Value-Based Pricing and Procurement of Innovative Medicines

Executive Roundtable Highlights

June 2017
Value-Based Pricing and Procurement of Innovative Medicines: Executive Roundtable Highlights

Darren Gresch and Paul Preston


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Executive Summary

On June 6, 2017, the Value-Based Pricing and Procurement of Innovative Medicines Roundtable was convened in Toronto by The Conference Board of Canada. The roundtable, made possible through support of the Health Research Foundation and Innovative Medicines Canada, was phase II of a study examining value-based approaches to drug procurement. Phase I involved the development of five case studies documenting innovative approaches to pharmaceutical procurement in different jurisdictions around the world, as well as their challenges and lessons learned. These case studies were compiled into a published report titled *Value-Based Procurement of Innovative Medicines: Lessons From Five Cases*.

The roundtable provided an opportunity to discuss the merits of value-based pricing and procurement of innovative medicines, and the appropriateness and applicability of the case studies to Canadian jurisdictions. It informed constructive dialogue about the adoption of similar practices in Canada with a view toward improving health outcomes and health care sustainability. The objectives of the roundtable were for participants to:

- **learn** about ongoing value-based pricing and procurement projects in Canada and international jurisdictions;
- **discuss** the enablers and success factors for implementing value-based projects;
- **explore** international and national practices in understanding value;
- **share** insights on how to advance health care innovation through value-based procurement;
- **gain** new insights and network with peers to share new approaches, and exchange ideas.

Presentations enabled participants to hear from individuals with experience in value-based approaches to innovative medicine procurement. There were five key take-aways from the roundtable—four of which are shared in the phase I report:

- **The focus on patient outcomes** requires that value-based procurement have a patient-centric approach. Legislators need to sit down with companies and make value-based procurement a priority to ensure that patients have affordable and sustainable access to innovative medicines.
- **A high degree of engagement with different stakeholders** is required, and there is significant potential within networks to move forward with value-based approaches. The effective management of cultural and interpersonal barriers—rather than policy barriers—will be a key success factor.
- **Selecting relevant data, metrics and measures of success**, as well as ensuring that systems and infrastructure are adaptable, will be crucial to reaching agreements.
- **Champions** of value-based procurement are necessary. Having the right people at the table is crucial to building trust at all levels and ensuring everyone is on the same page.
• **Start a value-based procurement project** to become exposed to the process, and to keep the momentum going.
  – Apply insights from value-based procurement case studies.
  – Start small and ensure it is scalable.
  – Prepare for lengthy time horizons.
  – Get comfortable with being uncomfortable.

**Introduction**

Rising health care costs are driving governments, health care professionals, insurance companies and other stakeholders to find new ways to maintain or increase the quality of care while keeping costs as manageable as possible. Value-based procurement (VBP) of innovative medicines is a promising model to achieve this.\(^1\,^2\) VBP involves pricing pharmaceuticals based on health outcomes; combining drug procurement with other health interventions; and collaboration among pharmaceutical companies, payers, patients, and health care professionals.

Although there is significant interest in VBP from health care stakeholders, better insight is needed into how VBP of innovative medicines can and should be structured, how and what benefits can be achieved, effective practices for addressing challenges and managing risks, and how to ensure that real value is delivered for patients, health care systems, and payers, along with pharmaceutical producers.

Participants began the day with several exploratory questions, including the following:

• How do VBP partnerships come to be, and what factors make them successful?
• What structural changes are necessary to facilitate more of these types of agreements in Canada?
• Are there components of previous VBP models that can be applied to specific jurisdictions within Canada?
• What knowledge can be taken and championed within stakeholder networks?

**Case Studies**

Representatives from each of the five VBP case studies from phase I presented key practices and lessons to the group. (See Appendix A for Roundtable Agenda). These case studies are examined in detail in the report *Value-Based Procurement of Innovative Medicines: Lessons From Five Cases*.\(^3\)

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1 Gerecke, Clawson, and Verboven, *Procurement*.
2 Stanley, Keckley, and Snyder, *Value-Based Pricing for Pharmaceuticals*.
3 Gresch, Munro, and Preston, *Value-Based Procurement of Innovative Medicines*. 
### Table 1
#### Lessons Learned Summary

