

Differential Pricing and Financing of Essential Drugs
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Market segmentation and price differentiation: a novel approach

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Let me start remembering you the access puzzle Jonathan Quick had shown us ("Access to essential drugs depends on: 1) rational selection and use of medicines 2) sustainable adequate financing 3) affordable prices and 4) reliable health and supply systems"), because we have to remember that what we are talking about here is how to find ways of improving access to essential drugs. Price is indeed an important element, but it is only one of many. Other key elements include healthcare infrastructure and access to healthcare services, distribution networks, information about disease and help-seeking behavior to name only a few.

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the following excerpts of a report to the Global Alliance for Leprosy Elimination illustrates. It describes the strategies as

- Improving access to leprosy services by enabling all general health facilities in endemic areas to diagnose and treat leprosy
- Changing public perception of leprosy, and motivating people to check their skin for signs of the disease and to seek timely treatment
- Ensuring that all patients receive a full course of treatment and are cured
- Monitoring progress towards elimination
- Ensuring availability of free MDT drugs at health centers: “A shortage of multi-drug therapy at the health center level is a chronic problem due to poor information systems, inadequate planning, limited distribution networks, and a shortage of vehicles or fuel. This seriously impairs the prospects of cure for patients and undermines the credibility of the health services, as well as efforts to eliminate leprosy. It is crucial to plan, control, quantify and monitor carefully the supply of MDT at all levels”.

And remember: these drugs are off patent for a quarter of a century and are supplied for free!

A new area where we undertake efforts to improve access is the field of malaria. Novartis has developed a new drug in collaboration with a Chinese partner who had discovered the efficacy of the active ingredients artemether and lumefantrine. This novel treatment is especially indicated for uncomplicated malaria where drug resistance is a problem. The advantages over existing treatments are that it requires a relatively short treatment time for a cure and that no resistance has been reported to date. It is also especially indicated in children.

From the outset, Novartis was aware of the fact that in those regions where malaria is endemic there is no market in a commercial sense. Nevertheless, we decided to invest in this development because we saw an opportunity to contribute in some way to the treatment of this terrible disease and also because it opened up the possibility of a cooperative venture with a group in China, which at the time was novel and of general interest. We saw the possibility of a small market in the industrialized world for travelers who visit countries where malaria is endemic. Instead of a preventive treatment, which has to be taken weeks in advance, lasts for a long time, and is associated with possible adverse effects, the immediate use of this new medicine could cure malaria quickly in those cases where a person had become infected. The project was therefore approved and the treatment developed. Today, it is registered in many countries.

As mentioned, we recognized at once that there were two completely different markets for this product. And as a result, it was decided to market the product under two different trade names: one for the endemic countries, COARTEM®, and one for the industrialized countries, RIAMET®. This new approach allowed us from the very outset to apply different prices.

RIAMET® today is registered in Switzerland, the EU, Australia and Mexico. It will be available in Switzerland at a price of CHF 75 (US\$45.00) for a 24-tablet pack for treatment in adults at ex-factory level. In many countries, this

price has to go through a costly administrative procedure and may be modified by the authorities. To this, you have to add import duties, the margins of the distribution chain, which differs from one country to another, and taxes. The price will therefore vary considerably from country to country from the very start. If you review the situation after a few years, a different development of exchange rates will have added to the price differential. In short, we cannot base our approach for the pricing of COARTEM® on one price for RIAMET® as a reference, because there are many different prices in the different countries.

With regard to COARTEM®, the product for endemic countries, we are prepared to make it available widely at a low treatment cost. In special cases this can be at cost. Before arriving at a final price, we have to consider the specific circumstances and target populations. At present, we are negotiating with the WHO and are at a stage where neither side can give any further detailed comments on the subject. But one thing we can say: we are discussing many aspects of a sustainable approach. Price is not the main topic: we have already promised to supply at cost in this agreement.

Why such a complicated approach? Why not supply free of charge or at one subsidized price all over the world?

We have to bear in mind that this product may be needed over decades. In the leprosy project, we face a completely different situation: we have an old treatment, which does not need any further investment in the development of new forms, in clinical trials or in drug monitoring. The project is about finding ways to eradicate the disease and make the drug eventually redundant. For clofazimine and dapsone there are practically no markets to which these drugs could be diverted.

In the case of COARTEM®, we have a new medicine that needs close monitoring. In all probability, we shall have to further investigate its use and dosage, monitor possible resistance, and develop other forms, etc. The launch of a new drug is not the end, but just one step in the development of the ideal treatment of a disease. If we want to have a certain guarantee that this product can remain available over time, we have to put it on a firm footing that will allow it also to survive periods when the business of our company may be less positive. At a moment of a crisis, the first step, which any

