Ideal Price

# Pricing Fairness Discussion

Ian Tidswell

4th September 2024

From Value to Price

# Shape of the hour

- Introduction (5 minutes)
- Pricing Fairness, and Transparency (25 minutes)
- Discussion and case studies (25 minutes)
- Wrap-up (5 minutes)

# Introductions

## Ian Tidswell

**20 years experience in pricing leadership positions including strategy, operations, automation and change management in a wide range of industries**

Ian is the founder of Ideal Price, which focuses on B2B Pricing, with an emphasis on coaching to develop practical pricing models that improve sustainable profits.

Ian is a coach for Innosuisse, the Swiss Government's Start-up and Scale-up department, & mentors in the Google for Startups Accelerator. He has worked with over 100 firms, from pre-seed startups to Global 1000 leaders. He is the co-leader of the European Pricing Platform's core pricing certification program (CPM)

Ian was the Global Head of Pricing in Syngenta where he built and lead a team that transformed pricing processes and capabilities.

Prior to Syngenta, Ian was pricing transformation leader in Medtronic & Head of business consulting of Vendavo in Europe

Ian brings his powerful problem-solving skills honed at Harvard and McKinsey & Company.

**Education**: Ph.D. Physics Harvard
B.Sc. Physics Imperial College London

**Based**: Basel, Switzerland

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Imperial College London

HARVARD UNIVERSITY

McKinsey&Company

vendavo
Sell. More. Profitably.

Medtronic

syngenta

Innosuisse

Google for Startups
Accelerator Mentor

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# Sample client pricing engagements

## Corporates

Roche
Medtronic
GE
VIATRIS
vetoquinol
ACHIEVE MORE TOGETHER
helvetia
FIS
UPL
LG

## Accelerators and VC's

Innosuisse
Google for Startups Accelerator Mentor
COVE HILL PARTNERS
ROCKET X
Credo.
Startupbootcamp

## Scale-Ups

BC Platforms
VIRTAMED
PRICE f(X)
Matterport
momentus technologies
LOGOS
VMRAY
adpipe
Collectors

## Start-Ups (SaaS)

Lyfegen
smeetz
PreComb Therapeutics
b-rayZ
AUGMENTING RADIOLOGY
ARBREA LABS
perivision
akina
Pallon
vlot.
PowerAPI
VISIUM
LEGARTIS
fruitful
Planeto
agri norm
AUTHENA
PROTECT AUTHENTICITY

## Global Pricing Associations

EPP PRICING PLATFORM®
PROFESSIONAL PPS PRICING SOCIETY™

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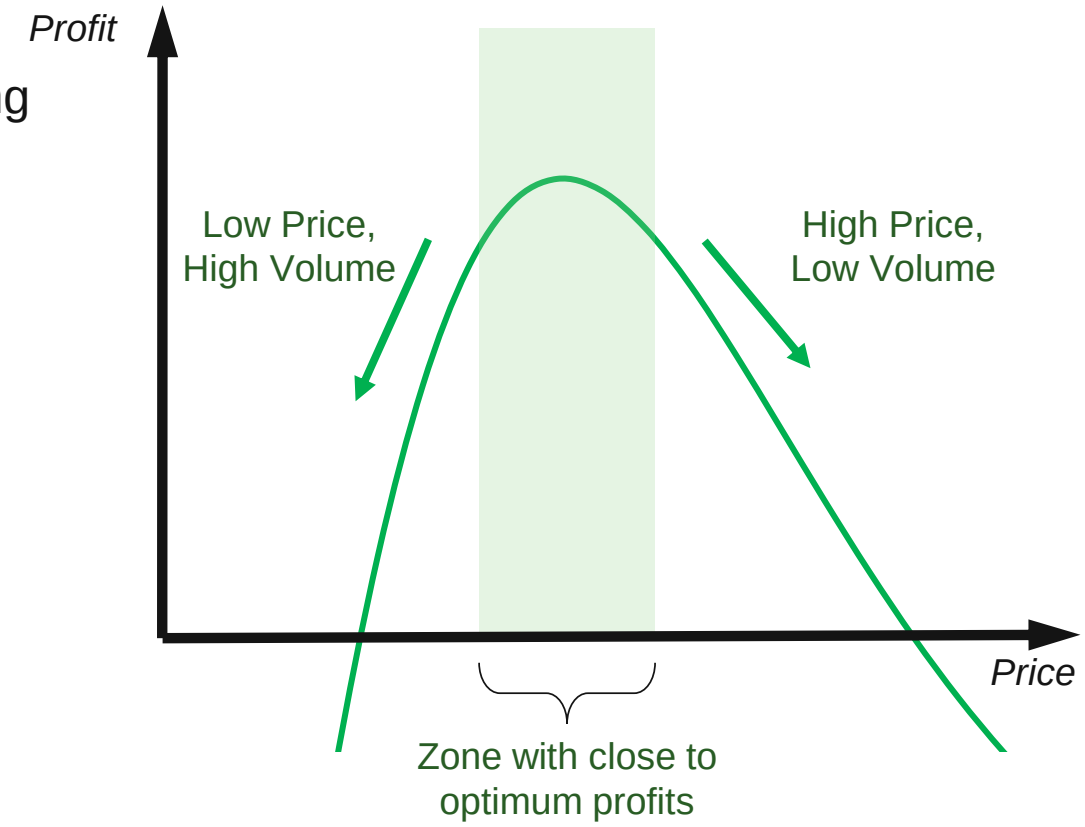
# Why we have pricing?