<table>
<thead>
<tr>
<th>Company Combination</th>
<th>Lessons Learned</th>
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</table>
| Novartis–Cigna, Aetna | • Move beyond a budget-based model (focused on transactional value) to an outcomes-based model (focused on clinical, patient, health system, and societal outcomes). This requires effective communication among pharmaceutical companies and payers. In the case of Novartis, transparency early in the negotiation process led to better agreements.  
  • Make the VBP model effective by adjusting time horizons to allow for a more accurate valuation of the drug under consideration. The fact that many health outcomes are measurable only in the mid- to longer term is at odds with payers’ proclivity for short-time horizons.  
  • Look at the entire range of services that have the potential to maximize health outcomes, rather than simply providing a drug. When health outcomes are the focus, innovation in achieving improvements becomes more attractive.  
  • Use existing data whenever possible. Creating new data or measures adds complexity and makes the entire process more cumbersome. |
| Amgen–National Health Service | • Be open, honest, and direct about what is expected from a partnership, as well as what the possible benefits are for other parties involved. Being transparent about interests can help to build trust and ensure that partnerships provide mutual benefits.  
  • Collect quality information about what is important to patients to make it easier to work in a customer-centric way.  
  • Have a clinical champion to help navigate and select the appropriate value-based outcomes. |
| AbbVie–Prince Edward Island | • Understand how budgeting and financial systems work for governments and other payers, and endeavour to develop agreements that fit within those parameters.  
  • Devote time and attention to developing appropriate metrics, and revisit those metrics as experience and insights accumulate.  
  • Enlist champions—from senior leaders to advisory groups—who can provide advice and encourage others to innovate to make agreements possible and health improvements a reality. |
| Merck–Cigna, Aetna | • Ensure there is an effective management strategy within the organization, specifically for VBP.  
  • Recognize that a value-based environment generates incentives and opportunities to come up with better ways to manage and integrate a full suite of solutions for patients.  
  • Realize that sometimes there is no apparent, direct economic benefit resulting from an agreement, but lessons can still be learned. When this happens, take it as an opportunity to learn and apply that knowledge in the future. |
| AstraZeneca Spain–Catalan Health Service | • Develop a model that ties benefits for patients to benefits for all stakeholders, and ensure that all parties recognize the connections between patients’ interests and organizational interests. That is, develop models that tie compensation and savings to real health benefits achieved. |
• Build a culture of trust and collaboration among the people in the health care system and the pharmaceutical company. Where trust has emerged, the parties will be able to deal with the range of challenges that are an inevitable part of the relatively novel, value-based approach to medicine procurement.
• Choose measures of success that are logical within the parameters of the agreement and in a broader sense. Although some metrics might be less susceptible to multiple interpretations (e.g., death rates), accepting some ambiguity may be necessary to achieve other goals such as having timely results to assess progress.

Roundtables
After exploring each of the cases, the health leaders were broken into a series of groups to work through critical questions to move VBP forward. Each group followed a facilitated process with a designated chair, capturing findings and delivering a presentation to the full group afterward.

Roundtable One
Topic A: What are the major barriers and opportunities in Canada for adopting value-based procurement approaches for new and effective medicines?

Topic B: What do you need to help address each of those identified barriers and to help leverage the opportunities?

The full group noted the high degree of interconnectedness between the different barriers and opportunities, as well as the importance of applying learnings from previous VBP examples—i.e., there is no need to recreate the wheel. In addition, participants recognized that the VBP discussion within Canada would benefit from more Canadian case studies of VBP successes and failures. Table 2 synthesizes the key findings from each group.

Table 2
Synthesized Answers From Roundtable One

<table>
<thead>
<tr>
<th>Barriers</th>
<th>Opportunities</th>
<th>What is Needed</th>
</tr>
</thead>
</table>
| Large number of Stakeholders required | Requires time and energy greater than the status quo | Creating common goals, objectives, criteria and results | Partnerships to improve patient outcomes
• Government, industry, patients
• Common crisis will lead to common messaging |
| Management of trust, expectations and uncertainty | | Use third-party conveners for holding multi-stakeholder dialogues |
| Culture/Mindset | Risk aversiveness and the lack of business practices and processes to address it | All other opportunities will inform cultural change and vice versa | Share risk to build relationships and trust
• Be candid |
| | | Change the mindset, model the crisis, and message it appropriately
• Get comfortable with being uncomfortable |
### Capabilities and skills

- How do people manage a risk-based contract?
- How to implement and manage VBP?

