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# PME
PHARMACEUTICAL MARKET EUROPE

A PMGROUP Publication

April 2013 | ISSN 1740-5084

Digital Edition available now at:
www.pmlive.com/pmedigital

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# EMERGING MODELS

The age of the single, monolithic pharma company appears to be over and emerging in its place is a complex network of interconnected and diversified businesses

**England: As changes reshape the NHS, how should pharma engage with the new CCGs?**

Masterclass: Mobile health has arrived, but should you be developing an app?

**Innovation: Is the industry finally beginning to embrace adaptive trial design?**

## INTERVIEW

Interview: Peter Meeus, managing director of Novo Nordisk UK, on how education and new partnerships are helping tackle the escalating diabetes crisis

# ROHIT KHANNA
# HEALTHCARE FREAKONOMICS

**Understanding the economics of the healthcare market enables us to limit the impact of the system's inherent failures**

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**I recently sat through a fascinating series of lectures at The London School of Economics & Political Science centred on the reasons why the healthcare market fails.**

In the theoretical world, health economists tell us that the market for healthcare should act like the market for any other set of goods. There is demand, there is supply, consumers have preferences and choices and so on and so forth. And while the elements just mentioned do exist within the healthcare market, the 'commodity' we call healthcare still acts differently from commodities of other markets and exhibits a high degree of failure relative to the markets for other goods.

As an industry and as marketers, it is crucial for us to understand the broad strokes of what contributes to this failure so that we can devise strategies, where possible, to overcome them.

## Inherent challenges

There are a few fundamental reasons for this failure according to the health economist's view.

Firstly, healthcare as a commodity exhibits high levels of 'stochasticity' or uncertainty. No two patients are alike, they do not exhibit the same comorbidities and they do not respond to pharmacologic or mechanical intervention in the same way.

Because of this, suppliers of healthcare (doctors, hospitals, governments, etc.) are unable to assure the 'demanders' of healthcare (patients) of any certainty of an outcome. No matter how hard suppliers try, there is no rationale to explain why one patient may get up off the table and walk away and another may not.

> ***"The 'commodity' we call healthcare still acts differently to commodities of other markets"***

As an industry, there is no role that we can play to mitigate this aspect of market failure; producing better drugs and/or instrumentation does not yield lower levels of stochasticity. There are simply too many factors at play that determine a patient's health outcomes independent of the products that we provide.

Another reason why the healthcare market fails has to do with the concept of 'indivisibility of costs'. Effectively, as a patient's disease state becomes more and more complex or if the patient presents with an initial condition that is rife with comorbidities (think of the patient who presents with chest pain but is also diabetic, has a BMI>40, smokes and is hypertensive or has high cholesterol), there is no easy way to assign costs to the system for this patient.

A broken arm? Flu? These are relatively easy examples for which we can divide costs. The patient visits the ER or the primary care physician, gets treatment and goes home. But as we shuttle patients, like the one described earlier, through the system from one specialist to another and order test after test, the costs become increasingly difficult to allocate.

Is the chest pain a result of the hypertension or high cholesterol? Is it a function of the patient's obesity? From an industry perspective, the indivisibility of costs is a 'system' failure and not a manufacturer-side failure. In other words, it really does not matter how low we price our drugs and devices (up to a point), the notion of cost indivisibility is driven by the complexity of the disease state and not anything that we, as industry, do.

The third basic reason that the healthcare market fails is due to informational asymmetry. The health economist's view is that there will always be an asymmetrical amount of information between suppliers and demanders of healthcare. It is also a basic principle of health economics that a consumer is the best judge of his/her own welfare. But does that hold true for healthcare? Are not doctors, by virtue of their training, the best judges of a patient's welfare? They know more about treatment efficacy, timing of treatment and likelihood of outcomes.

But let me be clear: the fact that the patient does not possess this information does not lead to market failure per se but, rather, it is the patient's inability to acquire this information that causes informational asymmetry and, hence, leads to market failure.

## Information pathways

So, as an industry what can we do to mediate and impact this event? Clearly, we are not going to train patients en masse to become doctors. And clearly, there are many patients who do not want to close the informational asymmetry gap—they are quite content to have the supplier of their healthcare make decisions for them. But for the rest, it is necessary to provide pathways to information acquisition and to continue to push patient information, education and support/counselling on disease state as much as possible.

In an era when regulators are calling for more strict limitations on what and how our industry can communicate to patients, it is controversial to take an opposing view. But that's what is required. It does not mean the communications that we craft be irresponsible. It does mean, however, that we continue as an industry to understand that closing the information gap is paramount to doing our small part in impacting one of the variables that can lead to healthcare market failure.

**Rohit Khanna** is the managing director of In Vivo, a healthcare communications, advertising & strategy agency. He can be reached at: rohit@invivoadvertising.com