Case Study: Using Discrete Choice Modelling to Develop Pricing Strategies for a New Primary Care Therapy

Client/Situation

Global pharmaceutical company developing a new oral therapy for a primary care indication. Market offered multiple over-the-counter (OTC) and generic alternatives; two branded competitors were expected to lose patent protection within the next year.

Project Objectives

- Identify optimal pricing and contracting strategy
- Assess price sensitivity of MCOs, physicians and patients, and segment appropriately
- Segment MCOs with respect to formulary control and contracting opportunities
- Determine physicians' tradeoffs between product attributes and price (both copayment and retail prices), then segment based on price sensitivity and product preferences
- Evaluate patients' tradeoff between product attributes and price and determine the non-price product attributes that drive product selection and usage
- Determine the relationship between patient preference and physician prescribing

Methodology

During one-on-one phone interviews with payers, MedSpan used the Gabor-Granger methodology to test five different AWPs and up to three rebate levels per AWP, resulting in a testing of 14 different net costs.

For patients and physicians, MedSpan designed an online survey supporting a discrete choice model. Survey data was used to develop market share estimates and evaluate the relative impact of factors influencing prescribing.

The study tested two scenarios, in which one or both branded competitors lost patent protection before or at the same time as the launch of the new therapy.

Results/Recommendations

The study found that high-control managed care organizations (MCOs) with aggressive controls in the category were likely to restrict or not reimburse the new product without a net price close to OTC levels. Pharmacy benefit managers (PBMs) and low-control MCOs were more amenable to third-tier status without restrictions at prices comparable to those of less-costly branded competitors.

Physicians tended to know their patients' insurance coverage and prescribe accordingly. They were also aware of, and responsive to, formulary restrictions. Patients had high levels of awareness of most leading OTC and branded alternatives, particularly among severely afflicted patients who were much more likely to ask physicians about specific treatment alternatives.

Assuming one branded competitor lost patent protection within the next year, MedSpan recommended the following:

- A high average wholesale price (AWP) with up to 25% discounting in high control MCOs for a net cost comparable to the AWP of the branded competitor losing patent protection
- No contracting for low-control MCOs
- Less aggressive rebates for PBMs

If both branded competitors lost patent protection within the next year, the recommendations shifted as follows:

- Low AWP as the revenue maximization price for the low-control MCO segment
- No initial discounting in this segment to yield near optimal revenues while retaining the option for future discounting
- Pricing closer to OTC products to maximize revenue in other segments
- No contracting at launch; maintain option to contract as market situation evolves