Build a network of champions with cross-functional subject expertise to implement change and build trust

Identify and empower champions by giving them the opportunities to speak and execute

### Infrastructure and Measurement (information and health systems, data quality and data sharing)

- Difficult to fit scientific advances into antiquated regulatory systems
- No criteria to assess innovation
- Lack of measurement for numerous outcomes

Improved data quality through standardization

Smaller projects allow for greater flexibility

- Start small and scale
- Start early/stop early

Build a good framework

- Link data sets to tell a story
- Gather consensus on standards
- Regulate incentives

Ensure you collect the right data

- Ensure standardization
- Figure out how to address data gaps and data degradation

### Financial impact

- System savings and increased profits in the long-term

Demonstrate value and provide new opportunities for the future

Look for quick wins

Map out the patient pathway and the total cost of ownership

### Fractured payer system

- Each province making its own assessment
- Public versus private payers

Identify health care inefficiencies and ensure sustainability

Prioritize the discussion for when VBP makes sense

- The system should move in parallel to be aligned and optimized

### Patient engagement

- Transactional business structure versus health management

Better patient engagement and public perception

Focus on managed care and evolution of the patient

- Focus on improving outcomes
- Look at patient pathways (beyond the pill)

### Patient authorization

- Data collection and privacy

### Public sector finance and payment

- Budget versus product life cycles

Cost predictability and management

Change how to finance the system

- Time horizons for returns on investment

### Political difficulties

- Political cycles, risk aversion and siloed budgeting

Demonstrate the need for a paradigm shift

- Only need one or two successes to “break the wave”
Roundtable Two

Topic A: What frameworks and management systems/processes need to be in place to ensure you can effectively leverage value-based procurement approaches within your jurisdictions? (e.g., provincial agreements, memorandums of understanding, information management systems to measure outcomes, etc.).

Topic B: What pre-established clauses/terms need to be in place to deal with outcome and/or evidence limitations, premature patient removal from the value-based procurement stream, and other unforeseen circumstances?

Four domains emerged from the groups’ discussions, as shown in Table 3.

Table 3

<table>
<thead>
<tr>
<th>Domain</th>
<th>Potential Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholders</td>
<td>• There needs to be a forum for discussions to facilitate buy-in from many different stakeholders.</td>
</tr>
<tr>
<td></td>
<td>• Systemic change requires buy-in from many health care companies and organizations (e.g., the public payers, Pan-Canadian Pharmaceutical Alliance, Health Canada, Canadian Agency for Drugs and Technologies in Health, etc.).</td>
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<tr>
<td></td>
<td>• There needs to be a political directive, either nationally or provincially, to break down silos, with the premise that different stakeholders are working toward a common goal of delivering improved outcomes.</td>
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<tr>
<td></td>
<td>• It will be crucial to manage the motivations and incentives of public and private payers, the differences in their regulation and integration with the health system, and their abilities to implement VBP.</td>
</tr>
<tr>
<td>Framework</td>
<td>• Guiding principles and standards must be established to inform projects and agreements on what framework is appropriate.</td>
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<tr>
<td></td>
<td>• It must be an adaptable and durable approach to VBP. For example, how will the framework handle patients who move to a different province and switch payers?</td>
</tr>
<tr>
<td></td>
<td>• Establish and identify upper payment thresholds, start and stop rules, and limitations.</td>
</tr>
<tr>
<td></td>
<td>• Timelines for tracking and payment are important. Time horizons should be relative to the conditions and diseases being addressed. VBP agreements are multi-year journeys.</td>
</tr>
<tr>
<td></td>
<td>• Industry may want immediate payment, but payers may want to pay when outcomes are achieved. How do you finance most of the agreement on day one when it might take 10 years to see a return? A middle-ground approach is necessary.</td>
</tr>
<tr>
<td></td>
<td>• Companies should submit as candidates for VBP and become certified through a national framework.</td>
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<tr>
<td></td>
<td>• Carry lessons learned and structure from one treatment portfolio to others.</td>
</tr>
</tbody>
</table>
Data

- There needs to be a proper criteria and characteristics selection process.
- It will be important for third parties to handle and verify data.
- Outcome measurement requires real world data (e.g., treatment and disease registries) and connectivity.
- Standardization is necessary to eliminate incompatibility issues across registries, ensure data can be replicated at scale, and ensure that outcomes (or appropriate surrogates) are meaningful to all stakeholders, including patients.
- Measuring at primary and secondary endpoints will increase adaptability.
- Discrete outcome metrics are desirable but might not be the most applicable ones.
- Information sharing agreements are necessary.
- Much data resides in the public system, so the public system will probably bear the costs (and benefits) associated with aligning its use for VBP.
- Health Canada has the evidence on safety and the scale to measure data.

