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Perspectives

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

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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

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## 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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