- Prices play the key role in economics, facilitating optimum distribution of goods and services, balancing supply and demand, and rationing scare resources

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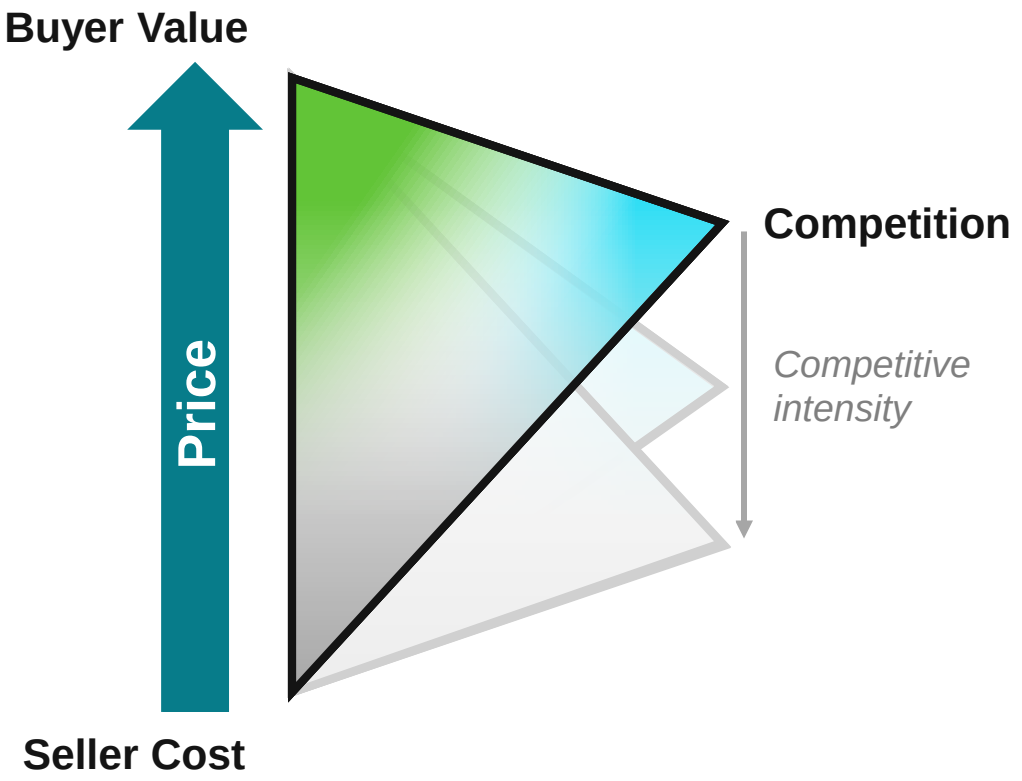
# The pricing corridor: seller-cost to buyer-value

- Price will be between:
  - Seller-cost floor
  - Buyer-value ceiling
  - Competition (and other factors) set the price
- Companies' try to maximize profits over the long-term by:
  - Minimizing costs
  - Maximizing buyer value
  - Minimizing the impact of competition

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# When markets “fail”

- Markets fail when the **outcome of a ‘free’ market differs from the socially optimal outcome**
- Failure occurs when individual incentives for rational behavior do not lead to optimal outcomes for the group:
  - **Information failure**, knowledge asymmetry, e.g. between healthcare providers and patients
  - **Market control**: concentration of market power, e.g. monopoly, monopsony
  - **Externalities**, e.g. vaccination has positive externalities, but vaccinated individuals have to bear the cost and discomfort
  - **Public goods**: accessible to everyone, therefore hard to allocate to those getting value
  - **Adverse selection**: sicker patients buy insurance, raising costs
  - **Moral hazard**: more money to be made with chronic diseases; gaming the system to maximize reimbursement

