



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 survey¹ on pricing and profitability management practices amongst 30 senior pricing executives of leading global Life Sciences companies².

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

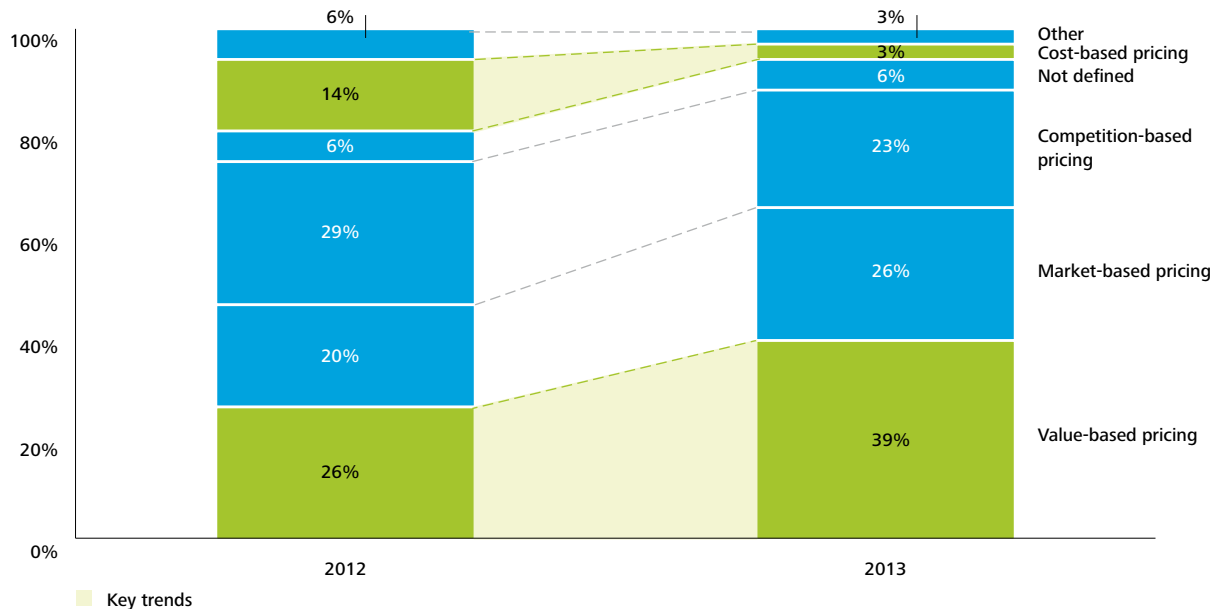
Note: 1 The survey was conducted 2013 at the 3rd EPP Life Sciences Forum on Pricing and Profit Optimisation

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



How do you set prices?



- 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)¹
- **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

Legend:



