

Pharmaceutical Innovation: Driver of Long-Term Value

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Abstracts

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The Current Landscape

The commercial success of the pharmaceutical industry depends on innovation to a much greater extent than any other industry. The long-term success of the sector is highly dependent on maintaining a steady rate of new product launches, to replace older products with expired patents. In order to obtain marketing approval, drugmakers must demonstrate that the novel medicine has superior clinical benefits and lower risks than existing standard drugs. This not only leads to medicinal advancements with ever-more sophisticated treatments, but also to higher operating and development costs.

Large multinational drugmakers need to work hard to maintain the trust of all their stakeholders. This includes ensuring good returns for investors, providing medicines to meet today's health challenges, and working with health authorities and governments to improve or maintain market access. The pharmaceutical industry faces great challenges as its different stakeholders have a variety of (sometimes conflicting) interests. As a result, the increasing pressure to launch new drugs at reduced costs – while making a profit – has created a business model that does not promote scientific innovation at sufficient rates and risks the long-term sustainability of the pharmaceutical industry.

In this report, BMI outlines the current challenges to innovation in the pharmaceutical industry:

the deteriorating environment in core pharmaceutical markets;

the limitations of emerging markets;

strategies that promote discovery and development of innovative drugs;

the industry initiatives to counteract the decline in pharmaceutical innovation;

and the implications of regulatory, pricing, reimbursement and market access barriers to launching new drugs .

A Deteriorating Environment

In the wake of the recent global recession, governments in developed pharmaceutical markets are increasing efforts to implement more cost-effective spending regimes in order to reduce the current levels of fiscal deficit. Such cost-cutting measures across the public sector have heightened the price sensitivity of healthcare delivery systems. As a result, the next five years will see an accelerated transformation in the pharmaceutical industry.

Historically, the demand for healthcare has been relatively independent of trends in the economy – people continue to get ill and will take medicines despite drops in national wealth. However, note the word ‘relatively’ – BMI believes the inclusion of the healthcare sector in the cost-containment plans of numerous governments across developed markets will create an increasingly difficult business environment for drugmakers.

Price cuts on patented medicines will directly affect companies’ revenue-earning opportunities, as illustrated by the effects of the latest European austerity pressures on drugmakers’ financial results. In the US, with lower consumer confidence and high levels of unemployment, there has been a decline in the number of prescriptions dispensed, with negative growth registered in late 2007 – for the first time in the last decade.

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