



## **Case Study: Hospital Contracting for Insulin in a Price-Sensitive Market**

### **Client**

Our client is a leading global pharmaceutical company.

### **Project Objectives**

Our client asked MedSpan to determine how to contract advantageously for insulin in the cost-sensitive hospital market.

Achieving this objective involved 1) identifying the key value drivers for hospitals and GPOs in the insulin market; 2) determining how the various brands of insulin have differentiated themselves in the hospital market; 3) assessing how hospitals structure their insulin formularies; 4) profile current hospital contracts for insulin; 5) assessing hospitals' price elasticity regarding contracting for and formulary management of insulin products and 6) determining how contracting can best be used to address the needs of hospitals.

### **Methodology**

MedSpan conducted sixty-minute telephone interviews with 20 hospital pharmacy directors and 5 GPO executives responsible for pharmaceutical contracting.

### **Value Delivered**

Not surprisingly, almost all respondents suggest that cost is the primary determinant of which insulin brand is on formulary. That is the main reason the sponsoring company's insulin products are more commonly on hospital formularies than the largest competitor's insulin products. Hospital pharmacy directors suggest that different insulin brands are clinically interchangeable.

Insulin contracts are typically two to three years in duration and hospitals have a strong preference for formulary stability.

Hospitals and GPOs prefer discounts to other value-added incentives, but they agreed that value-added incentives can be differentiators. For example, hospitals are open to market-share-based incentives.

Given the preference for formulary stability, there is some price elasticity in the market. This helps with current customers. However, gaining formulary status with new customers requires aggressive contracting, preferably with discounts.