Successfully Transforming a Pricing Organization

Simon-Kucher project insights and experiences
"The secret of all victory lies in the organization of the non-obvious."

– Marcus Aurelius
The pricing organization plays an essential role in capturing value throughout a product’s lifecycle.

1. Reduces R&D costs by prioritizing higher payoff opportunities

2. Accelerates revenue by getting "wanted" products/services faster to market

3. Increases incremental peak revenue

**Product Lifecycle**

- Net product revenue
- Time
- Development
- Product launch
- Growth
- Maturity
- Decline

**Key Points**

1. Shorten this phase
2. Raise the peak of this phase
3. Increases incremental peak revenue

Source: Simon-Kucher
A strong pricing organization looks to the future...
... because markets are constantly changing; let’s look back at the last 15 years...

Internet

- Cheap access to information
- Price transparency
- Complexity of channel management

Digitalization

- Competition shifting
  - who **builds good products** for customers
  - vs.
  - who **builds good knowledge** on customer’s preferences

New business models

- Shareconomy
- Pay per use
- Freemium
- etc.
Example: Pharmaceuticals

Top selling products in 2000

- Large patient populations
- Lower unmet need
- Small molecules
- Lower price

Top selling products in 2015

- Smaller patient populations
- Higher unmet need
- Biologics
- Higher price

Source: Simon-Kucher; National Institute for Health Care Management; PharmaCompass
Case study: pharmaceutical company with a pricing organization preparing to scale product portfolio

Sub-optimal organizational alignment in determining the price potential for products in development and those on the market

Inconsistencies in the approach to gathering internal and external pricing insights to inform product development and manage prices after launch

Different expectations (including terminology) in the organization about the precision and granularity of deliverables from a functional area (e.g., global pricing)
To successfully transform the pricing organization, the company needed to evaluate:

- **What**
- **How**
- **When**
- **Who**
### What should we be doing and When?

Creating a framework...

<table>
<thead>
<tr>
<th>Category</th>
<th>Product development</th>
<th>Post-launch</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stage #1</td>
<td>Stage #2</td>
</tr>
<tr>
<td>#1</td>
<td>Activity #1</td>
<td>Activity #5</td>
</tr>
<tr>
<td>#2</td>
<td>Activity #2</td>
<td>Activity #7</td>
</tr>
<tr>
<td>#3</td>
<td>Activity #4</td>
<td>Activity #8</td>
</tr>
</tbody>
</table>

... can help provide:
- Common lexicon
- Accountability
- Expectation setting
- Better communication
### Life Sciences example: Framework

#### Before

<table>
<thead>
<tr>
<th>Phase I</th>
<th>Phase IIa</th>
<th>Phase IIb</th>
<th>Prep for Phase III</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Payer informed trial design?
- Payer engagement?
- Target price range?
- Value messages?
- Too early
- Too late
- Did not happen
- Too robust

#### After

<table>
<thead>
<tr>
<th>Ph. I</th>
<th>Ph. IIa</th>
<th>Ph. IIb</th>
<th>Prep for Ph. III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payer engagement</td>
<td>Payer environment</td>
<td>Stakeholder mapping</td>
<td></td>
</tr>
<tr>
<td>Evidence plan</td>
<td>Payer-informed Ph. IIb trial design</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value materials</td>
<td>Benchmarks...</td>
<td></td>
<td>Emerging value messages</td>
</tr>
<tr>
<td>Pricing</td>
<td>Early price range</td>
<td>Refined price range</td>
<td></td>
</tr>
</tbody>
</table>

Not too early, not too late, well planned and organized
How should we be doing what we need to do?

Creating a how-to guide and templates...

... can help ensure:

- Consistency
- Smooth on-boarding

Template for Activity ...

<table>
<thead>
<tr>
<th>Target price range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment #1</td>
</tr>
<tr>
<td>Segment #2</td>
</tr>
<tr>
<td>Segment #3</td>
</tr>
</tbody>
</table>

How-to guide for Activity ...

- What do we need?
- Where do we get what we need?
- What do we do once we get it?
- What is the final output we are preparing?
- What do we do with the output?
Life Sciences example: How-to guide

Before

- Outsource or internal?
- Necessary materials?
- Needs for customer research?
- Which stakeholders to approach?
- Budget? 100k or 1M?

