Indian company Ranbaxy to set up the infrastructure of their new UK subsidiary and spent two years with them. For the last 7 years he has been back doing consultancy and specialising in the field of generics.



Falling product prices

All governments like to show how they are keeping control of ever-rising healthcare costs. One popular way of doing this is, of course, to hit the pharmaceutical industry since few people are likely to stand up and defend it. It is odd that an industry that is so successful at creating positive Public Relations for its products is so lousy at creating positive PR for itself.

Most of the bodies trying to control costs are also fond of producing evidence to prove that they are actually doing so. The UK is no exception and the Department of Health recently published a report showing that average British Pharma prices are now amongst the lowest in Europe, demonstrated in a table at the end of the report.

Table 4: Bilateral comparisons of ex-manufacturer prices

Country	Price indices							
	2004	2005	2006	2007	2008	2009	2010	2010 indices using five-year* average exchange rate
Australia	-	-	-	94	94	126	139	106
Austria	94	96	94	96	111	125	117	107
Belgium	90	95	97	101	122	132	122	112
Finland	96	101	96	99	119	113	105	96
France	84	96	89	92	108	115	104	95
Germany	106	108	105	113	142	169	155	142
Ireland	99	103	105	112	134	144	133	122
Italy	78	84	78	83	101	120	113	103
Netherlands	92	95	94	99	115	-	-	-
Spain	80	84	85	88	109	118	106	97
Sweden	-	-	103	105	116	126	130	114
UK	100	100	100	100	100	100	100	100
USA	176	198	188	183	252	249	281	254

* Uses 2010 price information but converted to sterling, for this comparison, using the average quarter 4 exchange rate for the period 2006 to 2010.

(Source: The Pharmaceutical Price Regulation Scheme, Eleventh Report to Parliament 2012)

The table shows how UK prices, taken as 100, have consistently fallen since 2005 relative to those of other European countries that are shown in the table.

The figure that ought to alarm healthcare providers in other countries is the US figure, which seems to show prices in the US (281 on the DoFH scale) were nearly **three times** those in Britain. Even allowing for inaccuracies and faults in the comparison, President Obama should be very worried!

However, the point that I am moving towards is that this must also have an impact on the generic industry. The lower the brand price, the lower the point from which the generic companies start discounting following patent expiry.

In some EU countries, the reimbursement and pricing authorities demand that any generics should be at least 30%, 40% or some other figure below the brand price when they launch and should then carry on discounting more and more. The UK is more liberal in that respect – it places no restriction on the generic launch price, instead relying on the industry to do the cutting. The industry duly obliges, cutting both generic prices and its own throat in the process.

If the downward trend in brand prices continues, it might not kill the generic industry, but it could kill some of its members. The UK government is at least pragmatic enough to realise that someone somewhere has to pay for Pharma R&D and avoids squeezing too hard. However, elsewhere in the EU, aggressive price-cutting by government-imposed measures that target Big Pharma is having a knock-on effect on the generic industry. Companies in several of the affected countries such as Greece, France and Spain are questioning the rationale for staying in the market when it is getting harder and harder to make a profit.

Some German generic companies are questioning the value of participating in the tenders given that winning one seems to be just an opportunity to devote significant resources to losing money. Further afield, the Chinese have just announced new proposals for a pharmaceutical tendering system, something that is not going to be good news for all the multinationals who saw the future involving the launch of branded generics in emerging markets.

The industry will survive, but some of its members will not. As I have written before, unless governments start to see generics as part of the solution rather than part of the problem, they will also be losers in the long term as companies drop out of the market. Fewer generic players in the market place translate into less need or incentive to compete aggressively; and then...?

Peter Wittner

peter@interpharm-consultancy.co.uk

March 2012

GenericsWeb's contact: info@genericsweb.com

To register for GenericsWeb's free monthly newsletter 'INNSight', [click here](#)