

CHALLENGES OF GROWTH: GERMANY AND SWITZERLAND



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In 2005, worldwide sales of pharmaceutical products recorded their lowest growth this decade. IMS Health's Graham Lewis focuses on Germany and Switzerland and reviews the emerging trends that are shaping the healthcare market in these countries.

FACTORS AFFECTING PHARMA SALES

- Cost-containment challenges
- Regulatory pressures
- Poor growth of new products

For many pharmaceutical manufacturers 2005 was a year of transition as they focused on responding to cost-containment challenges, regulatory setbacks and relatively poor growth from new or recently launched products. The result was a rise in global sales at ex-manufacturer prices of a modest 7 per cent – the lowest recorded growth since the beginning of the decade, and almost three percentage points below the 9.8 per cent CAGR for the period 2000–05 (see Figure 1).

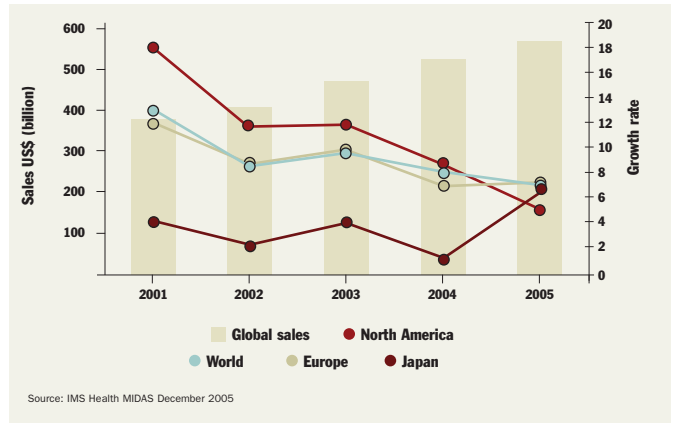
Future performance will be fuelled by the swelling underlying demand driven by ageing populations and successful innovation in areas of high unmet need. Generics will continue to move centre stage as patients bear a higher proportion of their healthcare costs while payers increase their efforts to restrict further growth in healthcare expenditures. On balance, global growth is expected to stabilise in the 5 to 8 per cent range.

Emerging markets blossom

The slowdown in overall growth in 2005 saw further rebalancing of global markets, with the US contribution to growth declining to 34 per cent, from a peak of 60 per cent in 2002, and the rising importance of emerging countries. China, Korea, Mexico, Russia and Turkey all experienced double-digit growth, outpacing global performance and signalling important shifts in the direction of healthcare over the next ten to 20 years. It is in these developing markets that the strongest growth is forecast through 2010, with demand for pharmaceuticals driven by rising levels of prosperity, higher government spending and efforts to broaden healthcare coverage.

From the industry's perspective, the declining dominance of the USA (Figure 2) will call for a greater focus on increasing access

Figure 1. The global pharmaceutical market has slowed down significantly



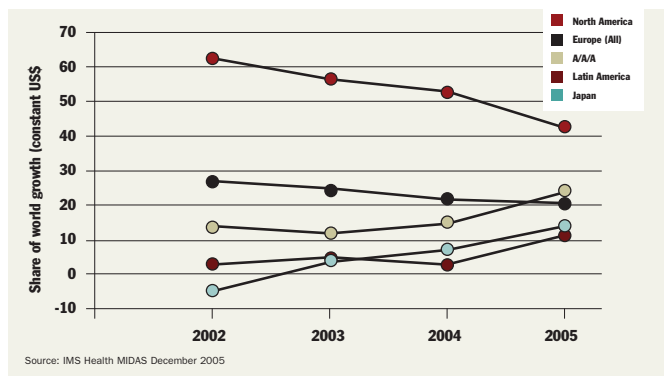
to these markets (currently limited by developed market pricing policies) and a willingness to adapt portfolios to market need.

Focus on Germany and Switzerland

The top five European countries (the UK, France, Germany, Italy and Spain) grew collectively at 5 per cent in 2005. Similar mid single-digit growth can be expected for the EU ahead (Figure 3), as payers step up their cost containment efforts to curb further rises in total healthcare spending. Pharmaceutical sales in this region will achieve almost \$200bn in 2010.