Survey results



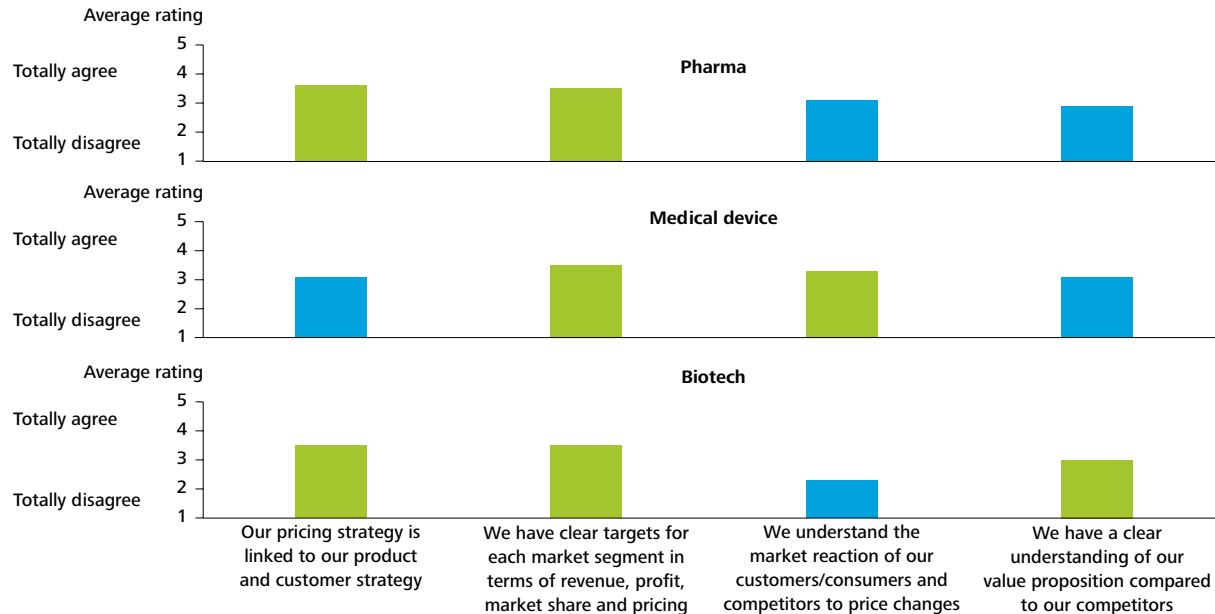
Key pricing insights



Key considerations

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?



- Pricing strategies are seen as **moderately effective**, with companies focusing on the alignment with product and customer strategy and targeting¹
- Respondents see a **need to improve understanding of their value proposition** in order to explore new, innovative profit models through value-based pricing strategies²
- 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

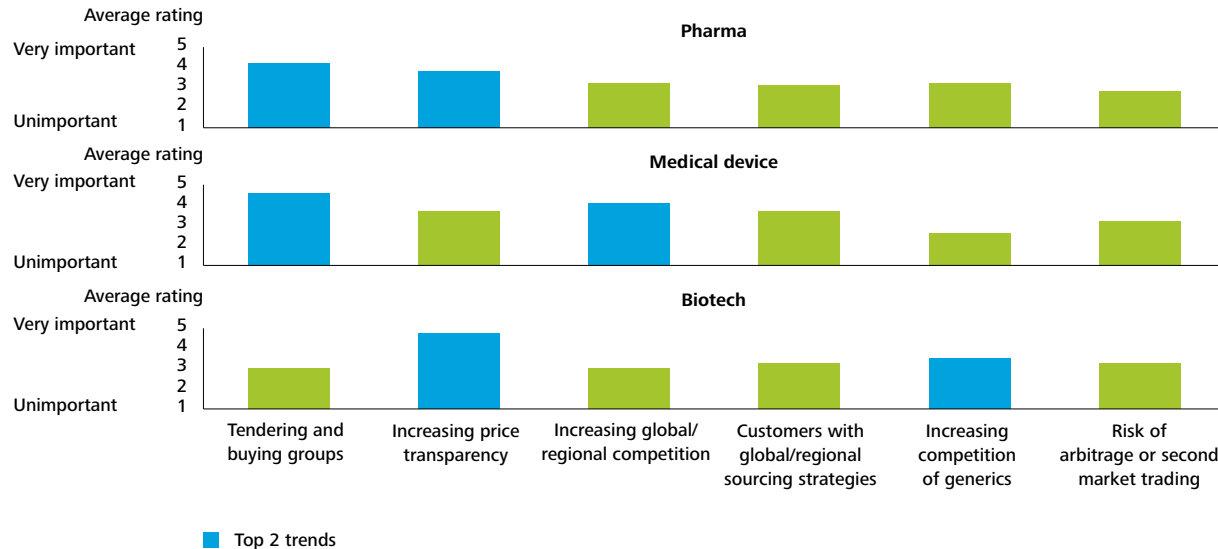
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Key pricing insights

Key considerations

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

How important are the following trends for your company?



