WRAP-UP: SHARING VALUE
Whatever the level of development of countries is, the debated issue is value creation and sharing:

Using Benoît Hennion’s with a slight modification, there are two main sources of value creation:

1. First source is the value created by health outcomes provided by the use of health products.
2. Second source is the distribution of value related to companies being major economic stakeholders
From economic theory, we learn that prices set the exchange cutting point such as, at a given agreed price, there is an « optimal » share of the value created by the goods:

- This covers the notion of « reservation price ».
- This reservation price is obviously dependent on the capacity to pay of the « customer ».

In health care, prices are seldom set on a totally free competitive market, and at least customers are in most cases either represented by public purchasers through universal coverage or private insurers, who become spokesmen for final customers;

They also have capacity to pay limitations, which means that they will also set what they consider is their reservation price, in relation to the opportunity cost of acquiring extra resources;

- Moreover, they may face situations of temporary monopolistic situations where they have no to little opportunities to rely on competition.
In the case of innovative drugs or medical devices with high sunk costs in R&D, and benefitting from temporary monopolistic power, economic theory tells us that sponsors of products should practice discriminative or differential pricing, based on relative willingness to pay of customers;

Companies must also accept that govts encourage competition, in particular that cost-minimization through the penetration of generic drugs and biosimilars… and also acknowledge that their new products do not meet the needs of the countries (see DNDi)

- Tiered pricing:

This has a consequence though: it does mean that the proxy customer (public or private insurance) should develop their own value assessment system;
This more or less implies that « payers » are able to develop comparative value assessment

But then challenges international reference pricing, in as much as this practice denies the capacity of a biven country to define its own value system.
The other issue here is that « sharing value » is not only between industry, payers and finally patients.

The issue is also to make sure that there is an efficient redistribution of value in the value chain, after ex-fact prices have been set through negotiation with companies.
Here we need to change perspective on value redistribution.

Why is it obviously valuable for a govt to have active companies on its territory? Because of the redistribution process of value created (profits) of course!

Primary redistribution:
- Local taxes on profit (if not too much fiscal optimization)
- Wages to employees (who will then pay income taxes)
- Induced activities to local sub-contractors (services, manufacturing)

Secondary benefits:
- If local manufacturing, potential for exports.
- If « local » corporations, even better…
- The more R&D intensive, the greater the share of value added to the country: royalties, upgrading research and health care delivery.

Govts are aware of this, otherwise they would not compete to attract R&D intensive activities with tax incentives, both for national and extra-national companies.
DISTRIBUTING VALUE

- Value for patients
- Value to delivery systems
- Profits
- Price
- R&D
- Taxes
- Dividends

Profits → Price → Value for patients
Profits → R&D
Profits → Taxes
Profits → Dividends

Dividends → Value for patients
Dividends → Value to delivery systems
Dividends → Profits
Dividends → Price
Dividends → Taxes
Dividends → R&D

Taxes → Profits
Taxes → Value for patients
Taxes → Value to delivery systems
Taxes → Price
Taxes → R&D
Taxes → Dividends

R&D → Profits
R&D → Value for patients
R&D → Value to delivery systems
R&D → Price
R&D → Dividends
R&D → Taxes

Price → Profits
Price → Value for patients
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Price → Dividends
Price → Taxes
Price → R&D

Value for patients → Price
Value for patients → Profits
Value for patients → Dividends
Value for patients → Taxes
Value for patients → R&D

Value to delivery systems → Price
Value to delivery systems → Profits
Value to delivery systems → Dividends
Value to delivery systems → Taxes
Value to delivery systems → R&D

Profits

Dividends
Taxes
R&D
From Graham Almond’s presentation, we understand that what companies want is certainty, meaning that whatever the level of development of a country, they need stable sets of rules;

Of course, all sets of rules are not equally desirable for companies, if they lead to too much capture of value:
- IP, fair competition meaning standards of quality (GMP)
- Reasonable delays in access market
- Contestability of decisions through transparency

What about pricing?
- Industry have to accept that prices should be aligned with capacity to pay and relative values of their products considering financial constraints;
- On the other hand, what is a « fair price »? If prices are too low, then companies are not incentivized to redistribute value (see preceding slides) and there is also a potential loss of chances to patients if drugs are not available;
- All the more that the market access process is uncertain, and thus captures too much of the expected value of marketing (through uncertainty, market restrictions, and delays).
- Another issue is the capture of value through the distribution channel and the inadequate use of products.
Unstable public processes and slow decision making process « dissipate » value, both for companies (unproductive energy) and countries (loss of chance for patients).

Would lower processes be better accepted by companies if market access delays were shorter?

Inefficient distribution and delivery (prescription) network also dissipate value for patients, potentially to the benefit of some actors who will capture undue shares of values.

« Fair prices » mean prices which take into account capacity to pay of different systems, but based also on a transparent system to assess the relative value of drugs….

But there must also be a recognition by industry that some unmet needs are more important than others… (DNDi)

The long term interest of companies (as well as govts) is that the preliminary investments in the infrastructure of health services are made (material and immaterial) and as efficient as possible.