Key Pricing and Profitability Trends for Life Sciences Companies

Survey Results of the European Pricing & Profit Optimisation Forum 2013
Montreux, Switzerland
**Executive Summary**

Deloitte conducted a survey on pricing and profitability management practices amongst 30 senior pricing executives of leading global Life Sciences companies. The study identified six key trends in pricing and profitability:

1. Value-based pricing is becoming the predominant price-strategy following buyers’ pressure for value-based pricing agreements

2. Respondents see potential for improvement in their pricing strategies, especially in understanding their own value proposition in relation to the market reaction and price sensitivities

3. Life sciences companies are increasingly challenged by tendering groups and demand for price transparency

4. Life sciences companies have translated their strategic priority to improve and implement pricing capabilities into on-going pricing initiatives

5. The key winning factor in the market remains product performance, while price is indicated as the key reason for losing a customer

6. Pricing roles and responsibilities are becoming more clearly defined, particularly on top management level, where Chief Marketing Officers increasingly take on the pricing responsibility

Note: 1 The survey was conducted 2013 at the 3rd EPP Life Sciences Forum on Pricing and Profit Optimisation
2 45% pharma, 29% medical devices, 13% biotech, 13% other (generics, life sciences consulting)
Value-based pricing becomes the predominant pricing strategy following buyers’ pressure for value-based pricing agreements

- Value-based pricing has gained significant importance compared to 2012 and has become the predominant price-strategy.
- A key driver is the trend towards compulsory value-based pricing schemes, enforced by healthcare systems (e.g. by the NICE in UK).
- Competition-based and market-based pricing remain a common practice among participants.
- For value-based pricing, take the measurement of value of a drug for a patient or for the society into account.
- To optimise pricing, segment customers in a way that reflects the value a product represents to them.
- Manage market expectations and communicate strategically to ensure the best implementation of value-based pricing.

Source: ¹ Value-based pricing for pharmaceuticals, Deloitte, 2012
Respondents see potential for improvement in their pricing strategies, especially in understanding their own value proposition in relation to the market reaction and price sensitivities.

How do you evaluate your company regarding pricing strategy?

- **Pharma**
  - Totally agree: 3
  - Totally disagree: 2

- **Medical device**
  - Totally agree: 3
  - Totally disagree: 2

- **Biotech**
  - Totally agree: 3
  - Totally disagree: 2

**Legend:**
- Average rating: 1 to 5
- Survey results: Green
- Key pricing insights: Yellow
- Key considerations: Orange

### Key insights and considerations:

- **Pricing strategies** are seen as **moderately effective**, with companies focusing on the alignment with product and customer strategy and targeting.

- Respondents see a **need to improve understanding of their value proposition** in order to explore new, innovative profit models through value-based pricing strategies.

- Having benefitted from substantial price premiums over the last years, **biotech companies** see themselves now **lagging behind in understanding market reactions to price changes**.

- **Align pricing strategy with product and customer strategy**
  - **Develop effective communication measures** to improve pricing approach.

**Source:**
1. The price of pricing effectiveness, Deloitte, 2012
2. Ten types of innovation, Keeley, 2013
Life sciences companies are increasingly challenged by tendering groups and demand for price transparency

How important are the following trends for your company?

**Pharma**
- Tendering and buying groups
- Increasing global/regional competition
- Customers with global/regional sourcing strategies
- Increasing competition of generics
- Risk of arbitrage or second market trading

**Medical device**
- Tendering and buying groups
- Increasing global/regional competition
- Customers with global/regional sourcing strategies
- Increasing competition of generics
- Risk of arbitrage or second market trading

**Biotech**
- Tendering and buying groups
- Increasing global/regional competition
- Customers with global/regional sourcing strategies
- Increasing competition of generics
- Risk of arbitrage or second market trading

Source: ¹ Impact of austerity on European pharmaceutical policy and pricing, Deloitte, 2013; ² Power – up your pricing!, Deloitte, 2013

- Tendering and buying groups are driven by austerity measures, which have caused a shift in tendering from individual organisations to Group Purchasing Organisations (GPOs)
- Price transparency is increasing as healthcare organisations are demanding more visibility of prices throughout the value chain in order to reduce their own internal costs
- Offset pricing pressure arising from tendering and buying groups with effective value propositions
- Customise product/service offerings in order to maximise customers’ willingness to pay under conditions of increased price transparency
Life sciences companies respond to the key challenges by making the improvement and implementation of pricing capabilities their key strategic priorities.

