

Critical Issues for Pharmaceutical Executives

Payer Access Goals are a Mirage; An Integrated Managed Care Strategy is a Necessity

Pharmaceutical companies need to change how they address the increasing influence and challenges posed by managed care. Typically, managed care/payer strategies have flowed out of the brand strategy in the form of a goal for favorable "access" and a rebate budget to achieve it. Little understanding of payers and their various business objectives flowed the other way to affect the choice of end points for late-stage clinical trials, the strategies and tactics for engaging physicians, or the allocation of resources across various channels and tactics to engage patients. Given the growing influence and variety of managed care payment systems, this is no longer a tenable way to manage a brand.

Yet many pharmaceutical companies still sabotage their payer strategies from the beginning by setting managed care objectives narrowly- focused on "access." Most payer strategies begin with the question, "What level of favorable access, defined as a percent of targeted lives covered, do we require reaching our sales goals?" But the value of a percentage point of "access" can vary from nothing to very high, depending upon the payer, plan, and region. Consequently, pharmaceutical companies' attempts to maximize "access" within a rebate budget often lead to discounts that are a relatively poor investment. Rebate dollars could be better spent if allocated to maximize the expected impact on sales rather than the expected impact on "access."

The connection between access and sales varies across payers because they attempt to control utilization in different ways and to different degrees. High control payers will use rigid policies like closed formularies and step-edits that block payment except for approved uses. Others use more gentle means like higher co-pays for non-preferred brands and letters to advise physicians of cheaper alternatives. In doing so, they shift the decision back to the physician or patient, but with incentives to adopt behaviors they wish to encourage. Understanding how payers differ in the decisions they make and in the tools they use to control utilization is a prerequisite to creating cost-effective managed care strategies and even cost-effective strategies overall.

A managed care strategy that reflects the growing influence of payers requires (1) more nuanced decisions about when and how to pay for favorable access, (2)

early commitment to develop payer-specific value propositions, (3) more creativity in developing alternatives to paying for favorable access, such as patient or employer targeted programs, and (4) greater capability to drive sales through plans where the drug does not have favorable access. To achieve these requirements, pharmaceutical companies must recognize the strategic tradeoffs involved in developing a cost-effective managed care strategy, and create organizational processes and capabilities to make those tradeoffs well. Doing so represents a fundamental shift in the way most pharmaceutical companies operate today.

To create an integrated, cost-effective managed care strategy, pharmaceutical companies should refrain from developing managed care strategies designed simply to achieve access and start asking and answering broader, more insight-generating questions about how best to drive script volumes profitability.

- How and where is economic decision making distributed in my therapeutic area?
- At which payers can we win favorable access cost effectively?
- What rebate level is too much to pay for favorable access given the expected impact on script volume at each payer?
- Can we improve the return on favorable access by coordinating the timing of access negotiations with physician and patient marketing efforts?
- Can we reduce the cost of access with better outcomes data or by guaranteeing outcomes that we do not yet have the data to prove?
- Can we reduce the net cost to patients and drive script volume more cost-effectively with regional or payer-specific co-pay assistance programs than by rebating to achieve a more favorable access tier?



The way we were...	Where we need to be...
Payer goals focus on increasing “access”	Payer goals focus on increasing script volume, revenue and/or profitability
Planning moves sequentially from brand strategy to payer access and contracting strategy	Payer and brand strategies are planned together to complement and inform each other
Payer contracting goals are undifferentiated by payer	Payer-specific contracting strategies reject differences in control and motivations
Payer strategy focuses exclusively on influencing national formulary decisions	Multi-level managed care strategy influences not only national formulary but also addresses local differences in the impact of national formulary
Brand strategies assume that only payers make economic decisions that are important to influence	Brand strategies recognize that important economic decisions and incentives are increasingly distributed across participants throughout the health system

Creating organizational processes and capabilities

New capabilities are necessary to address the increasingly complex and influential ways that payers affect pharmaceutical choices. Pharmaceutical companies need to be able to coordinate patient and physician communication efforts with access negotiations—either to leverage quickly the achievement of favorable access or to create a groundswell of clinical demand leading up to it. Ideally, understanding what motivates payers’ access decisions should influence decisions about what “end points” to include in phase 2 and 3 trials and in early post-launch outcomes research. These strategic choices are not possible in an organization where brand strategies and managed care contracting strategies occur sequentially and with little coordination. Commercial leaders need the ability to make informed tradeoffs across spending on rebate dollars to payers, on co-pay assistance programs, on outcomes research, on direct-to-consumer (DTC) advertising or on whatever else might stimulate additional script volume. Further, once the tradeoffs are made, leaders need to be able to execute in a much more integrated and flawless way.

Building these new capabilities is not possible through a quick fix (e.g. changing organizational structure or incentives alone). It requires a multi-pronged approach and a deep commitment by leaders in the organization to change. Monitor Deloitte has a long track record of helping life sciences companies build the capabilities required to address the changing landscape. We have deep experience in understanding what is involved in influencing payer, physician, and consumer behavior and how to transfer that knowledge to our clients. In recent years, as the impact of managed care has become stronger, we have helped our clients bridge the organizational gaps among clinical, medical, marketing, sales and managed markets to create integrated strategies for brands. Then, having demonstrated the value of integrating managed care with the rest of a brand’s strategy, we have designed new processes and organizational structures to help our clients reduce those organizational barriers. Integrated decision-making across the commercial organization is challenging but the return can be great and is increasingly becoming the new standard.

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