Thwarting the Industry Trend of a Downward Spiral Towards Zero Co-Pays

- Get a better understanding the industry’s patient co-pay program spending problem
- Be able to easily identify a problem within your company
- Understand how to fix it
Co-Pay Offset Programs: A Significant Investment
Are you spending wisely?

Co-pay Programs are Growing

Patient co-pay offset programs have been around since 2008 and have been growing at a rapid rate, with co-pay programs now ranking as the second highest spend for a brand behind only cost of goods. Recent estimates indicate that the pharma industry spends roughly $3 Billion in delivering co-pay programs to patients, not including spending on PAP programs. Almost every brand manager feels their brand needs a patient co-pay assistance program to be successful in today’s competitive marketplace. Patient co-pay offset programs actually reset the pricing dynamic in the vast majority of pharma categories. These programs are an important component of a brand’s marketing efforts and they are here to stay, underscoring the need for “optimizing” these programs through proper planning, evaluation and forecasting.

More Aggressive Programs

Why are the co-pay offers continuing to become more aggressive? When working with brands on their co-pay programs, we consistently see five major reasons for this escalation in offers:

- Lack of an in-depth co-pay program planning process
- Lack of data and lack of proper insights and guidance on program structure
- Inconsistent planning process across brands within an organization
- Disconnect between corporate co-pay spending policies / budgets and a brand’s accountability
- Allowing co-pay vendors to evaluate their own program performance

Looking at the five year trend of patient “offers” being put into market, we can see brands are increasing their benefit amounts, continuing to lower the out of pocket outlays for their patients and moving closer to generic or even $0 co-pays. If this current trend of increasing benefit amounts continues, there will be continued pressure on both brand profitability and on the relationships with managed care providers.

Are you Making Critical Mistakes?

Is your organization making these same critical mistakes? You may be saying to yourself right about now “no... my organization is different, and we have the spending on these programs under control and we are making well informed decisions”. By the end of this briefing you’ll have a better understanding of the problem and if your company is one of the very few operating efficiently in this area.
Let’s Dig Deeper

Let’s dig a little deeper into each of the issues:

Lack of an in-depth co-pay program planning process

Many brands call these co-pay offset programs “coupon programs”. This oversimplification of these complex programs may have brands overlooking their importance. Unlike traditional short-term coupons used in newspapers and weekly in-store promotions for packaged goods, pharma co-pay offers actually go a long way towards resetting the entire pricing structure within a category.

Lack of a proper planning process for these programs is a bit like driving blind, but with much higher financial implications.

A comprehensive approach to co-pay program planning should reflect:

- Brand in-market and financial objectives
- Competitive offer information
- Brand WAC and Margins
- Presence / impact of generic offerings
- Brand lifecycle (& patent expiration date)
- Managed Care patient profile - Pre-offer patient population
- Brand size interaction
- Brand channel (i.e. % retail, mail order, & specialty)
- And More!

An in-depth look at the full impact on business results should be undertaken – including all brand sales (not just claims), incremental scripts, program ROI, ability of the program to achieve brand goals and more...

Lack of data and lack of proper insights and guidance on program structure

To conduct a thorough analysis and to properly plan the “optimal” co-pay program, a brand needs data from a variety of internal and external sources. Gathering and then synthesizing this information is the first key step in optimizing a brand’s co-pay program. Many brands think that their current vendors have the data necessary to perform the analysis and develop the optimal co-pay program, but many times these vendors only have claims data and that is only a portion of what is needed for the comprehensive approach noted above. For the comprehensive approach, brands need to look beyond their co-pay vendors for data gathering, synthesis and guidance on program structure...