Governance

- A proper governance structure requires stable management and transition.
- Governance should be durable, adaptable, and sufficiently autonomous—i.e., having the ability to defend and report.
- The government needs to establish capacity and expertise in VBP.
- Consider a two-committee governance structure with an oversight committee of all stakeholders and a clinical committee with an industry liaison.
- High-level legislation and institutional memory (e.g., through the creation of a crown corporation or an executive officer) is required to provide continuity and predictability, particularly from a funding perspective. Legislative tools should be used to ensure that the returns on investment on both sides are reinvested back into the system.
- Need a “front door” to inform companies of the VBP process, where they need to go, and what they need to execute.

Lessons and Conclusion

The roundtables and case studies reveal that value-based procurement of innovative medicines is a promising model, but implementation and success depend on a range of factors. Fortunately, experience to date has uncovered some of the steps that stakeholders can take to improve their chances of reaching agreements and improving health outcomes for patients. Four general lessons emerge.

1. **Focus on, and tie incentives to, patient health outcomes.**

   The rationale for value-based procurement is to improve patient outcomes while maintaining the financial sustainability of health systems. This is best achieved by maintaining a clear focus on the patients, and on a full suite of services that could address the conditions that are the subjects of various agreements. Subsequently tying incentives for pharmaceutical companies and health providers to those outcomes ensures that the core rationale remains central and guides how initiatives are designed, implemented and managed.

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4 Gerecke, Clawson, and Verboven, *Procurement*; Stanley, Keckley, and Snyder, *Value-Based Pricing for Pharmaceuticals*. 
2. Develop transparency and trust among stakeholders.

Be open, honest, and direct about the expectations related to an agreement, as well as what the possible benefits are for other parties involved. Transparency about interests can help to build trust and ensure that agreements provide mutual benefits. Since value-based procurement is such a new model and it is unlikely that all issues can be settled in advance, transparency, trust and communication will be essential to implementing, benefiting from, and learning about these new models.

3. Select measures of success, metrics, and data that make sense for the initiative.

The success of the initiatives—for patients, pharmaceutical companies, and the health care system—will depend on which measures and metrics are selected, and how they are linked to the overall aims of the programs. Stakeholders will want to select metrics that accurately track health improvements that can be attributed to the initiatives, but should avoid metrics and data that require major new systems and that don’t provide results in a timely way to assess progress. As several interviewees suggested, organizations pursuing new arrangements should use existing data whenever possible, thereby avoiding the complexity and cost of developing systems to collect and analyze new data or measures.

4. Have clear leaders and champions for reaching agreements and managing initiatives.

Value-based procurement is new, unfamiliar, and potentially disruptive to established attitudes and behaviours. As such, success in reaching agreements depends on one or more high-level champions who are willing to provoke change within their organizations. Once agreements are signed and programs initiated, it is helpful to have leaders and managers clearly identified to keep initiatives on track, and to address issues as they arise.

The five case studies and roundtables provide insights and direction to other organizations in Canada and elsewhere that may be eager to explore and adopt value-based procurement arrangements in their own jurisdictions. The initiatives are still relatively new and concrete results are available in only a limited number of cases. Nevertheless, there is sufficient information to suggest that pilot projects are worth pursuing and, it is hoped, lessons from these cases can be applied to help new initiatives succeed. As with any new model, however, it is incumbent upon the stakeholders to maintain awareness of their own contexts and adapt to circumstances as they arise.

The challenge is to articulate value-based procurement as one of the vital solutions to the cost and sustainability problem of the health care system in Canada, and to push forward in the absence of clear support—that is, when the benefits are not immediately apparent. Stakeholders need to address this challenge by becoming ambassadors of value-based procurement, encouraging others to overcome these obstacles, and creating a body of evidence that will show whether value-based procurement is the appropriate solution.
Appendix A

Executive Roundtable Agenda

VALUE-BASED PRICING AND PROCUREMENT OF INNOVATIVE MEDICINES

Roundtable Agenda
June 6, 2017, Toronto, ON

Accommodation and Meeting Location:
Marriott Toronto Bloor Yorkville Hotel
90 Bloor St. E, Toronto, ON, M4W 1A7, 416-961-8000
Meeting Room – Hanlon/MacBride Room – H4
Lunch Room – Summerhill Room – H1

Objectives:
• Learn about ongoing value-based pricing and procurement projects in Canada and international jurisdictions.
• Discuss the enablers and success factors for implementing value-based projects.
• Explore international and national practices in understanding value.
• Share insights on how to advance health care innovation through value-based procurement.
• Gain new insights and network with peers to share new approaches, and exchange ideas.
Schedule—June 6, 2017