The German pharmaceutical market grew by 8.5 per cent in 2005 in ex-manufacturer sales, with the retail market showing the strongest growth at 9 per cent, largely driven by the prescription

Figure 2. North America's contribution to growth has declined



market, where sales growth approached 10 per cent. The hospital sector grew by 5.8 per cent. However, it is important to view this apparently robust performance within the context of 2004, a year distorted by particularly draconian government reforms. A more realistic measurement against 2003 reveals increasing value growth, but declining growth in volume as the country's Disease Management Programme lifted volume and value in some areas while new practice fees, higher co-pays and some reimbursement exclusions tempered doctor visits and thus prescribing.

Nevertheless, the rise in pharmaceutical spend in Germany in 2005 far exceeded the Statutory Health Insurance (SHI) target, driven by doctors trading up to higher-priced drugs, coupled with a reduction in compulsory SHI manufacturer discounts on non-reference priced drugs, an increase in co-payment exemptions, and the shift of hospital-based treatment to the ambulatory sector.

Among prescription drugs, new products introduced in Germany since 2000 have enjoyed above-average sales. Those achieving double-digit growth in 2005 included oral antidiabetics, human insulins and analogues, angiotensin-2 inhibitors, HIV antivirals, anti-epileptics, antipsychotics and drugs for Alzheimer's disease – a clear indication that physicians will prescribe innovative and generally more expensive products if approved by the authorities and if there is evidence to demonstrate their value.

Of particular note in Germany is an increasing pricing division in the burgeoning oncology market. In this high-priced sector are new cytotoxic drugs, such as Alimta, and targeted therapies, such as Avastin, Tarceva and Herceptin – all of which achieved fast market uptake and high growth rates after launch. In the low-priced sector, generic cytotoxics have experienced significant price decreases following fierce price wars between generics companies. In this context it can be argued that payers are seeking cost savings where they can to fund innovative drugs. As most treatment regimens involve combinations, the total cost of treatment is an important consideration, so encouraging competition among generics companies helps to mitigate the higher costs of new products.

Switzerland experienced retail sales growth of only 2.7 per

cent in 2005, driven by increasing generics share capture and a reduction in overall consumption levels. Sales in the hospital sector grew by 4.5 per cent. The continued slowdown in pharmaceutical consumption in this market has been attributed by the Swiss Association of Importers of Proprietary Medicines to price reductions for drugs coming off patent. However, prices are still regarded by payers as being too high and continue to be the target of cost-containment initiatives in this market.

Curbing costs

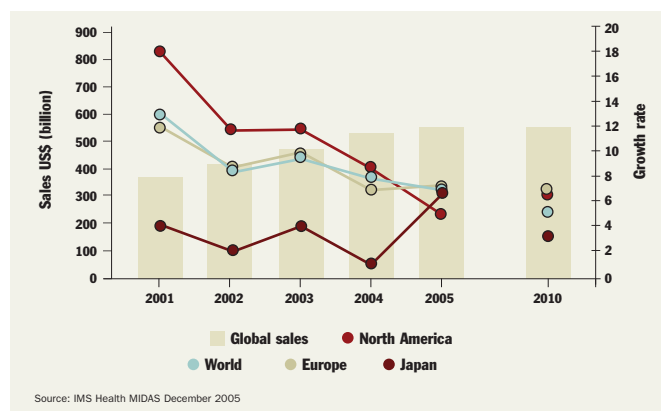
Germany and Switzerland are both high spenders on healthcare, with expenditure currently representing around 11 per cent of GDP in these markets. Balancing rising demand for healthcare services with limited resources and funds is a key issue for their governments. Cost-containment initiatives – particularly those targeting pharmaceutical spending – are high on the agenda. At the same time, there is increasing concern about the declining population in Germany despite limited immigration.

In Germany, the rise in SHI drug spending has sharpened the focus on pharma expenditure. The new coalition government has been quick to try and reverse this upturn by introducing a new medicines bill, which has targeted savings of €1bn in 2006 and €1.3bn each in 2007 and 2008. Included in the bill are prescribing budgets with provision for a bonus-malus scheme, whereby budgets would be based on daily therapy costs and doctors required to pay back a percentage of any overspend.

Therapeutic reference pricing is a key platform for drug cost-containment efforts in Germany, including the controversial scheme of 'jumbo' reference groups covering patent-protected brands as well as generics. A two-year price moratorium has already been announced to address the escalating drugs bill, and this is set to remain in place until April 2007. Other measures that are likely to become more widespread include discount bands, further rebates for generics, daily cost limitations and price cuts aimed particularly at older drugs.

Switzerland operates a range of relatively sophisticated cost-containment mechanisms and is also pursuing reform of its

Figure 3. Global and European pharmaceutical market growth expected to stabilise at 5-9% until 2010



health insurance system. Reimbursed pharmaceuticals, which account for over 20 per cent of health insurers' costs, are the main target for savings in this market.