Inconsistent planning process across brands within an organization

The vast majority of brands use co-pay vendors for program budgeting and forecasting, but many companies use multiple co-pay vendors across brands. Since each vendor may follow a different methodology, there may be multiple ways of examining and drawing conclusions from data. Every company should have a consistent process for planning, forecasting and budgeting these programs across brands. This way, if a brand decides to move to another vendor, the process stays in place and business continues as usual. Relying on a vendor or vendors to run the analysis only makes it harder to move to another supplier and some of the key data may be lost during a transition.
Disconnect between corporate co-pay spending policies / budgets and a brand’s accountability

A number of major companies have divided the budget for co-pay programs, placing the discount portion of the spending and the accountability for these dollars under a corporate umbrella and leaving the administrative portion of the budget with the brand group. The patient discount represents 85% - 90% of the overall spend, so if brand managers are completing an ROI analysis on the just the portion of the spending they control, they are incorporating only 10-15% of the total cost. This obviously makes the ROI’s look much better than they really are (by 10x to 20x)!

Brands should take a more holistic approach when it comes to their budgets so they can be corporately responsible. Making brands account for every penny of spend as they would with their own finances help keeps the checks and balances in place and the whole corporate system works more efficiently. Keeping the brands accountable for their total spend will avoid the “It doesn’t matter because it’s not part of my budget” syndrome!

Is a fox watching your chicken coop? Get an independent perspective

Many brands utilize the reports given to them by their co-pay vendors as a proxy for evaluation of the program. Not to say your copay vendor isn’t acting in your best interests, but knowing that the bulk of their profits come from program claims generated, many brands go outside for an independent planning and evaluation perspective of their co-pay programs to maintain proper checks and balances. An independent planning and audit of the results will give you a deeper dive into what’s happening inside your program and what you can do to better meet your goals.

Remember, simply increasing program claims may not be best for your business based on your current objectives. Although it might appear on the surface that increasing claims would be a good thing (more sales), this may not be the case unless these claims bring in incremental business to the brand. If the business isn’t incremental then all you are doing is giving a discount to a patient who was already going to purchase at full revenue.

The easiest way to increase claims for any program is to change the offer and increase the benefit to the patients. This can be done in a few ways; increasing the offer amount from a “save $20” to “save $25”, or by lowering the patient out of pocket by moving from a “pay no more than $30” program to “pay no more than $25”, or by making the offer available to a greater number of patient types by including cash and/or government patients.

In these cases, the majority of additional claims generated may not come from incremental business, but rather from patients who would fill the script anyway but were not eligible to receive a discount under the old program. For example if the patient OOP co-pay is $30 for the brand and the old program’s offer was “pay no more than $30”, the program did not apply to the patient. But if the program were changed to “pay no more than $25” then the patient becomes eligible to receive a $5 discount. Would this patient have filled the script anyway without a discount? They likely would have… and therein lies the major issue!
The Optimal Offer
Do you really need to have a $0 co-pay?

Claims only tell part of the story
*Having a partial picture will cause you to make bad choices*

Many brands today evaluate their programs based on the number of claims they receive. As we discussed earlier generating a higher number of claims does not mean your program has performed well unless they are incremental to your business. Your current co-pay vendor may not be able to tell if a current claim is base or incremental. If brands can direct their spending towards the correct patients at the correct time they will gain truly incremental scripts, resulting in a very efficient spend and increased business performance.

Many brand teams and vendors don’t have the process, data and advanced tools in place to determine the true level of incremental claims...This translates to the simplistic view that promotes increasing the number of claims because of a gut feel that this is positive for the brand.

What is the Optimal Co-Pay Offer?

The optimal co-pay offer is one that meets the brands objectives – and those objectives may be sales, profit, ROI, adherence or trial related, not just claims related. Since most co-pay vendors have not sat on the brand managers side of the desk, they often focus on a more simplistic “claims” view and may not be considering this broad group of KPI’s when recommending a co-pay program structure or evaluating a past program.

*Relying on claims to evaluate co-pay program will provide you only a partial and often very misleading and distorted perspective.*

It seems logical to think implementing a more aggressive patient offer will produce a higher overall number of transactions and therefore more business for the brand. But could a less lucrative offer have produced much better overall results by producing more scripts at full revenue? Not having data to the contrary (being without the right insights) is one of the major contributing factors leading to the value escalation of co-pay offers.

