INTRODUCTION

The increasing pressure on Healthcare budgets worldwide is placing Pricing on top of most Life Sciences leaders’ agendas: understanding and owning Pricing, and its intrinsic complexity, is indeed becoming a strategic capability in the industry.

Payers, providers and Life Sciences companies have long strived to deal with the ever-growing budget pressure autonomously; each trying to place the other on the chopping block. It is only recently that some started implementing innovative cooperation models aimed at solving the issue together (Figure 1). Life Sciences companies able to walk on the cooperation stage can gain relevant benefits.

On top of the obvious impact on profitability, the following should be considered:
- Improving Corporate image and preventing “Shkreli effects”
- Obtaining faster formulary inclusion and better reimbursement
- Developing innovative offering and business models leveraging on Pricing
- Ensuring long-term business sustainability, isolating price erosion effects

Despite the tempting benefits of Pricing, establishing solid and effective Practices in such field is not a simple task. Complexity mainly stems from the substantial number of external and internal stakeholders impacted by Pricing; on top of that, such complexity increases due to a variety of Country-specific regulations and organizations (Figure 2).
> PATHWAY TO PRICING EXCELLENCE

Pricing Excellence is the result of a well-planned medium/long-term journey.

In our experience with different Clients and businesses, we noticed a common pathway in three main phases that allows companies to achieve Pricing Excellence (Figure 3).

Depending on where a Company currently finds itself in such pathway, priorities, stakeholder involvement and even market visibility are changing accordingly.

1. ESTABLISH A CORPORATE PRICING PRACTICE

Pricing can appear as abstract and dispersed as ever due to its transversality across seniority levels, functions, products, markets, etc.

Therefore, the first step in achieving Pricing Excellence consists in establishing a Corporate Pricing Practice to work as a solid, structured backbone based on three key dimensions (Figure 4).

**KEY SUCCESS FACTORS**

- Avoid overcomplicating
- Facilitate transition through change management
- Ensure constant alignment between Global, Regions and Countries
Figure 3: Support areas and examples of “typical situations”

Develop new Processes & SOPs
Define main Pricing processes and formalize them into standard operating procedures (Figure 5)

Set up a Pricing Organizational Structure - Tailored according to each Company’s business specifics and wider organization (Figure 6)

Implement Support Tools
Four key steps to keep in mind:

- Properly understand and verify business requirements
- Ensure proper data management and consistency, in the line with specific pricing needs
- Enable price performance visibility, with a relevant focus on Gross-to-Net
- Invest in change management (especially for Sales Force) to support technology usage

1 Framework maps all pricing processes, which may vary according to products and regulations
Figure 5: Pricing Processes

Figure 6: Pricing Organization Models
2. INTEGRATED PRICING PRACTICE

Establishing the backbone, however, may not be sufficient if Pricing practices are not integrated with a variety of other commercial practices. In the present paragraph, we describe some examples of what this pragmatically means (Figure 7); examples are naturally not exhaustive, as they tend to vary according to each Company and business peculiarities.

- **Value-based pricing** is a key methodology in new product launch, as it allows to translate outcomes.

- **International Reference Pricing (IRP)** and parallel trade mechanism are key market factors to be monitored. Life Sciences Companies need to facilitate Pricing Practice collaboration with regulatory / compliance structures, as well as with distribution and supply chain organizations.

- **Different accounts** (including GPOs) and distribution channel actors perceive value differently, impact the company’s business differently and therefore demand for different Pricing strategies. Pricing segmentation should therefore be aligned with the overall commercial segmentation.

- **Proper Pricing-by-segment strategies** cannot be fully realized if not supported by effective **stakeholder management actions**, such as pre-tender influencing (e.g. SoW allowing to quote according to pricing strategy) and channel negotiation (e.g. structuring and managing the interface map for negotiation).

![Figure 7: Examples of Pricing Practices applied to Tefen’s Commercial Excellence Wheel™](image)

**Monitoring and reviewing**

- **Pricing performance** (e.g. as part of sales productivity measures or periodic business reviews) not only creates accountability and improvement opportunities, but also allows companies to make informed decisions on how to update Pricing strategies.

- **Competitive pricing intelligence** enables wiser pricing strategies. Companies should therefore leverage their Sales Force to gain competitor’s information, establishing simple processes and data collection tools and integrating them in the Sales Force’s usual market feedback activities.

- Including **pricing / margin indicators in the Sales Force incentive schemes**, up to Sales Rep level ensures continuous and widespread focus on pricing execution. Mechanisms to monitor and review price performance are a key enabler for such incentive schemes.

The ultimate goal of this step is to nurture a **Company’s Pricing Culture**: pricing implications should be intuitively observed across commercial practices and have a key role in decision-making.
3. PRICING AS A COMPETITIVE ADVANTAGE

Pricing Excellence at its peak can allow a company to renew and **differentiate its offering** beyond product and service features, through innovative pricing models. Such models are usually tailored as much as possible to specific product features and customer needs, to better reinforce product’s positioning and leverage on its points of strength.

During past years, we supported several Life Sciences Companies in designing and implementing a number of innovative pricing models (Figure 8):

- **Risk Sharing**: split the risk of product adoption, safety and effectiveness between developer (Life Sciences company), and the Healthcare Delivery Systems

- **Pay-for-Performance**: allow Healthcare Delivery Systems to pay for the effective, value of the product, once health outcomes are realized and proportionally to outcomes

- **Product-as-a-Solution (PaaS)**: commercialize integrated healthcare solutions, made up both of products and services, linking price to the value created by the synergic bundle

Due to the replicability of some of the innovative Pricing models, **first-mover position** is crucial for capturing all advantages that come with them.

