

A CONVERSATION WITH SCOTT HOWELL AND RAY PRESSBURGER

VIDEO TRANSCRIPT

Author Bios:

Scott Howell is the Chief Strategy Officer, US Pharmaceuticals at Novartis Pharmaceuticals Corporation. Before joining Novartis, Scott served as Vice President of Market Access at Jazz Pharmaceuticals, where he led a fully integrated pricing, contracting, distribution, reimbursement and managed care department. Prior to that, he worked for Cardinal Health as Senior Vice President, Clinical Services and spent a number of years at Genentech where he held a variety of leadership positions in Market Access. Earlier in his career, Scott was Vice President, Pharmacy Affairs at Highmark Blue Cross Blue Shield where he led the pharmacy program and he has held a variety of managed care leadership roles at SmithKline Beecham/GlaxoSmithKline. Scott began his career as a general internist, spending several years in private practice before working in academic medicine at Ohio State University.

Ray Pressburger is a Managing Director at Accenture. He has 17 years of experience working with Pharmaceutical and Biotech companies of all sizes and a wide range of disease areas ranging from rare Oncology to Cardiometabolic conditions. Ray leads the global business for Accenture that focuses on the commercialization of products in the life sciences industry – ranging from Evidence Generation, Launch, Marketing and Sales, and Pricing and Market Access of medicines. Ray has been an author and researcher of the industry dynamics related to unlocking patient access to medicines.

This conversation is focused on what we call the “New Economics” of the life sciences industry, which has been a topic of debate and discussion for many years. The pressures around pricing, patient access and affordability feel like they're coming to a head and Scott and Ray have come together to explore this topic, the realities of how the industry operates today, what they think is coming next and what it will mean for patients, providers and manufacturers.

Ray: As I mentioned before, we believe these forces are impacting the industry now. For example, our research suggests a declining margin in nearly every therapeutic area, including Oncology, over the next five years. Moreover, most industry constituents are aligned that net pricing is growing slower than inflation (<2%) and that the picture is getting more challenging as we see both public and private sector forces at work. Do you agree that this is now upon us?

Scott: Thanks, Ray. I agree that these forces are impacting the industry and that it is an especially important topic as not only are we talking about the future of the industry and of innovation, but also about the ability of patients to access the innovations we have today.

The system that we currently have does not serve anyone well. It encourages and relies on high drug list prices, extensive opaque rebates that are generally not passed through to patients, and substantial administrative and



cost-sharing barriers that can even apply to the appropriate use of medicines by patients. What results is a dynamic that places a significant burden on patients and their physicians and is what we call the marketplace “war of all against all.”

Ray: Thanks for that, Scott. So how do you think we got here?

Scott: It’s a combination of two factors. First, the pharmaceutical marketplace has become increasingly genericized. Second, scientific advancements are allowing us to pursue conditions that have historically been difficult or impossible to treat. Together, this has led to an increasing focus on specialty medicines, which target smaller and smaller patient populations, resulting in higher per patient list prices. In response, payers, have sought to contain costs through the rising use of drug utilization management techniques. As the use of drug utilization management has intensified, manufacturers have responded with programs that support patient access, which in turn have induced payers to further tighten drug utilization management, and so on and so forth.

Ray: Do we think that the strategy of shifting the portfolio to being in the forefront of science makes organizations immune to this phenomenon, or not?

Scott: It does help but it is also pushing the industry away from chronic condition markets despite high unmet need. In particular, having a highly differentiated, value-driven portfolio is one way that manufacturers can navigate the current environment. This is why we see niche biotech players continuing to attract funding. However, focusing on therapeutic areas that payers are either unable or unwilling to manage is equally important.

Critically, this is pushing the industry away from markets such as infectious diseases, mental illness, and cardiovascular disease even though unmet need remains high. For instance, although cardiovascular disease remains a

leading cause of death, accounting for 1 in 3 deaths in the United States, investment in in this space has been declining. Cardiovascular disease-related FDA approvals declined 33% between 2000 and 2009, while the number of Phase 1 studies saw a similar decline between 1990 and 2012. Consequently, fewer and fewer drugs that significantly improve outcomes over existing therapies are reaching patients.

