

Cost Versus Value: What is a Fair Price for a Drug?

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ISPOR Asia Pacific, Tokyo 2018, Issues Panel 9th September



Manufacturer and health system decisions

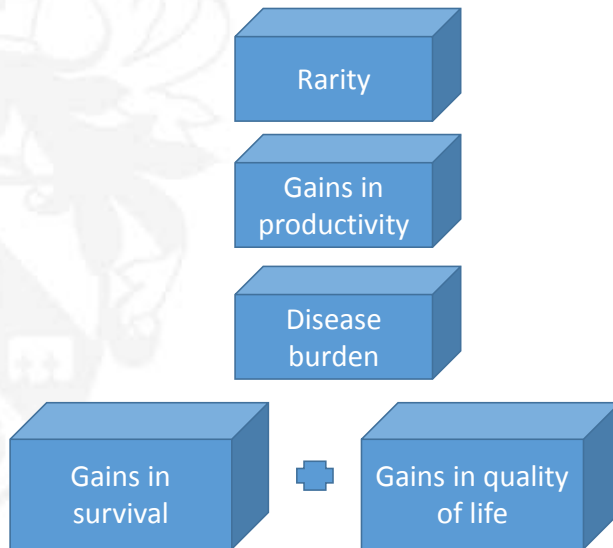
Manufacturer development decision

Will a product deliver a better rate of return on investment, across the countries in which it is marketed, than other uses of capital?

Health system funding/pricing decision

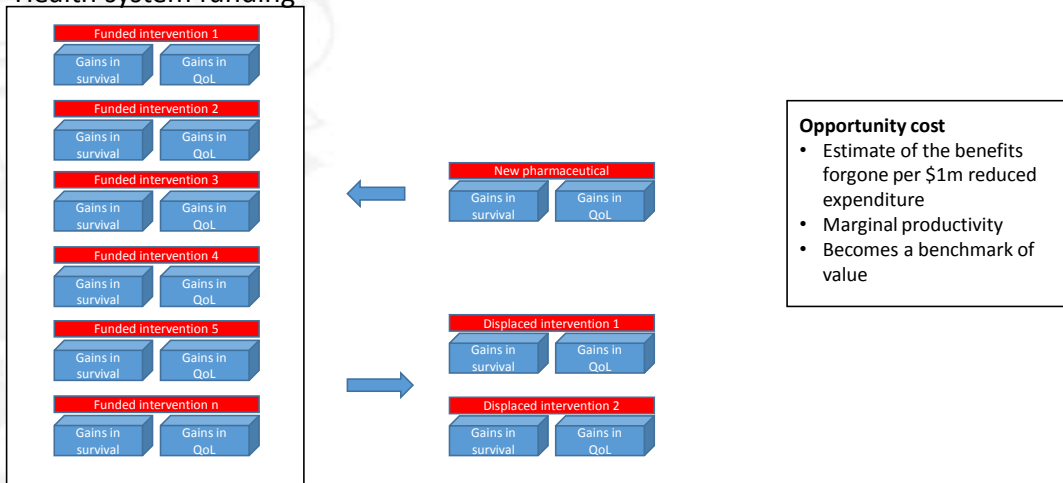
Will this product deliver greater benefits to our population than other uses of available resources?

Defining benefits



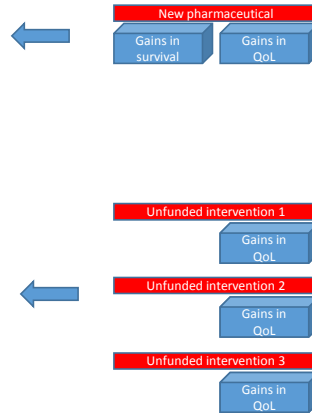
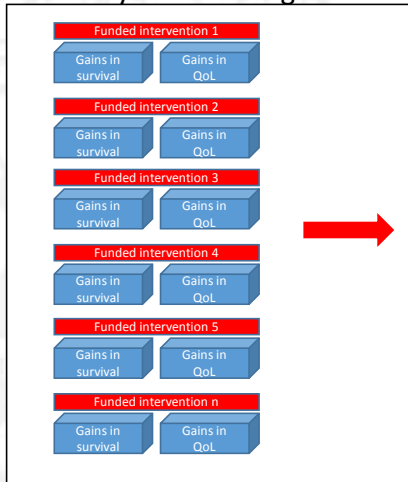
How much should a health system pay?

Health system funding



How much should a health system pay?

