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Volume 15, 2015 - [Issue 2](#)

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Perspectives

Convergence of decision rules for value-based pricing of new innovative drugs

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Pages 209-213 | Published online: 18 Oct 2014

Cite this article <https://doi.org/10.1586/14737167.2015.972374>



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Abstract

Given the high costs of innovative new drugs, most European countries have introduced policies for price control, in particular value-based pricing (VBP) and international reference pricing. The purpose of this study is to describe how profit-maximizing manufacturers would optimally adjust their launch sequence to these policies and how VBP countries may best respond. To decide about the launching sequence, a manufacturer must consider a tradeoff between price and sales volume in any given country as well as the effect of price in a VBP country on the price in international reference pricing countries. Based on the manufacturer's rationale, it is best for VBP countries in Europe to implicitly collude in the long term and set cost-effectiveness thresholds at the level of the lowest acceptable VBP country. This way,

international reference pricing countries would also converge towards the lowest acceptable threshold in Europe.

Keywords:

- Europe
- manufacturer
- pharmaceuticals
- reference pricing
- value-based pricing

Acknowledgements

The author would like to thank three anonymous reviewers for very helpful comments on an earlier draft.

Financial & competing interests disclosure

The author has no relevant affiliations or financial involvement with any organization or entity with a financial interest in or financial conflict with the subject matter or materials discussed in the manuscript. This includes employment, consultancies, honoraria, stock ownership or options, expert testimony, grants or patents received or pending, or royalties.

No writing assistance was utilized in the production of this manuscript.

Key issues

- Given the high costs of innovative new drugs, most European countries have introduced policies for price control, in particular value-based pricing (VBP) and international reference pricing (IRP).
- This study describes how profit-maximizing manufacturers would optimally adjust their launch sequence to these policies.
- To decide about the launching sequence, a manufacturer must consider a tradeoff between price and sales volume in any given country as well as the effect of price in a VBP country on the price in IRP countries.

- Therefore, manufacturers tend to enter higher price VBP countries first.
- As an initial reaction, VBP countries might keep prices up or even overbid each other to provide their citizens immediate access to the drug in question.
- In the long term, it is best for VBP countries in Europe to implicitly collude and set cost-effectiveness thresholds at the level of the lowest acceptable VBP country.
- In response, manufacturers might support initiatives for differential pricing according to national income and ability to pay.

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