



THE WAY FORWARD: VALUE-BASED HEALTHCARE IN PARTNERSHIPS

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**THE PRICING OF PHARMACEUTICALS IS
SUBJECT TO A VICIOUS CYCLE**

When launching new treatments, pharmaceutical companies continuously demand higher prices, while healthcare providers request ever-larger discounts and design procurement procedures that minimize up-front purchasing prices. In other words, pricing of pharmaceuticals is subject to a self-perpetuating, vicious cycle. This situation exists because the two opposing positions reinforce one another and leave no room for a mutually beneficial solution. Either prices increase, to the detriment of payers and public healthcare systems, or decrease, to the detriment of pharmaceutical companies and their incentive to invest in new treatments.

**PARTNERSHIPS IN HEALTHCARE ARE A
WAY FORWARD**

In our experience, healthcare providers and pharmaceutical companies often adopt a zero-sum mentality when it comes to pricing. To break the resulting vicious cycle, they must discard this thinking and instead recognize that a mutually beneficial way forward is

possible. For instance, studies have estimated that approximately 30% of healthcare spending can be considered as waste¹, which includes overtreatment, low-value care, and other suboptimal solutions.

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Hence, there is an apparent opportunity to free up resources to the benefit of both parties. In our view, partnerships between healthcare providers and pharmaceutical companies can address the zero-sum mentality and are, in many instances, key to reaping the potential benefits.

PARTNERSHIPS CAN CREATE BENEFITS BY BREAKING DOWN BARRIERS

In the current delivery of healthcare, certain barriers contribute to suboptimal solutions. An example is the use of lowest-bid procurement when it results in pharmaceutical products that have relatively low upfront prices, but lead to more hospitalisations, a lower quality experience to the patient, and a higher total cost to the healthcare provider, than higher priced alternatives. Another example is budgetary constraints that force public healthcare providers to make suboptimal treatment decisions based on one-year time horizons rather than a timespan that reflects the duration of a full care pathway.

Barriers such as these tend to prevail in the absence of effective partnerships. An effective partnership can help break down barriers, and thus free up resources. The above-mentioned barriers could be removed by redistributing resources to allow for the purchase of the higher priced pharmaceutical products, leading to lower total costs for the healthcare provider, and by disconnecting the timing of payment from the delivery of a pharmaceutical product.

EFFECTIVE PARTNERSHIPS BUILD ON MUTUAL TRUST

In order to realize mutually beneficial solutions through a partnership, the individual parties must be prepared to make the occasional sacrifice when the overall partnership will benefit. For a pharmaceutical company, this could mean taking on more risk by accepting payments that are increasingly linked to patient outcomes. This is different from a one-off, transaction-based relationship that is only viable if it represents a positive business case to all parties involved because no sacrifice or investment is likely to be reciprocated by another party.

When confronted with a given barrier in a partnership, a party will make a sacrifice only

if a sense of mutual trust and collaboration exists, along with an expectation that the other parties will be willing to make a similar sacrifice at a later stage. Such mutual trust must be built and matured over time through interaction and understanding of each party's interests and objectives. Such understanding is also what enables the partnership to develop a pricing model based on fair and transparent economic incentives.

IS A PARTNERSHIP RELEVANT FOR YOUR ORGANISATION?

We believe that a strong case for a partnership model can be made if you answer 'yes' to these four questions:

1. Could the barrier you are facing be overcome through a collaborative solution in a partnership with your stakeholders?
2. Is the commercial potential of breaking down the barrier sufficiently rewarding to outweigh the transaction cost of establishing and maturing the partnership?
3. Do you understand your stakeholders' objectives, and do you deem that joining you in a partnership would also be in their interest?
4. Do you expect that you and your stakeholders can build mutual trust and reach a common understanding of potentials, costs, and solutions in a partnership?

FOOTNOTES

¹ William H. Shrank (2019) Waste in the US Health Care System - Estimated Costs and Potential for Savings. See jamanetwork.com/journals/jama/article-abstract/2752664

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