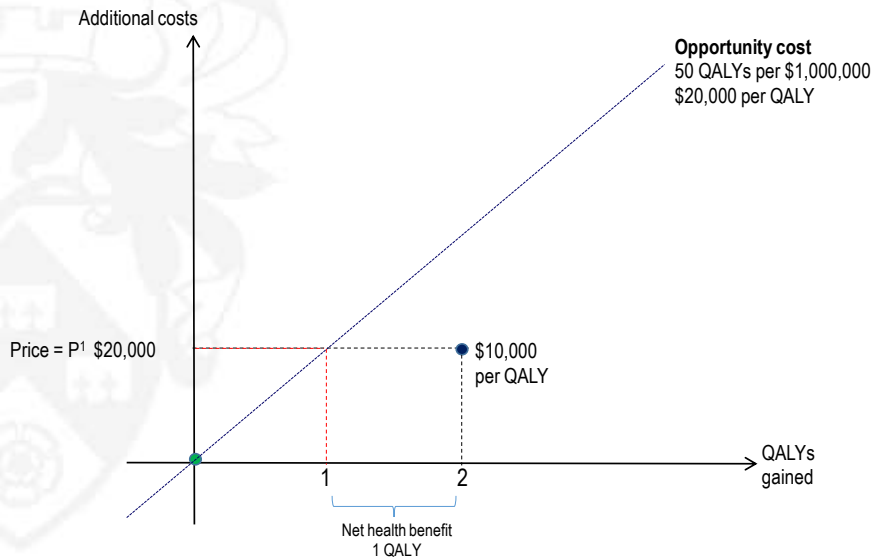
Health system funding



Opportunity cost

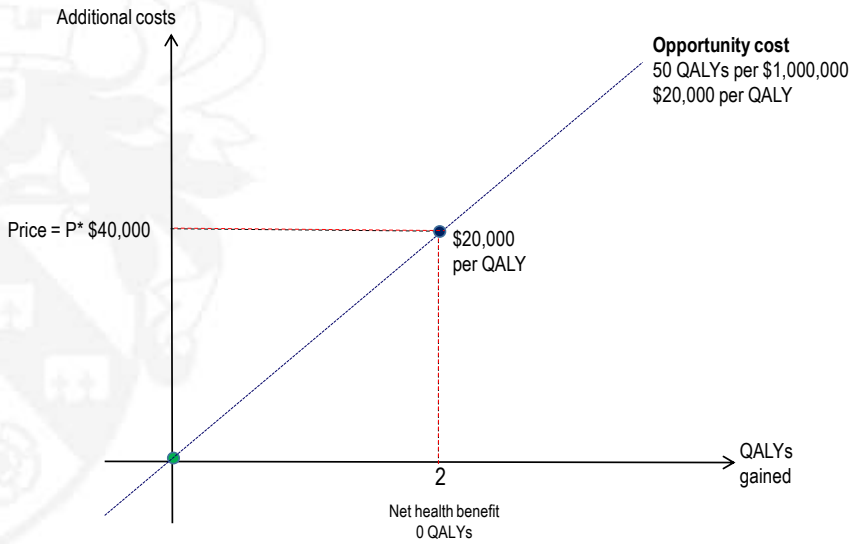
- Estimate of the benefits gained per \$1m increased expenditure
- Marginal productivity
- Becomes a benchmark of value

Pricing decisions



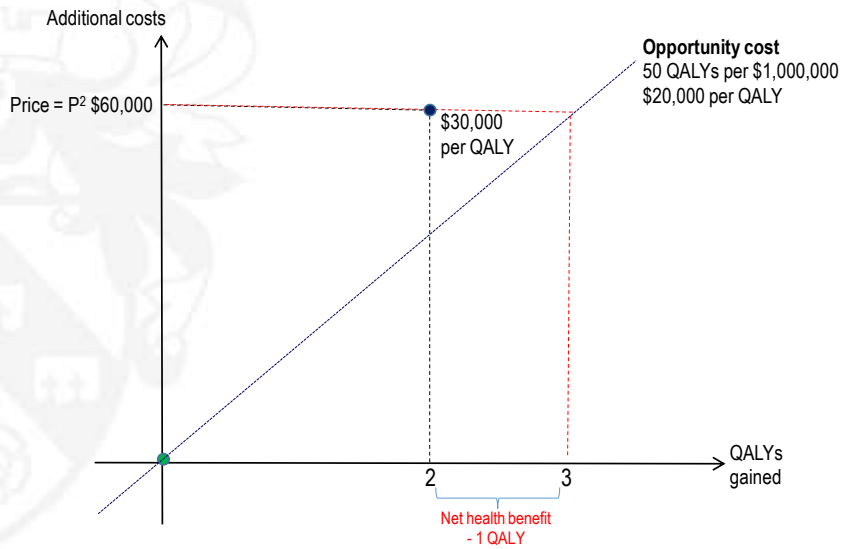
Claxton et al. British Medical Journal 2008;336:251-4.

Pricing decisions



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Pricing decisions



Claxton et al. British Medical Journal 2008;336:251-4.

Summary

- Health systems need to consider:
 - Additional health new drug expected to confer on patients
 - The health it could generate with the same resources (opportunity cost)
- The price of that product should be no more than implied by opportunity cost of the resources
 - A higher price reduces population health
- Over patent period this 'value-based price' may give no health gain overall, but appropriate return to manufacturers and gains after patents
- No basis to consider the manufacturers' costs of development or manufacture

Thank you!



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