Meeting Location:
Marriott Toronto Bloor Yorkville, 90 Bloor St. E, Toronto, ON, M4W 1A7

Hanlon/MacBride Room

8:00 a.m.  Networking Breakfast – Marriott Toronto
           Bloor Yorkville - Hanlon/MacBride Room –
           H4 – 4th Floor

8:30 a.m.  Opening Remarks and Introductions
           Paul Preston, Director, Science, Technology and
           Innovation Policy
           The Conference Board of Canada

8:45 a.m.  Welcoming Remarks
           Pamela Fralick, President,
           Innovative Medicines Canada

9:00 a.m.  Keynote Speaker
           Case Study #1: Cancer Drug in Spain and Driving Value-Based
           Procurement
           Antoni Gilabert-Perramon, Director of Pharmacy and Medicines
           Catalan Health and Social Care Consortium (CSC)

9:45 a.m.  Case Examples of Value-Based Procurement
           Case Study #2: Heart Failure Drug “Entresto” in the U.S.
           Lison Prevost, Vice-President, Health Policy & Patient Access
           Novartis

           Case Study #3: Osteoporosis Drug in Scotland
           Kim Furlong, Director, Federal Government Affairs and Policy
           Amgen Canada

           Case Study #4: Diabetes Drug in the U.S.
           David Hartenbaum, Executive Director, PMB and National
           Accounts
           Merck USA
Case Study #5: Hepatitis C Drug and Program Procurement in P.E.I.

Dale Yakutchik, Provincial Affairs Manager, Atlantic Canada
AbbVie Corporation

10:45 a.m. Networking Break

11:00 a.m. Facilitated Roundtable #1: Identifying Major Barriers and What’s Needed to Address Them

Moderators:
Paul Preston, Director, Science, Technology and Innovation Policy
The Conference Board of Canada
Darren Gretsch, Research Associate
The Conference Board of Canada

Chairs: Each of the three groups will nominate a chairperson.

- Attendees will be broken into three groups.
- They will work through each of the questions outlined below.
- A chair for each group will be nominated to record the group’s findings and report those to the full group.

Topic A: What are the major barriers and opportunities in Canada to adopting value-based procurement approaches for new and effective medicines?

Topic B: What do you need to help address each of those identified barriers and to help leverage the opportunities?

Summerhill Room
12:15 p.m. Networking Lunch – Marriott Toronto Bloor Yorkville – Summerhill room – H1 – 1st Floor – Main Conference Area

Hanlon/MacBride Room
1:15 p.m. Facilitated Roundtable #2: Frameworks, Management Systems, and Measuring Outcomes – Marriott Toronto Bloor Yorkville - Hanlon/MacBride Room – H4 – 4th Floor

Moderators:
Paul Preston, Director, Science, Technology and Innovation Policy
The Conference Board of Canada
Darren Gretsch, Research Associate

The Conference Board of Canada

Approach:

- Attendees will be broken into three groups.
- They will work through each of the questions outlined below.
- A chair for each group will be nominated to record the group’s findings and report those to the full group.

Topic A: What frameworks and management systems/processes need to be in place to ensure you can effectively leverage value-based procurement approaches within your jurisdictions? (e.g. Provincial Agreements, MOUs, information management systems to measure outcomes, etc.).

Topic B: What pre-established clauses/terms need to be in place to deal with outcome and/or evidence limitations, premature patient removal from the value-based procurement steam, and other unforeseen circumstances that limit the efficacy of data collected?

3:45 p.m.  Review of the Day and Overview of Next Steps in the Project

Paul Preston, Director, Science, Technology and Innovation Policy

The Conference Board of Canada

4:00 p.m.  Adjournment
Appendix B

Bibliography


Appendix C

Participant List

AbbVie Corporation
Adjuvantz
Alberta Health
Amgen Canada Inc.
Baycrest Centre for Geriatric Care
British Columbia Ministry of Health
C.D. Howe Institute
Canadian Medical Association
Cancer Care Ontario
Catalan Health and Social Care Consortium (CSC)
GE Healthcare Canada
Innovative Medicines Canada
Janssen Inc.
McKesson Canada
Medbuy Corporation
Merck
Merck Canada Inc.
Microsoft Canada Inc.
Montreal Economic Institute
Novartis Pharmaceuticals Canada Inc.
Ontario Centres of Excellence
Ontario Ministry of Health and Long-Term Care
Pivot
Saskatchewan Ministry of Health
The Conference Board of Canada