

## Improving Gross-to-Net by Optimizing Co-Pay Programs

Between ever rising contract rebate rates and co-pay program expenses, the squeeze on gross-to-net for pharmaceutical brands continues to grow each year. Since reducing rebate rates is often not plausible, manufacturers are now looking to shift gross-to-net by examining co-pay program expenses more closely. While data from your program vendors can help you monitor costs, this data does not always give you the complete gross-to-net picture necessary to best support decision making. Often this type of financial view must be created internally, however this can be difficult.

The biggest challenge is calculating how much of your brands incremental volume is directly attributable to the program. However, to assess whether the incremental gross sales are still covering the full program costs, we also need to calculate incremental contract rebates, COGS, A&P, and other similar expenses generated by this volume. Understanding how complex and time consuming this can be, Prescriptive Path has developed a turnkey Co-Pay Offer Simulator that streamlines all these calculations into an intuitive and customizable model.

For example, let's assume our fictitious brand AFFORDAPRIL has a current co-pay offer of Patient Pay \$10, with a max cap of \$600 (\$10/\$600). Table 1 below allows us to visualize the ROI for multiple Patient Pay and Max Cap combinations simultaneously. By selecting our current offer of \$10/\$600, we see it is driving \$43.1M in gross sales. However, once we adjust for our incremental rebates, COGS, and A&P, we see net sales is \$0.0M, operating profit is **-\$3.9M**, and the ROI is negative (Red).

**Table 1:** ROI heat map makes it easier to quickly identify ways to improve gross-to-net



The \$10/\$600 offer design makes sense if our contract rebate rate is only 20%, however since our rebate rate has grown to 40%, this offer now has a negative gross-to-net. Simply lowering our offers max cap from \$600 to \$350 could drive positive net sales, however the simulator also shows we could further increase net sales and ROI by also adjusting our Patient Pay amount from the current \$10 to \$15.

To help us decide, let's compare the 2 scenarios on a P&L to get a clearer picture of the financials. Table 2 below provides a side-by-side view of the 2 offer designs:

- Scenario #1: current offer of \$10/\$600
- Scenario #2: new proposed offer of \$15/\$350.

As we see in this table, the proposed offer is likely to reduce incremental gross sales attributable to the program by **-\$10.7M**. However, by driving a \$5.8M increase in net sales (from \$0.0M to \$5.8M), this new offer now has a positive gross-to-net and has increased operating profit by \$6.6M with a +10.3% ROI.

**Table 2:** Side-by-side view makes it easier to compare financials across multiple offer designs

	SCENARIO #1		SCENARIO #2		DIFFERENCE	
	COVERED	NOT COVERED	COVERED	NOT COVERED	(\$)	(%)
PATIENT PAY AMOUNT:	\$10	\$10	\$15	\$15		
MAX CAP AMOUNT:	\$600	\$600	\$350	\$350		
<b>Gross Sales (Incremental):</b>	<b>\$43.1M</b>		<b>\$32.4M</b>		<b>(\$10.7M)</b>	<b>-24.8%</b>
<b>Net Sales:</b>	<b>\$0.0M</b>		<b>\$5.8M</b>		<b>\$5.8M</b>	<b>39164.2%</b>
<b>ROI:</b>	<b>-8.9%</b>		<b>10.3%</b>			
Gross Sales (Incremental)	\$43.1M		\$32.4M		(\$10.7M)	-24.8%
Rebates						
Incremental Contract Rebates	\$11.9M		\$9.7M		(\$2.2M)	-18.1%
Incremental Coupon Rebates	\$31.1M		\$16.8M		(\$14.3M)	-45.9%
Total Incremental Rebates	\$43.0M		\$26.6M		(\$16.5M)	-38.2%
Net Sales/Turnover	\$0.0M		\$5.8M		\$5.8M	39164.2%
Total COGS	\$3.4M		\$2.6M		(\$0.8M)	-24.1%
Gross Profit	(\$3.4M)		\$3.2M		\$6.6M	196.1%
Total A&P:	\$0.5M		\$0.5M		(\$0.1M)	-11.2%
Operating Profit	(\$3.9M)		\$2.8M		\$6.6M	171.8%
ROI	-8.9%		10.3%			
PERFORMANCE STATS						
Paid Claims	255,120		226,667		-28,453	-11.2%
Saved Rx Total	86,980		65,411		-21,569	-24.8%
Avg Cost Per Claim	\$122		\$74		(\$48)	-39.1%
Total Rebate Rate	100.0%		82.1%			
NBRx Abd % (Baseline)	41.2%		41.2%			
NBRx Abd % (New)	13.4%		20.3%			
% First Fills	89.8%		67.5%			

If needed, we could identify even more opportunities to control costs by varying our offer design based on coverage. To simulate what would happen if we reduced the max cap when our product is not covered, we could simply select a new Max Cap Amount (e.g., \$100) for 'Not Covered' and assess the impact.

A comprehensive P&L analysis of your co-pay programs can help improve gross-to-net but can also be complicated to develop. If you would like to learn more about the Prescriptive Path Co-Pay Program Simulator, or how Prescriptive Path, LLC helps pharmaceutical manufacturers assess, manage, and optimize their co-pay programs, please email me at [Doug@PrescriptivePath.com](mailto:Doug@PrescriptivePath.com), or go to [www.PrescriptivePath.com](http://www.PrescriptivePath.com).