Many brands are unsure of what to do and may see their best option as “sweetening” their offer in an effort to increase business (perceived as claims). Trying to make these types of decisions without the proper data and tools can cause normally clear minds get clouded and here is where brand strategy goes up in smoke. An uninformed decision usually results in lower profitability!
Questions to ask Yourself

Here are five questions you could ask to see how well your brand / organization is doing in terms of managing, forecasting and evaluating co-pay programs:

1. How do we calculate the incremental volume being generated from these co-pay programs?
2. How much true incremental volume did we drive with our co-pay program last year?
3. How many patients who receive one of our co-pay cards, and are ineligible to receive our offer, will fill their script anyway?
4. How do we calculate our ROI on these programs? Is it based (as it should be) on total incremental volume X margin / total cost including all patient rebate monies?
5. What is the objective of each of our brands’ co-pay programs and is the current offer the best choice to meet those objectives?

Summing it Up

Co-pay programs are an important strategic element of a brand’s overall plan and a comprehensive, consistent approach should be undertaken to optimize these programs. This involves synthesizing many data sources and inputs to ensure that all aspects of the program and its financial and business impacts are being considered.

A co-pay program forecast should be its own mini financial business plan with all the forecasted brand financials, not just a forecast of claims and cost estimates. It takes the right data, process, and tools to be able to move all the different levers to “optimize” these programs.

Seek out objective 3rd party vendors with deep expertise, data, a solid process, and advanced forecasting and planning tools to help you both analyze and optimize these programs. Make sure your current corporate and brand objectives drive the recommendations and your offers fully support your current objectives. Having a simple consistent process in place across all brands will enable you to better plan. It also protects you if one day you decide to change one or more of your co-pay vendors.

What is really needed to optimize a brand’s co-pay program is a solid process driven by an objective 3rd party with the data needed to analyze true script incrementally and the ability to match a brand’s objectives with the proper program structure.
About Al Kenney

Al Kenney has 27 years’ experience in sales, marketing, and analytics within the pharmaceutical, OTC, food, direct marketing, and software industries. Al’s expertise lies in the areas of marketing, sales, business process redesign, data, software application design, program implementation, forecasting, and the analysis and measurement of marketing and sales spending.

Al is the founder of Alpha1C, an innovative company headquartered in Sherman, CT, which does strategic marketing, predictive modeling and measurement. Before Alpha 1C, Al spent six years as a partner at M2 Worldwide, a strategic marketing consulting firm. Prior to that, Al spent eight years in the software industry specifically focused on advanced analytics, supply chain, and forecasting. He owned and operated Performance Wave Inc., a software company which also specialized in modeling and forecasting. Performance Wave was sold in 1999. Later, he served as the General Manager for Demantra Inc., a leading provider of analytics and program measurement software (which is now part of Oracle). Al is now applying his knowledge and skills specifically to the food, drug, pharma and bio-technology industries.

In addition to working closely with companies and brands evaluating thousands of sales and marketing programs across many different industries (including OTC, Food, Retail, Electronics, Hotel, Home Improvement, Storage, restaurants and more...), Al has forecasted, and analyzed hundreds of incentive programs in over 90 therapeutic pharma, bio-tech, and specialty pharma categories.

About Alpha 1C

We are marketing, sales, and analytical industry professionals with a deep background in strategy, predictive forecasting, and post event tracking and analysis for sales and marketing programs. We have vast experience solving complex problems and providing key insights across more than 20+ core industries. For the last 6 years, we have been focusing our solutions primarily on the Pharmaceutical and Bio-Tech marketplaces.

Alpha 1C provides key insights to brand teams allowing them to make more informed decisions that provide a better ROI. We work closely with your vendors and agencies to execute your brand’s vision.

We apply truly innovative thinking and approaches to your complex business problems and utilize our easy to use predictive analysis tools so you can quickly identify the information you need to run your business more productively and utilize the most profitable solutions to meet your business goals.

Alpha 1C has unparalleled experience in:

- Strategic Marketing
- Marketing Program Optimization
- Predictive Modeling & Forecasting
- Sales and Marketing Program Measurement and Reporting
- Brand Building

Our work is easily paid for through the efficiencies and insights we bring to your business.

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