Is cost containment impacting pharmaceutical innovation'

With the costs of providing healthcare spiralling, governments and payers across the seven major markets are implementing cost-cutting initiatives in an effort to combat these escalating healthcare costs, which in turn is putting even greater pressure on pharma companies.

By Dr. Sandra Reynolds 4 Sep 2008

Recently the National Institute of Clinical Excellence (NICE) in the UK rejected four new kidney cancer therapies on the basis of cost effectiveness. This decision effectively denies patients access to these nov drugs, a decision that has angered healthcare professional and patients alike.

In addition to pharmaceutical companies being under pressure due to the credit crunch, ever fewer novel products are coming to market, contributing to the declining return on investment. With the cost-effectiveness of a product at the top of the agenda for payers, pharmaceutical companies need to focus upon developing truly novel drugs if they wish to achieve a premium price and strong reimbursement position. However, according to independent market analyst Datamonitor senior pharmaceutical analyst Dr Sandra Reynolds, "This also comes at a risk in an increasingly safety-conscious era, leaving Pharma in a difficult-to-win situation," she says.

Rising global healthcare costs putting pressure on governments and payers

Global healthcare costs are rising due to increasing ageing populations and poor lifestyle choices - particularly in western markets - combined with a lack of or insufficient existing cost-saving initiatives. Consequently, governments and payers across the seven major markets are implementing numerous healthcare cost-containment policies. With Pharma experiencing declining returns on investment, the abilit to make a profit will become increasingly difficult if innovative drugs are not launched in the near future.

The innovation capacity of the pharmaceutical industry is determined, to a great extent, by the external environment. Consequently, pharmaceutical innovation is likely to suffer in Europe and Japan, partly due to increasing government barriers in gaining access to reimbursement lists. Government's push for greater u of generic drugs will also increase the pressure on Pharma and ultimately on its ability to be innovative.

With that said it is entirely understandable why governments push for generic substitution and Pharma to a extent recognize this. However, there is an onus on Pharma to respond to the reality of global healthcare costs and adjust. Streamlining its R&D efforts and making strategic pipeline decisions early on in the development process will become vital, Dr. Reynolds says. "New drugs must show 'value for money' in terms of therapeutic outcomes and the companies that develop them must be able to demonstrate their efficacy if they want to receive favourable reimbursement."

The US P&R system - generally regarded as relatively lavish-spending by international standards - has als become more cost conscious due to rising healthcare costs, which in turn are driving up insurance premiums. Insurance firms are beginning to seek better deals on prescription drugs from pharmaceutical companies, so to avoid raising insurance premiums further in a country that is in an economic recession, D Reynolds says. "Large enrolment numbers in the Medicare Part D drug program has also increased costs with the Federal government reacting by looking to negotiate drug prices with the Pharma industry to reduc healthcare expenditure."

P&R controls will become more stringent globally with introduction of value based pricing

In Europe healthcare systems are outdated, financially inefficient and in need of modernization. Remedyin this situation is a long-term and hugely expensive process, so focusing on cutting costs on prescription drugs is a quick win. However, in the long-term this could be damaging to the development of new innovati drugs by pharmaceutical companies. The way forward for Pharma will be the implementation of assessments of cost-effectiveness that demonstrate value for money in their products, Dr. Reynolds says "In addition, strong differentiation from competitor products will be essential in order to achieve reimbursement status and a return on investment.

"The industry must, therefore, adapt its R&D strategy and incorporate pharmacoeconomics early on in the drug development process," she says.

With the UK's National Institute of Clinical Evidence (NICE) evidence-based pricing strategy, gaining reimbursement for new medicines has become increasingly challenging and frustrating for pharmaceutical companies. Even when NICE approves a drug there is no guarantee it will reach patients if the National Health Service fails to implement its use due to its high cost, even if it is below the set limit of £30,000 ($60,000), as the limited funding of Primary Care Trusts means they cannot afford it.

Evidenced-based pricing is becoming an attractive P&R tool in other healthcare markets. Germany has als introduced a cost-benefit assessment for new and approved drugs in its equivalent of NICE. This will be carried out by the Institute for Quality and Economic Efficiency (Institut für Qualität und Wirtschaftlichkeit in Gesundheitswesen). If a drug fails to make it onto the reference pricing system due to a negative review, t GKVs (Germany's public health insurance funds) will more than likely not receive reimbursement. In the US where prescription drug sales have increased from $216.7 billion in 2006 to $274.9 billion in 2007, there h also been mention of setting up a comparative effectiveness board as the current director of the Congressional Budget Office believes that at present less than 50% of all medical care is supported by evidence of effectiveness, Dr. Reynolds says. "As such, leading health economists in 2007 called for the Comparative Effectiveness Board to review the cost-effectiveness of current medication, in the same way that NICE does in the UK.

"This means Pharma will have to work much harder at the differentiation of their respective products from competitors and demonstrating health benefits/outcomes if it is to succeed in securing reimbursement, an potentially their own financial future," she says.

Notes

Datamonitor's report *Pricing & Reimbursement - Seven Major Markets Update* focuses on the latest developments in pricing and reimbursement (P&R) in the seven major markets providing analysis of P&R controls in each market and identifying key trends shaping overall market evolution and implications for Pharma.

ABOUT THE AUTHOR

Dr. Sandra Reynolds, the author of the report, is a Datamonitor senior pharmaceutical analyst.