Comparative price studies conducted by Santésuisse, the Swiss association of health insurers, and the price supervision division of the economic affairs department, have found drug prices in Switzerland to be higher than those in other European markets such as Austria, Belgium, France, Germany and Italy, triggering pressure from insurers for tighter controls. A pricing agreement between the Aufgaben des Bundesamtes für Gesundheit/Swiss Federal Office of Public Health and the pharmaceutical industry was introduced in late 2005 to reduce drug prices and introduce more frequent reviews in the system. This targets savings of CHF250m on the drug bill in 2006. Price cuts averaging 8 per cent of the value of reimbursed drugs are scheduled this year, which should push Swiss prices nearer to European average prices.

Countering the overall trend, the generics sector is growing strongly in both Germany and Switzerland.

Other proposals being discussed include a new hospital funding mechanism and the creation of a single health insurance fund, although debate on the latter is unlikely to be complete before 2007. The planned new system for funding hospital services in Switzerland, a key reform issue, is based on the German hospital tariffs system (DRG), with proposed introduction in 2008. This is designed to create transparency in hospital costs and increase the pressure on more expensive institutions to introduce cost efficiencies. Germany's DRG system, which is due to be fully adopted at a national level by 2009, is already contributing to shorter hospital stays and faster patient turnover, with a concomitant increase in pharmaceutical consumption.

Reimbursement restrictions

In a further bid to contain costs, restrictions on reimbursement are being stepped up, with successful reimbursement increasingly dependent on cost-effectiveness data. In Germany, future decisions by the Federal Healthcare Committee, responsible for deciding which treatments should be reimbursed and for formulating disease management guidelines, will be influenced by the recently established Institute for Quality and Economic Efficiency (IQWiG). Among the first products on the agenda of this review body are short-acting insulin analogues for Type 2 diabetes. The health technology criteria employed by IQWiG will largely follow those used by the UK's National Institute for Health and Clinical Excellence (NICE).

Pharmacoeconomic data is not yet mandatory for product dossiers in Switzerland, but is increasingly coming under the regulatory spotlight. Robust data supporting health economic benefits is now essential for products entering a new therapeutic category.

Tough market conditions ahead

New government measures will continue to make the German market unpredictable, but generally unfavourable for top-line growth. Deceleration of the market will see sales rising at a CAGR of only 3–5 per cent, reflecting the growing raft of cost-saving measures. This lacklustre performance will find Germany displaced by France as the EU's biggest national market by 2010. At the same time, the UK will move ahead of Italy as the region's third-largest market.

In Switzerland, increasing rates of generic substitution, price cuts, price reviews, growing pressure on prescribers and increased co-payments for branded drugs will toughen the environment for pharma going forward. With no price increases likely over the next few years, growth in this market will be modest at between 3 and 5 per cent per annum, mainly driven by innovative products and expanded treatment in major areas of significant unmet needs in areas such as cancer.

Generics buck the trend

Countering the overall market trend, the generics sector is growing strongly in both Germany and Switzerland. Generics are already well entrenched in the German market and grew more than 12 per cent in the retail sector in 2005 to achieve an 18 per cent share in value, the largest in Europe and second only to the USA. More than 50 per cent of prescriptions are now written generically in Germany buoyed by physician incentives and mandatory pharmacy substitution.

Although generics prices are likely to be squeezed going forward, the sector is on course to outpace overall market growth by several percentage points over the next few years, bolstered by patent expiries of leading brands and pressure on physicians from the sick funds. The shift towards managed care, brought about by the healthcare reform programme, will also benefit this sector. Meanwhile, the next five years will see the movement of generics companies into higher value hospital products such as oncology, nephrology and, ultimately, biotechnology products.

In Switzerland, where physicians have remained largely free from direct controls on prescribing behaviour, branded and unbranded generics account for only 7 per cent of pharmaceutical sales in value terms. However, prescribing choices are being influenced by payer efforts to bring down the cost of the pharmaceutical bill. The threat of financial penalties for excessive prescribing will heighten cost awareness among doctors, prompting switches to generics in high value therapeutic classes. Coupled with lower generics prices and proactive patient awareness campaigns by insurers, generic drug consumption is expected to increase significantly, driving penetration to a level similar to those seen in Germany and the UK. The Swiss generics sector will also become increasingly competitive, as new players are attracted to the market. **END**

FURTHER READING

Interested in the Swiss pharma market? Turn to our Regional Focus on p23.