Sources: https://www.investopedia.com/terms/m/marketfailure.asp#, https://dineshbakshi.com/igcse-gcse-economics/how-market-works/revision-notes/38-what-is-market-failure

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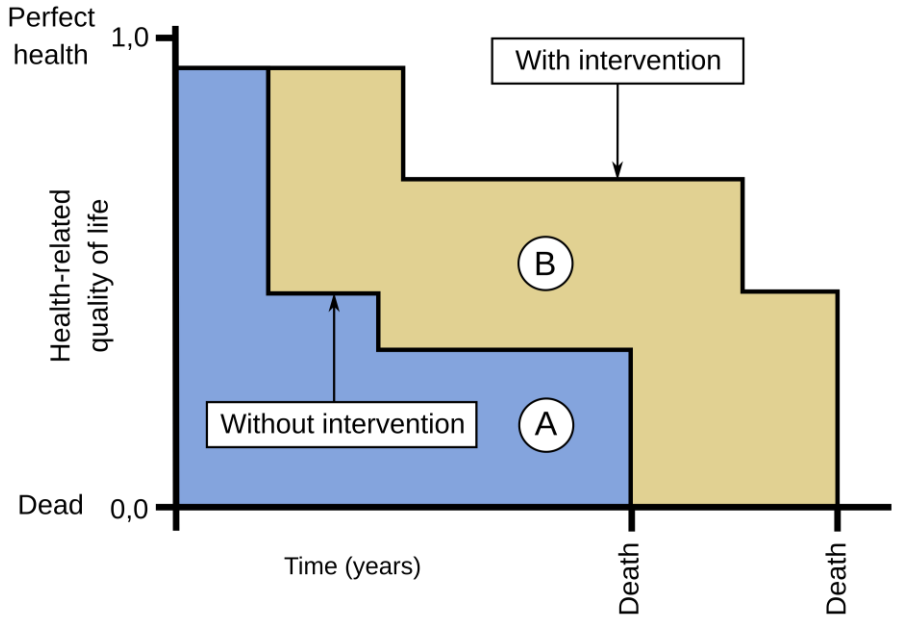
# Additional factors driving market failures in healthcare

- **Long, expensive therapy development**: patents to encourage R&D investment
- **Competitive barriers to entry** even after the patent threshold
- **Patient value is tough to measure**: the value of a life?
- **Fragment healthcare value-chain**: lots of competing parties and misaligned incentives, agency and free-rider challenges
- **Rationing of healthcare** due to high expense is…difficult.

► **'Fairness' issues are one consequence of these challenges**

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# Towards fairer pricing: the challenge

- **What is considered ‘fair pricing’ is a legal, ethical & behavioral question**
- Commonly agreed that **legal rules** should prohibit some types of behavior, e.g.
  - Coercion
  - Collusion
  - Misrepresentation/lying
- **Ambiguous practices** may or may not be legal or socially acceptable, e.g.
  - Price ‘discrimination’ (a.k.a. price ‘segmentation’)
  - Price “gouging”
- **Power imbalance** between buyer and seller:
  - No viable alternative for the buyer (patented drug) or seller (government)
  - Information asymmetry (e.g. on effectiveness)

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# Framework for pricing fairness

| | Process | Outcome |
|---|---|---|
| **Fairness** | • Prices are set in a way that is consistent, well defined, and considered ‘fair’ | • Prices are considered “fair”<br>  • Individually fair<br>  • Socially fair<br>• Fairness based on:<br>  • Value provided<br>  • Equitable (same for all)<br>  • Needs based (less for those in need) |
| **Transparency** | • The process for how prices are set is transparent, even if the outcomes are confidential | • Net-net prices agreed are public, including any rebates or other services |

**Who decides what is fair?**

Source: “the price is WRONG”, by Sarah Maxwell (2008)

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# Some ideas to move towards ‘fairer’ pricing

- **Align on what fairness means in healthcare**
  - Balancing equity, value, needs based
  - Process and/or outcome ‘fairness’
- **Take a broad view of Value**
  - Embrace cost-saving innovations that should always make sense
  - MEAT* based tender assessment

- **Explore how the industry can better align the healthcare value-chain**
  - Systemic ways to promote risk-sharing, value- and outcome-based-pricing, sustainably and scalably
    - Adjust the power imbalances between buyers and sellers wherever possible
    - Split out paying for therapy development and therapy delivery, or cap upside rewards to vendors
- **Expect the Unexpected**: be ready to address almost inevitable unintended consequences