<table>
<thead>
<tr>
<th>Example of Applications</th>
<th>What</th>
<th>Benefits</th>
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| **Risk Sharing**        | • Innovative products, with no / limited reimbursement  
                          • Products with high risk of complications  
                          Share any risk related to the new product between Payers/Providers and Company  
                          \[ \text{Price} = A + B \]  
                          (Base Price)  
                          (Variable Price vs. Risk Realization)  
                          Brand Image  
                          Long-term partnership  
                          Market penetration  
                          Lower discount pressure |
| **Pay-for-Performance** | • Uncertain products outcome due to incomplete clinical trial  
                          • Enhance product differentiation vs. low cost competitors  
                          Allow Healthcare Delivery System to pay for the effective value of the product  
                          \[ \text{Price} = A + B \]  
                          (Base Price)  
                          (Variable Price proportional to the realized health outcome)  
                          Brand Image  
                          Long-term partnership  
                          Market penetration  
                          Competitive advantage  
                          Revenues potentially higher than List Price  
                          Brand Image |
| **Product-as-a-Solution (PaaS)** | • Facilitate healthcare delivery by providing additional services  
                          • Increase health outcomes by providing additional services  
                          • Bundling in procedures packs  
                          Provide win-win solutions to increase value to customer and limit price erosion  
                          \[ \text{Price} = A + B + C \]  
                          (Product Base Price)  
                          (Other Products & Services Base Price)  
                          (Additional Markup proportional to A+B)  
                          Brand Image  
                          Long-term partnership  
                          Increase health outcomes and product value  
                          Higher service fee earnings  
                          Facilitated introduction of new / similar products |

Figure 8: Innovative Pricing Models
Starting 2012, Simone has created and developed a successful Pricing function within the European arm of the US medical device producer Boston Scientific (BSC).

How would you describe the Pricing culture and “perception of Pricing” in your Company before any specific initiative was taken?

For a while, strategic imperatives at BSC were not capturing Pricing. Focus was limited among top and middle management. Pricing discussions mostly took place in relation to tender negotiations with Clients, but even then there was no implication on Pricing performance measurement.

What were the key drivers leading to specific Pricing initiatives in your Company?

Market trends, characterized by increasing price erosion and adoption of tenders as the most common purchasing method, as well as a “lesson learned” after an aggressive price competition with a competitor.

Moreover, the need to increase product margins provided further support to activate the initiatives.

What steps did you take to gain buy-in and start structuring a new Pricing Practice?

The first step was to expose the need for a Pricing Practice, based on a self-evaluation within the Strategic Plan development. Properly backed by strong economic arguments, the idea has become a “Strategic Initiative”, gaining strong sponsorship from the Company’s Divisional VPs. The new Practice was then tasked with gradually changing the Company’s behavior around Price.

What did you do to identify the most appropriate solution for your Company?

We started the change process by creating a small but powerful team with strong Pricing expertise. The function would own the approval process, the transactional side and tracking & monitoring. It would also develop Pricing methodologies ready to use by the Divisions. After the creation of this initial structure, the Strategic Plan led the evolution of the function.

What are the main benefits the Pricing Practice has brought to the organization?

I will enumerate the main areas:

- Structured vision on price management targets with a limited range of resources;
- Better and faster execution of commercial processes (e.g. tender management) thanks to the set-up of a new Pricing policy;
- Pricing best practices sharing to support launches with a cross-fertilization process;
- Improved management of IT systems thanks to Pricing role as business representatives and key contact point with IT department.

As an ultimate goal, the Pricing team aims to be an internal support for strategy development, providing Pricing expertise to the Divisions.
What internal changes had to take place to accommodate the new approach to Pricing?

Initially we created a “network” with the divisions, introducing the role of “Divisional Pricing Lead” as Pricing key contact point and with clearly defined roles and responsibilities. With this network in place, the cadence was:

1. We run a change management process at all levels to foster the adoption of new Pricing procedures and tools

2. We achieved top management focus for their direct involvement

3. We obtained dedicated economic resources for Pricing implementation

How has Tefen helped in this endeavor?

Tefen provides a wide range or resources and the key is to tailor effectively their support in each phase based on your needs.

In our case, during the design phase Tefen provided Pricing best practices, methodologies and proposals to challenge the status quo and create the initial Pricing vision in BSC.

In the implementation phase, Tefen played a key role in keeping aligned to the designed strategy, from high-level project management to day-by-day, hands-on activities.

Tefen brought in a team of highly skilled, customer-oriented consultants that integrated perfectly with the organization and provided exactly what was needed at each stage of the plan.
> ABOUT TEFEN

Tefen Management Consulting is an international, independent Company founded in 1982. Publicly listed at Tel Aviv Stock Exchange since 1994 to finance growth in US and EU, the Company currently employs over 150 consultants and a large network of Professional Associates across the five continents.

Our focus in Healthcare and Life Sciences equips us with unique and comprehensive capabilities. We developed a 360° working experience with leading industry players on both sides and play a unique role in facilitating innovative partnerships between them.

Over the past fifteen years, we had the opportunity to support several Life Sciences Companies in their pathway to Pricing Excellence.

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