

Biomedical Innovation in the Era of Health Care Spending Constraints

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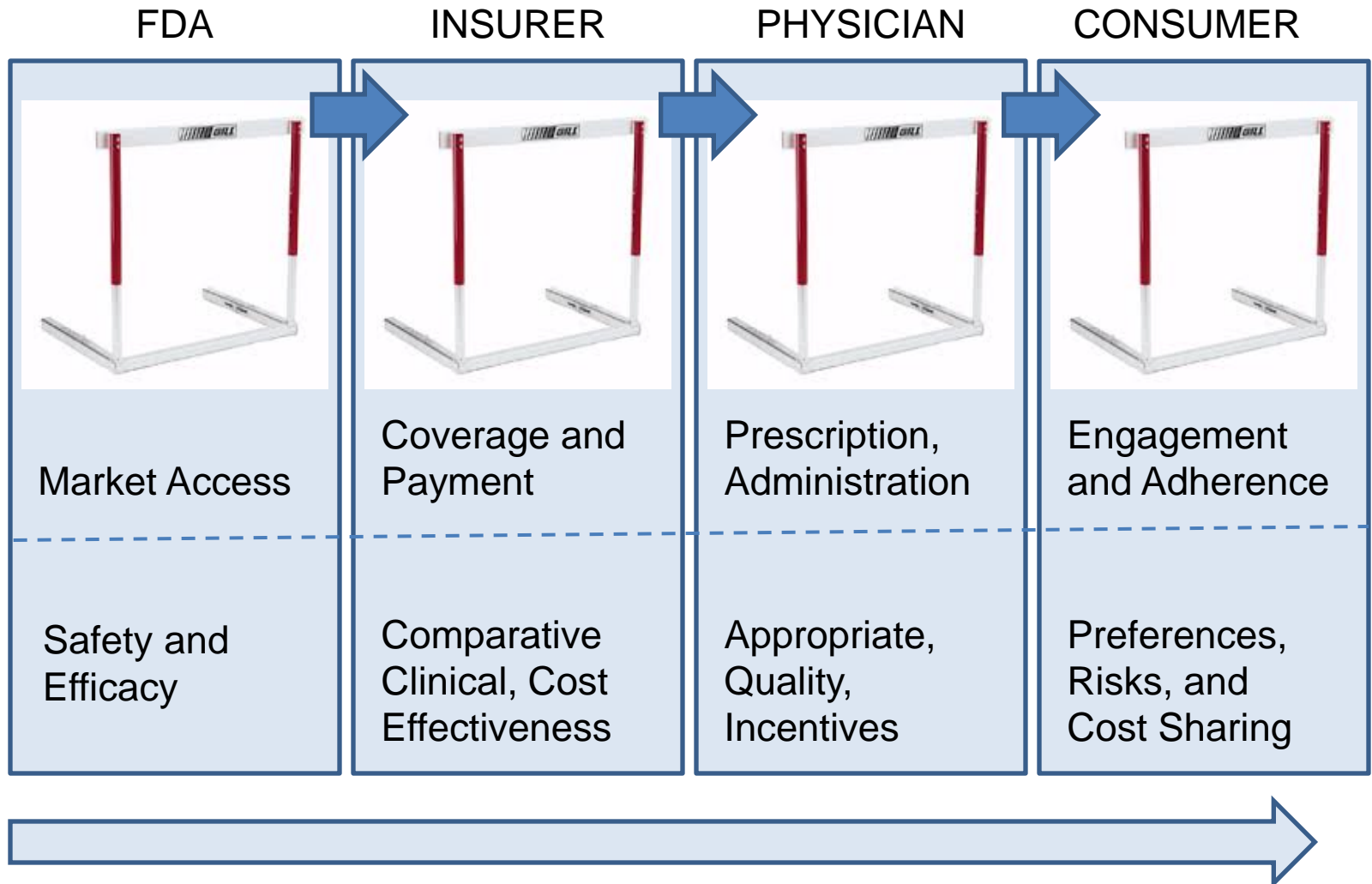
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Health Spending and Innovation

- **Biomedical innovation is a cause of increased health care spending, but also a consequence**
- **High prices and profits fuel investments in risky R&D, and generate new drugs, devices, etc.**
- **Now spending is increasingly constrained**
- **This may reduce investment and innovation, but it also may increase the value of innovation by rewarding breakthroughs over me-too products**
- **We are entering the era of more sophisticated purchasing of medical innovation**
- **This has important implications for innovators**

The Journey of Health Care Innovation: From the Laboratory to the Patient



Design to value

- **Many biomedical devices and types of diagnostic equipment are over-engineered and over-priced, relative to consumers' valuation**
- **They face new entrants with low-priced 'good enough' technologies, often from emerging economies (often developed by US firms there)**
- **Incumbent firms needs to shift from a focus on product improvement, regardless of cost, to improvement in features that consumers value**
- **For drugs, this dynamic affects new modes of administration, combination products, biosimilars, branded generics**

Pricing Based on Performance

- **For a truly breakthrough innovations, the US remains committed to premium pricing**
 - But premium pricing requires premium evidence
 - Biomedical firms supply HTA and CEA data to purchasers in other nations, and will need to supply similar data in the US
- **For incremental innovations, firms will need to price at parity or at a discount to comparators**
 - Price competition is strong for many implantable devices, formerly protected drug classes (hepatitis C)
 - Pricing pressure on established products will motivate firms to focus R&D on unmet clinical needs, where premium prices are still available

Product Distribution and Service

- **Biomedical products traditionally were marketed to individual physicians (detailing)**
 - There were many questionable financial relationships that now are under pressure from Sunshine and aroused purchasers
- **As hospitals consolidate and align with physicians, manufacturers will shift from detailing to account management**
 - Sales will be made to hospital and ACO “value committees” rather than in the OR and on the golf course
 - This increases further the need for evidence on performance, with endpoints of value to the providers and not merely insurers
- **More sophisticated buyers will require more sophisticated sellers**

PURCHASING MEDICAL INNOVATION



THE RIGHT TECHNOLOGY, FOR THE
RIGHT PATIENT, AT THE RIGHT PRICE

JAMES C. ROBINSON

Purchasing Medical Innovation analyzes the market and policy dynamics of health care technology, with a focus on the Food and Drug Administration (FDA), insurers, physicians, hospitals, and consumers themselves. The goal is to help the buyers, sellers, and users improve the value of medical technology: better performance at lower cost.