- **How important are the following strategic measures for your company?**

  - **Average rating**
    - **Pharma**
    - **Medical device**
    - **Biotech**

  - **Legend:** Survey results Key pricing insights Key considerations

- **Key strategic measures**:
  - Improve pricing and revenue management capabilities
  - Enforce price differences by differentiated products
  - Improve global/regional price controlling
  - Develop tender management capabilities
  - Harmonise prices across countries and regions
  - Build a global dedicated pricing function

- **Key considerations**:
  - Life sciences companies respond to the challenging environment by improving pricing and revenue management, enforcing price differentiation and developing tender management capabilities.
  - The importance to improve pricing and revenue management capabilities can be attributed to the high impact of pricing on profitability¹.
  - The second most important measure, price differentiation, allows companies to reap higher margins for high-value products².
  - Set the right incentives for the sales force to improve price enforcement.
  - Understand the role reference prices play, when dealing with cross-country purchasing organisation.
  - Centralise pricing function to harmonise prices across geographies without neglecting market specificities.

Life sciences companies have translated their need to improve pricing into on-going pricing initiatives

- Pricing is a key concern among most participants of the study, with the majority already having initiated projects to improve pricing capabilities.
- 2012’s intention to launch pricing initiatives translates into this year’s on-going pricing improvement programmes and dedicated pricing resources.
- Ensure that the most important pricing issues are addressed by future pricing initiatives, typically enabled by strong analytical capabilities.
- Engage with cross-functional senior stakeholders throughout the project to drive a successful implementation.

Which pricing initiative is your company currently conducting?

- Nothing in place so far (3%)
- Initiated a pricing improvement programme (3%)
- Intention to implement but not clear yet (13%)
- Assigned dedicated pricing resources (33%)
- Increased monitoring of pricing effects (33%)
- Others (8%)

Legend:
- Survey results
- Key pricing insights
- Key considerations
The key winning factor remains product performance, while price is the key reason for losing a customer.

When you are winning/ losing a customer, which reasons would apply?

- **Product performance** is the main driver for customer acquisition.
- Participants in our survey have understood that pricing can become a risk, when aiming for short-term profits instead of creating shared value\(^1\) – they perceive price as the main driver to lose a customer.

- Use **value-based pricing strategies** to enhance customer acquisition and retention.
- Manage price sensitivity and price erosion focusing communication on product performance and service quality.

Note: Participants could select three main reasons from the list.

Source: \(^1\) Pricing to create shared value, Harvard Business Review, 2012
Pricing roles and responsibilities as well as top management support is well defined for Pharma and Biotech, while Medical Device is still lagging behind.

Key Pricing and Profitability Trends for Life Sciences Companies
Survey Results

**Trend 6**

There are clear definitions of pricing roles and responsibilities (2012 & 2013)

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- Participants who were positive about the support of top management on pricing in their company, also assessed pricing roles and responsibilities as clearly defined in their companies.
- Biotech companies increasingly perceive themselves as ahead of the game as they clearly define pricing roles and responsibilities.
- Pharma and Medical Device companies have need to re-define pricing roles, as companies that exhibit effective pricing are 30% more likely to exhibit clearly defined ownership and accountability within the pricing process.

There is full support from top management on pricing (2012 & 2013)

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- Re-define pricing roles and responsibilities in a way that drives pricing effectiveness.
- Ensure top management support for pricing to refresh clarity and consistency of roles.

Source: ¹ The price of pricing effectiveness, Deloitte Review, (11) 2012
20% of the respondents have a Chief Pricing Officer in place, whereas the others are increasingly shifting pricing responsibility from the Chief Finance Officer to the Chief Marketing Officer.

- Pricing responsibility is shifting from the CFO towards the CMO and other mostly commercial functions.
- At the same time trend for more cross-functional involvement in pricing topics can be observed.
- About 1/5 of respondents have a dedicated pricing officer, consistent with 2012.
- Consider setting up cross-functional pricing governance bodies to effectively manage price policies and execution.

Deloitte would be pleased to provide you with a detailed summary of the pricing survey and discuss how to address the latest pricing and profitability trends in Life Sciences

Pricing Survey Reports
• Yearly publication of pricing survey reports
• Frequent contributors to HBR, with over 80 articles on a wide range of topics, including pricing strategy¹

Proven Pricing methodologies
• Our pricing methodologies ensure an effective and structured approach
• Our Deloitte PPM handbook is a reference guide for top management
• The “Strategy and Tactics of Pricing” brings together strategic insights to tackle the most pressing pricing challenges of today¹

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¹ Eminence from Monitor Deloitte
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• Ten types of innovation: The discipline of building breakthroughs, Keeley, L., 20

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