Biomedical Innovation in the Era of Health Care Spending Constraints

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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

- **FDA**
  - Market Access
  - Safety and Efficacy

- **INSURER**
  - Coverage and Payment
  - Comparative Clinical, Cost Effectiveness

- **PHYSICIAN**
  - Prescription, Administration
  - Appropriate, Quality, Incentives

- **CONSUMER**
  - Engagement and Adherence
  - Preferences, Risks, and Cost Sharing
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 need 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 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.