After

### Payer-informed Phase IIb trial design

**Inputs**
- Draft Ph. IIb trial design from Clinical
- Target product profile

**Process**
- Hypothesize potential trial comparators, endpoints, and outcomes
- Engage an external consultant to interview customers (payers)
- Research should understand the price trade-off of different trial scenarios

**Output**
- Price potential under different trial designs/outcomes

**Budget for outsourcing**
- $xxx

Source: Simon-Kucher
Life Sciences example: Templates

Before

- Highly variable
- Confusing
- Lacks key info

After

Emerging value messages template

Stakeholder mapping template

Payer-informed trial design template

<table>
<thead>
<tr>
<th>Option #1</th>
<th>Option #2</th>
<th>Option #3</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Number of arms: &lt;insert&gt;</td>
<td>- Number of arms: &lt;insert&gt;</td>
<td>- Number of arms: &lt;insert&gt;</td>
</tr>
<tr>
<td>- Powered for &lt;superiority or non-inferiority&gt;</td>
<td>- Powered for &lt;superiority or non-inferiority&gt;</td>
<td>- Powered for &lt;superiority or non-inferiority&gt;</td>
</tr>
<tr>
<td>- Comparator(s): &lt;insert&gt;</td>
<td>- Comparator(s): &lt;insert&gt;</td>
<td>- Comparator(s): &lt;insert&gt;</td>
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<td>- ... &lt;insert&gt;</td>
<td>- ... &lt;insert&gt;</td>
<td>- ... &lt;insert&gt;</td>
</tr>
<tr>
<td>- Trial duration: &lt;insert&gt;</td>
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<tr>
<td>- ... &lt;insert&gt;</td>
<td>- ... &lt;insert&gt;</td>
<td>- ... &lt;insert&gt;</td>
</tr>
</tbody>
</table>

Anticipated results

- Summary of efficacy: <insert>
- ... <insert>

Pricing and reimbursement

- Potential price range: <insert>
- Reimbursed population: <insert>
- ... <insert>
- Payer restrictions: <insert>

Source: Simon-Kucher
Who will we need to execute what we need to do?

Creating a RACI and role profiles...

<table>
<thead>
<tr>
<th>Title</th>
<th># needed</th>
<th>Responsibilities</th>
<th>Relevant expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key account manager</td>
<td>2</td>
<td>• Engages customers regarding ...</td>
<td>• Negotiations regarding ...</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Coordinates with ...</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>...</td>
<td></td>
</tr>
</tbody>
</table>

... can lead to:

- Regular communication across the organization
- Finding those with the right expertise
Life Sciences example: RACI

Before

- Unclear roles and responsibilities
- Irregular communication
- Functional silos

After

<table>
<thead>
<tr>
<th>Activity</th>
<th>Global Pricing</th>
<th>Affiliate</th>
<th>Medical Affairs</th>
<th>HEOR</th>
<th>Public Affairs</th>
<th>C-suite</th>
<th>Brand-tea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payer-informed Ph. IIb trial design</td>
<td>R</td>
<td>A</td>
<td>C</td>
<td>C</td>
<td>C</td>
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<td></td>
</tr>
<tr>
<td>Payer-informed Ph. III trial design</td>
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<td>C</td>
<td>A</td>
<td>C</td>
<td>C</td>
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<td></td>
</tr>
<tr>
<td>Launch pricing strategy</td>
<td>R</td>
<td>/</td>
<td>C</td>
<td>C</td>
<td>/</td>
<td>A</td>
<td></td>
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<tr>
<td>Value story</td>
<td>R</td>
<td>/</td>
<td>A</td>
<td>C</td>
<td>/</td>
<td>A</td>
<td></td>
</tr>
</tbody>
</table>
Life Sciences example: Role profile

Before

Market moving from single product negotiations, where in-house knowledge exists, to tenders, where in-house knowledge lacks

After

<table>
<thead>
<tr>
<th>Title: Tender Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positions available</td>
</tr>
</tbody>
</table>
| Responsibilities       | • Pro-actively engages with payers in the development of tender requests  
                          | • Coordinates with relevant internal stakeholders to develop proposals in response to tender requests  
                          | • Defends proposals to customers  
                          | • .... |
| Relevant expertise     | • Prior experience in ... therapeutic area  
                          | • Prior experience developing tender proposals  
                          | • Knowledgeable about ... markets |
Once the new pricing organization was set-up, training staff and updating skills was a must.
In summary

- The pricing organization plays an essential role in capturing value.
- Value propositions for customers are not static as markets change over time and are even disrupted from time to time.
- A pricing organization needs to anticipate the changing requirements for capturing value and adapt as needed.
- Successful change requires a regular evaluation of 4 dimensions:
  - **What** activities should the pricing organization undertake?
  - **When** should these activities be done?
  - **How** should these activities be done?
  - **Who** is involved in these activities and what role do they play?
- Updating the pricing organization’s processes and toolkit is an ongoing process and requires ongoing training.
- Building a world-class pricing organization should be a top priority.

Source: Simon-Kucher
Simon-Kucher on Transforming a Pricing Organization.pptx