- **Tendering and buying groups** are driven by austerity measures, which have caused a shift in tendering from individual organisations to **Group Purchasing Organisations (GPOs)**¹
- Price **transparency** is increasing as healthcare organisations are **demanding more visibility of prices** throughout the value chain in order to reduce their own internal costs²



- 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**

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

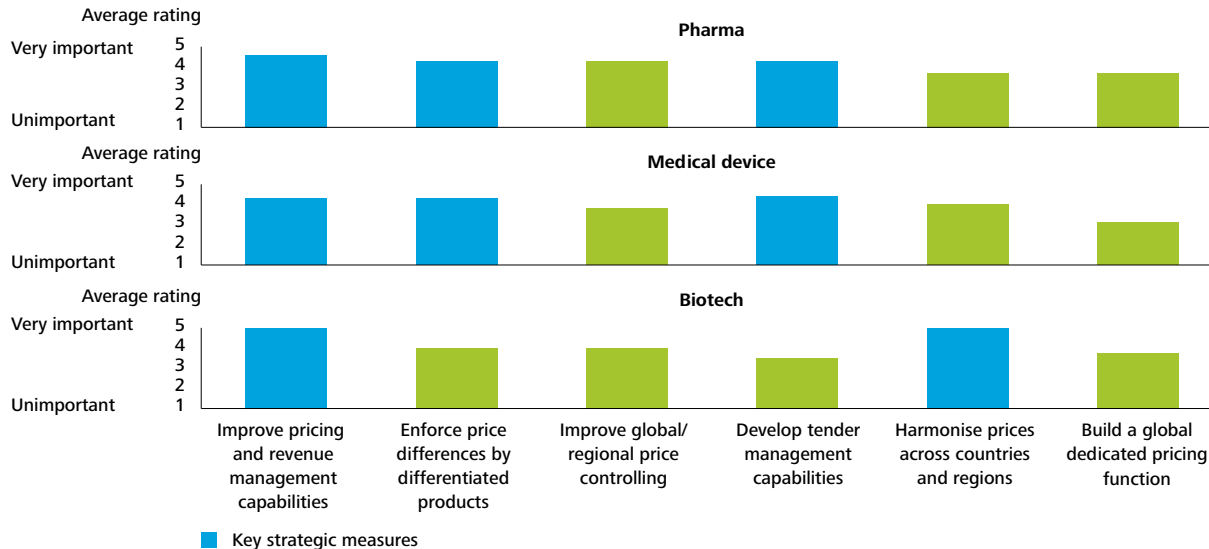
Legend:  Survey results

 Key pricing insights

 Key considerations

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?



- 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

Source: ¹ The price of pricing effectiveness, Deloitte Review, (11) 2012;

² Impact of austerity on European pharmaceutical policy and pricing, Deloitte, 2013

