

HOSPITALS: An Opportunity and a Challenge

PLACEMENT ON HOSPITAL FORMULARIES HAS BECOME MORE COMPETITIVE. PHARMACEUTICAL COMPANIES THAT CAN DEMONSTRATE THAT THEIR PRODUCTS POSITIVELY IMPACT THE TOTAL COST OF PATIENT CARE WILL HAVE THE ADVANTAGE.

While small, the hospital market offers a unique opportunity for pharmaceutical manufacturers. New prescriptions in the hospital can spill over into the retail market. But just as with the broader payer market, hospital formularies are beginning to become more competitive.

"When I was a hospital representative in the early 1990s, the rigor by which new products were assessed before being added to formulary was more relaxed than in today's highly competitive market," says Tony Lanzone, senior practice executive, managed markets practice, at Campbell Alliance.

He says those days are over.

"We continue to hear that pharmacy directors and their drug information specialist teams, in conjunction with the P&T committee, continue to scrutinize the value proposition of new products coming to the hospital market," Mr. Lanzone says. "It's getting to a point where a new product — depending on the category and the other available choices — needs to bump a product that is currently on formulary to secure a position."

Mr. Lanzone says pharmacy directors, after looking at the clinical and the safety and efficacy, are looking for what a new product does above and beyond what's on the market today.

"Assuming that head-to-head studies are not done, pharmaceutical companies need to provide compelling

clinical data that show an advantage for using their product in the market above and beyond what is currently there," he says.

THE HOSPITAL MARKET

Hospital drug expenditures are increasing. In fact, drug expenditures increased by 5.7% between 2004 and 2005, totaling \$25.8 billion in 2005, according to IMS Health. For the 12 months ended September 2006, prescription drug expenditures in the hospital setting increased by 3.0%. Factors affecting the trend in hospital drug expenditures included drug prices (2.9%), volume and therapeutic mix (-1.9%), and new drugs (2.0%).

IMS projects a 4% to 6% inflationary rate for hospital drug expenditures (2% to 3% related to price, 3% to 4% related to volume and mix, and 1% related to new drugs).

"We anticipate the pharmaceutical component of hospital costs to continue to grow, but at a reasonable and manageable rate," says Robert J. Hunkler, director of professional relations at IMS Health. "A large fraction of the products that will be administered in that setting are going to be biotechnology products."

ENSURING SUCCESS

The hospital market is not one of the largest channels for pharmaceutical distribution; hospitals represent almost 10% of the U.S. market, according to IMS Health (see chart on this page).

But Mr. Lanzone says the hospital market is important and one that can serve as a vital point of new patient starts for pharma companies.

"Many of the clients with whom we've worked have been focusing on how they can maximize new start generation in the hospital," he says.

Joe Priest, VP of the hospital business unit at Surveillance Data Inc. (SDI), says pharmaceutical companies have to address total cost of patient care across the care continuum.

He says it's important for companies to measure how often, and during which line of therapy, patients are initiated on a drug in the inpatient and the outpatient hospital settings for each specific diagnosis, as well as determine how often those new starts spill over into the retail setting.

SDI has found, for example, that overall use for



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Drug cost is part of the story, but the story is broader. It's really about what it costs hospitals to treat that patient over that time in the hospital.



TONY LANZONE
CAMPBELL ALLIANCE

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PRESCRIPTION DRUG DISTRIBUTION BY U.S. SALES

RANK	CHANNEL DISTRIBUTION	2006 TOTAL DOLLARS*	2005 TOTAL DOLLARS*
1	Chain Stores	\$96.1	\$88.2
2	Mail Service	\$42.2	\$38.2
3	Independent	\$35.5	\$34.4
4	Clinics	\$30.1	\$25.1
5	Nonfederal Hospitals	\$26.8	\$25.9
6	Food Stores	\$22.2	\$21.3
7	Long-term Care	\$13.0	\$12.0
8	Federal Facilities	\$3.7	\$3.6
9	Home Healthcare	\$2.4	\$2.4
10	HMO	\$1.5	\$1.5
11	Misc.	\$0.9	\$0.8
	All	\$274.8	\$253.7

Note: U.S. dollars in billions

*Represents prescription pharmaceutical purchases, including insulin, at wholesale prices by retail, food stores and chains, mass merchandisers, independent pharmacies, mail services, nonfederal and federal hospitals, clinics, closed-wall HMOs, long-term care pharmacies, home healthcare, and prisons/universities. Excludes comarketing agreements. Joint-ventures assigned to product owner. Data run by custom redesign to include completed mergers and acquisitions.

Source: IMS Health, Norwalk, Conn. For more information, visit imshealth.com.

a cardiac drug in the hospital outpatient setting grew by 23% in 2005 over the prior year, and grew an incremental 18% in 2006 over 2005. This same drug grew at less than 2% during the same time period in the hospital inpatient setting. In addition to physician preference, inpatient drug utilization is also driven by the hospital formulary and the pharmacy and therapeutic committee recommendations. The outpatient drug selection is also heavily influenced by physician preference, as well as the drug formularies of the third-party payers.

About 80% of patients receiving this cardiac drug in the hospital channel for its top two cardiology diagnoses were new to the brand and the primary diagnosis for the new starts in the hospital inpatient and outpatient settings were different. The spillover from the hospital channel into the retail channel for patients receiving this drug for either of its top two cardiac diagnoses was 58%.

"Hospital formulary committees look at the cost-effectiveness of drugs, but they do it a little differently," Mr. Priest says. "Hospitals have a profit of between 3% and 5%, and they are under tremendous pressure to provide a high-quality outcome, such as, shorter length of stay, fewer complications, and favorable morbidity and mortality index, while minimizing the total cost of care across a patient's encounter in the hospital."

He says the hospital inpatient and outpatient

settings have often been underused by brand managers and marketing professionals.

"Companies that can demonstrate that a particular drug can shorten length of stay, thereby lowering the patient's total hospital costs, have an advantage over companies that just offer the hospital a cheaper price for their drugs," Mr. Priest says.

According to a study from Best Practices LLC, increased coordination is needed between the hospital salesforce and the specific brands that are being promoted in the hospital institutional setting.

The study also found that 80% of the compa-

nies focus their additional salesforce training on "network" or "institutional" competencies that allow sales people to more effectively understand the client process. Furthermore, hospital formulary decisions are not only being influenced by medical professionals focused on efficacy and safety, but also by administrative personnel focused on operational efficiency and cost. ♦

PharmaVOICE welcomes comments about this article. E-mail us at feedback@pharmavoices.com.

Experts on this topic

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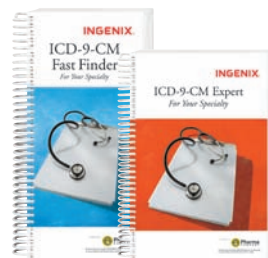
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