Ray: Beyond the impact to the industry, you have been published and outspoken on the impacts to patients and the overall productivity of the provision of care. Can you share with us a few of those highlights and why you think this is so important beyond the performance of the industry we work in?

Scott: The “new economic reality” is imposing friction and expense on all stakeholders in the healthcare value chain. We recently published a study in Health Affairs, which quantified the economic burden of drug utilization management on the US. In it, we found that payers, manufacturers, physicians, and patients together incur approximately \$93.3 billion in annual cost implementing, contesting, and navigating drug utilization management. For physicians, annual spending was estimated to be \$26.7 billion, owing to physician and physician staff time spent interacting with payers, especially in navigating prior authorization requirements. For patients, we estimated that \$35.8 billion in annual spending by patients on cost-sharing can be attributed to drug utilization management (e.g., is above the level of the average generic copay).

This is a highly counterproductive uses of resources in the US health care system and is leading to increasing frustration, stress, and burnout for physicians and treatment delays and abandonment for patients. In particular, we recently conducted a survey with Ipsos, which found that three out of four insured Americans believe too many hurdles stand between patients and their medicines. 21% of those surveyed reported not filling a prescription in the past 12 months, with cost-sharing (28%) and insurance coverage (19%) cited as the top



reasons for abandonment. Importantly, 50% of those who reported abandoning a prescription indicated that their health suffered as a result.

Ray: There are many different views on how the industry can best adapt to this new economic reality. Some believe it is the new normal and the strategy must be to simply shift the bar and curve of innovation. Others have proposed various frameworks and models to change the dynamics of the industry – payer partnership models, new contracting innovations, or even industry wide changes. From your point of view, what is the most viable and productive path forward?

Scott: I believe we need to move from our current system of high prices and low patient access to one with lower prices and higher access. One way to rebalance incentives in a sustainable manner is through a structured market trade, which we call “value-based price for access.” This system is a common sense solution, where individual manufacturers voluntarily set prices with reference to benchmarks proposed by independent health technology assessment organizations. These value-based prices are then linked to value-based access, where individual payers enable easier availability of these medicines to patients who need them. In practice, this could include rapid formulary review and addition, no or simple prior authorizations, no step-edits behind products that are not fairly priced, and low patient cost-shares.

This would better serve all stakeholders in the healthcare system – patients will have easier, more affordable access to the medicines they need; providers will spend fewer hours navigating insurer requirements; payers will pay less for drugs and need fewer systems to manage access; and biopharmaceutical companies will be able to focus their resources on developing the most innovative treatments.

Ray: There is much being discussed in the public sector and in the policy world that could impact the overall model. How might those

changes impact your views on how the industry adapts? Does that change the industry based solutions we may pursue?

Scott: First and foremost, this is not my area of expertise and I am not a spokesperson for Novartis when it comes to public policy. That being said, the ideas that we are discussing here are broad and could be applied to any kind of medicine and any kind of patient regardless of what type of insurance they have. Consequently, policymakers will choose what they think is the right path forward and could even choose to get behind the value-based price for access approach that we have proposed; however, we do not need to wait for them to act. I believe there are ways to implement the model now through private market actions.

Ray: This is clearly a critical topic that we all need to mobilize around. Change will take relentless effort. How do you think we collectively need to get started and what would you advocate that industry leaders such as your peers do now?

Scott: This is something that is bigger than any one of us. I believe that change is possible, but efforts must go beyond just Novartis. Instead, it needs to be a multi-stakeholder movement. Accordingly, to the extent permissible by law, we encourage a free and open exchange of ideas with a range of thought leaders and organizations from across the healthcare value chain that are willing to try something different. In parallel, we need to better understand the challenges faced by all stakeholders, thereby demystifying the system and allowing us to better explore how a common-sense approach could be the reset we need.

The more we advance these ideas, the more I am convinced that something is going to happen. There are many stakeholders out there in the healthcare industry that agree that the current path is not serving anyone well and is not sustainable. Therefore, it is up to us as leaders in the healthcare industry to have the courage to try something different and seek to fix



it.

Ray: Scott, thanks for your time on this. It is clear that there is much to do and the industry needs visionaries and change makers such as yourself – particularly at the helm of industry leading companies. Thanks for sharing your views with us. We will look forward to helping the industry activate and improve both economic sustainability as well as unlocking more seamless access to care for the patients who truly need it.

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