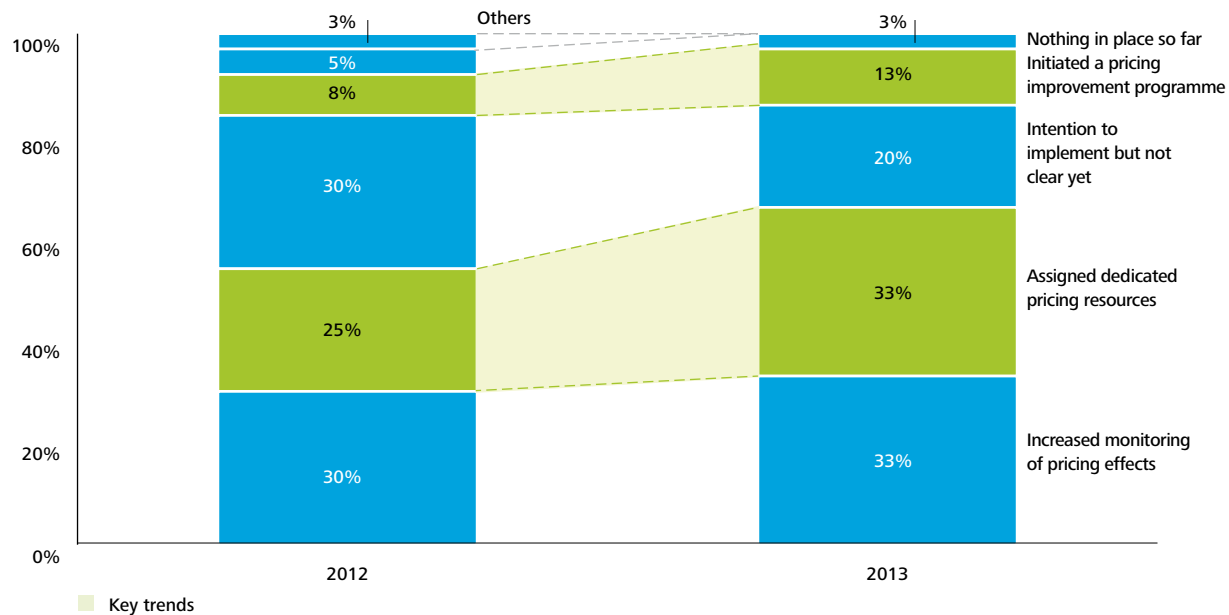
Legend: Survey results

Key pricing insights

Key considerations

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

Which pricing initiative is your company currently conducting?



- 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

Legend:  Survey results

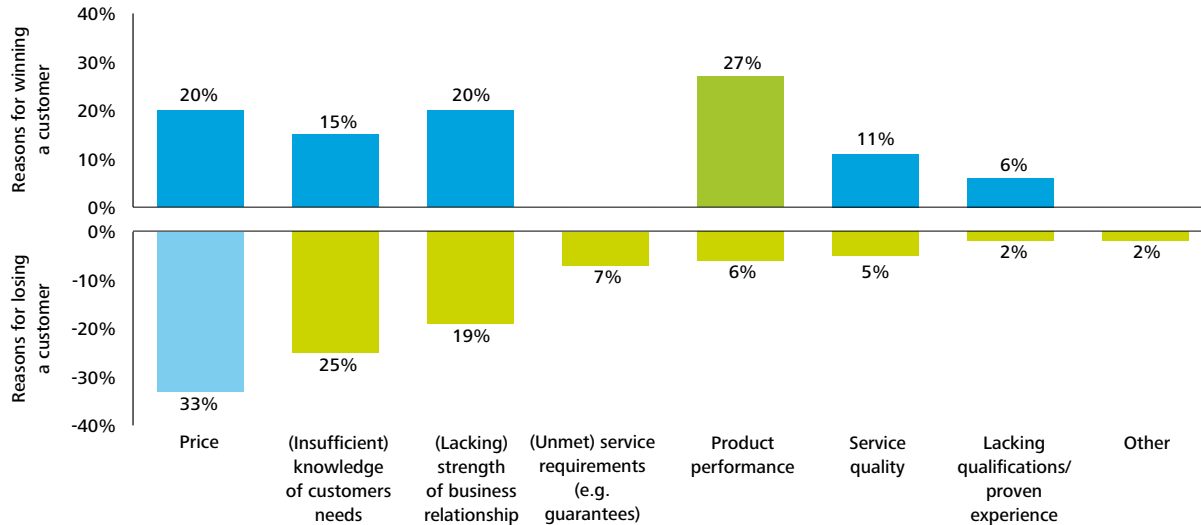
 Key pricing insights

 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 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 focussing 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

Legend:



Survey results



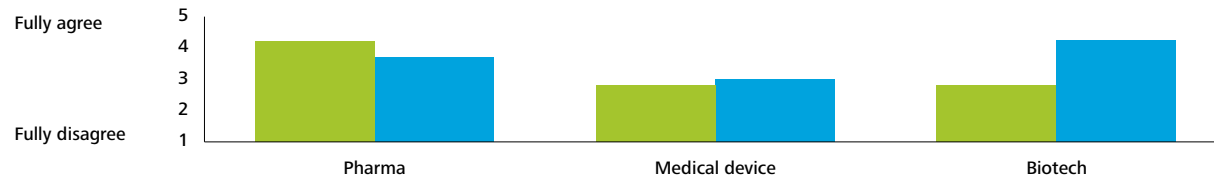
Key pricing insights



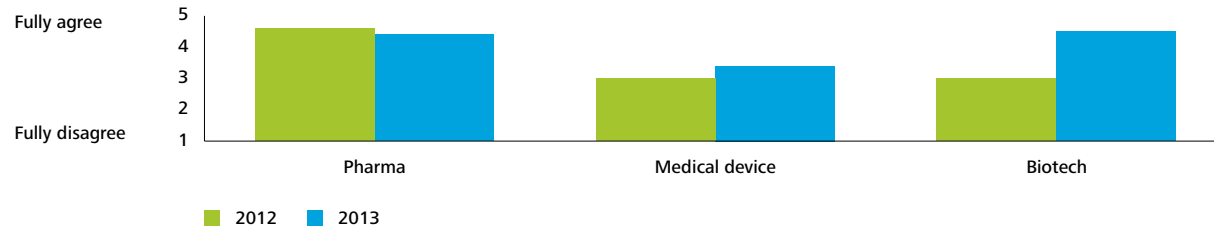
Key considerations

Pricing roles and responsibilities as well as top management support is well defined for Pharma and Biotech, while Medical Device is still lagging behind

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



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



- 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 process¹

- **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

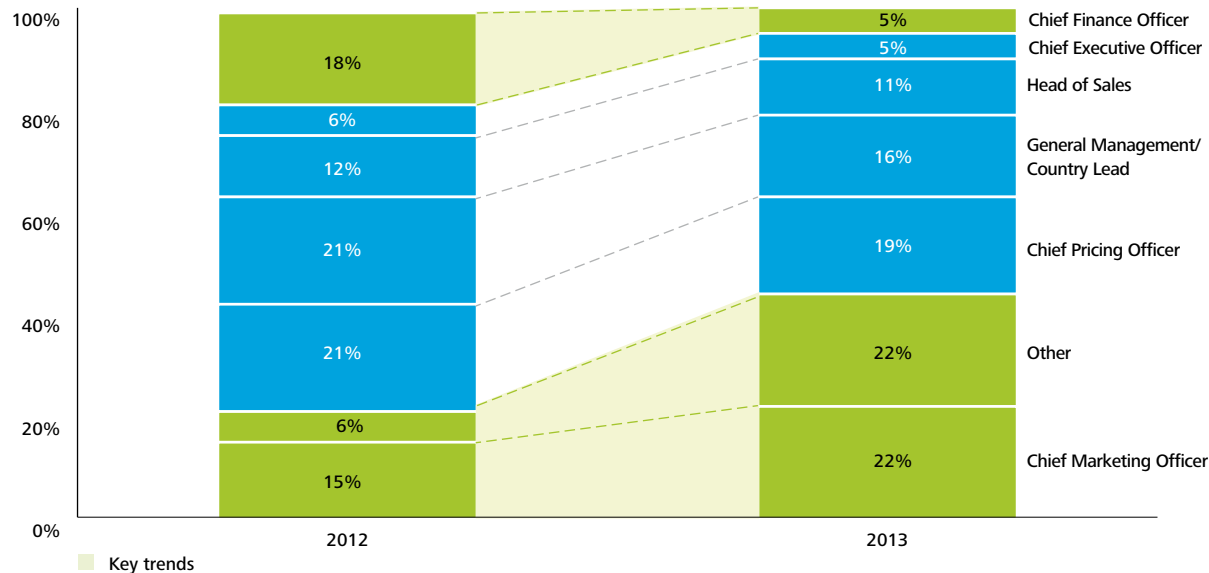
Legend:  Survey results

 Key pricing insights

 Key considerations

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

Who is responsible for pricing in your organisation?



- 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 observed¹
- 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

Source: ¹ CFO Signals™ 2012, Deloitte, 2012

Legend: Survey results

Key pricing insights

Key considerations

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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www.TheProblemWithPricing.com

¹ Eminence from Monitor Deloitte

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