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# Most Economically Advantageous Tender (MEAT)

- Based on a European Parliament Directive 2014
- Framework defined by MedTech Europe and BCG

**Core of value: outcomes & costs**

*Core value creation in terms of outcomes, that matter for patients vs. the related product / service and provider costs*

**Other benefits for key stakeholders**

*Secondary benefits for patients, health care professionals, providers and the health system a whole*

**Broader impact on society**

*Broader impact on society in terms of socio-economics[1] , sustainability and innovation*

Source: https://www.researchgate.net/publication/353037010_Using_the_MEAT_VBP_Framework_to_analyse_and_understand_the_value_of_surgical_gloves_an_explanatory_case_study

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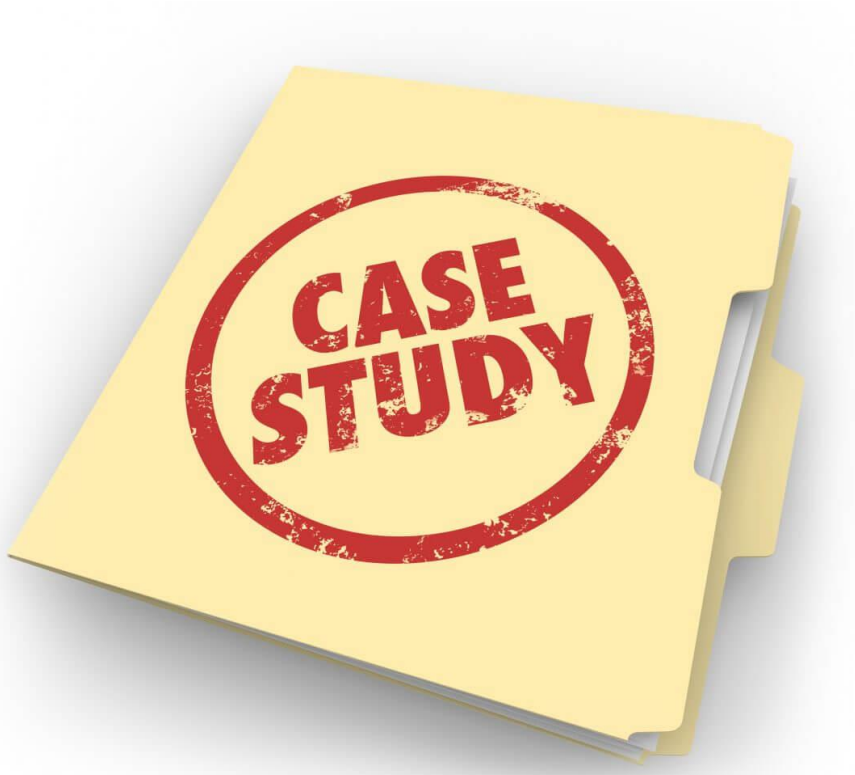
# Discussion: case studies of attempts to make pricing ‘fairer’

- International Reference Pricing (IRP) by public buyers
- Single price in South Africa
- Adoption of innovative, value-sharing contracts
- Hepatitis C blanket coverage in Australia, Louisiana
- New Zealand Pharmac policies
- Others…

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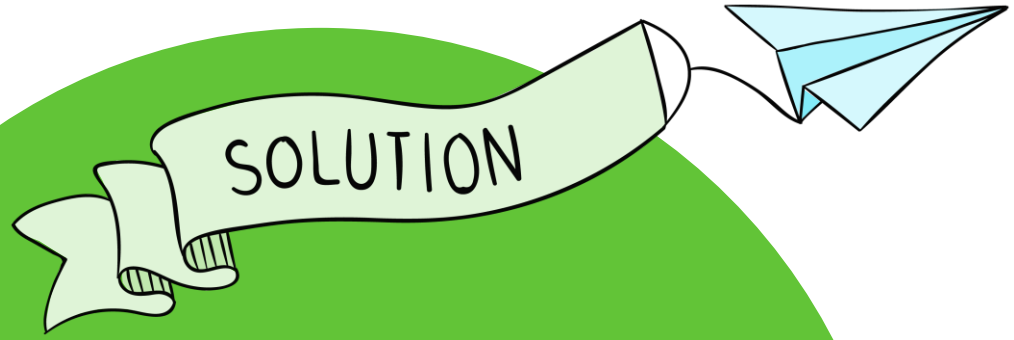


# Thank You!

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