Report: Drug industry wastes billions
by Tom Kirchofer

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Boston Herald

Prescription drug prices are high because pharmaceutical companies waste more than $27 billion a year on unneeded research, marketing and administrative spending, Boston University researchers are set to argue today.

Alan Sager and Deborah Socolar, of BU's School of Public Health, will tell a meeting of the American Public Health Association that any revenue lost by cutting prices could be made up through publicly subsidized purchases of medications for patients who can't afford even the newly discounted costs.

The BU report floats the notion of having drug companies get out of the marketing business altogether and letting the government keep doctors informed about the specifications of new medicines.

"The drug makers say they're interested in research, but it turns out they spend three times as much on marketing, advertising and administration," said Sager, who claims a study of six drug makers last year found they spent 11 percent of their money on R&D and 32 percent on marketing and administration.

Sager also argues that about $10.6 billion of the research done is on research into developing drugs similar to those already on the market.

Jeff Trewhitt, a spokesman for the Pharmaceutical Research and Manufacturers of America, disputed Sager's R&D figures.

"Industrywide, the year 2000 is going to be the fourth in a row in which between 20 and 21 percent of sales will be spent on research and development," he said.

PHRMA also contends that in 1999, industry R&D costs totaled $24 billion, compared to $13.9 billion for promotions, much of which was spent on free samples.

Trewhitt also noted that drug costs reflect the millions of dollars spent researching prospective medications that never make it to market. He also says Sager's notion of low-priced, high-volume drugs is "problematic" because companies that take big risks investing in pharmaceutical research deserve big rewards.

"For every five potential medicines entering human clinical testing, only one is approved and goes to market," he said. "Sometimes the loss for a single research project can be millions of dollars."
ONE WORD: VOLUME

At an American Public Health Association conference in Boston yesterday, Alan Sager, a professor of health services at the Boston University School of Public Health, argued that drug firms could drop prices for prescription drugs by as much as 40% and might still not lose money by increasing production "to fill unmet demands," the AP/Boston Globe reports. "We have a choice," Sager said, adding, "People can suffer and die. We can spend more. Or we can get all the medications we need for the $140 billion we are already spending on prescriptions." PhRMA spokesperson Jeff Trewhitt called the plan "risky," contending that the high costs of medicine results largely from the millions of dollars spent to research and develop new drugs. Citing the importance of "volume," Sager said that by boosting production, drugmakers could achieve the same profits while providing medications to all Americans, including the 25% without drug coverage. "There will be a huge rise in demand when you cut prices," he said, adding that pharmaceutical companies could save another $27 billion each year by cutting marketing, advertising, and "copycat research" costs. According to Trewhitt, however, Sager's plan offered no guarantee of success. "Biomedical research has a very high failure rate," he said, adding, "You never know when you start a new research project how much it is going to cost in research and development." He also pointed out that drug companies spend an average of $500 million to develop a single new drug and the cost of research has escalated from $2 billion in 1980 to $26.5 billion this year. In addition, he argued that the plan would set a "dangerous precedent," concluding, "The last thing we need is a patchwork quilt of differing and conflicting state laws" (AP/Boston Globe, 11/14).
Report says drug firms could cut prices
Boston Globe
By Associated Press, 11/14/2000

Drug makers could drop prices for prescription drugs by as much as 40 percent, and might still not lose money if they increased production to fill unmet demands, according to a report released yesterday at a Boston conference.

"We have a choice," said Alan Sager, a professor of health services at the Boston University School of Public Health. "People can suffer and die. We can spend more. Or we can get all the medications we need for the $140 billion we are already spending on prescriptions."

A drug company spokesman, Jeff Trehwitt of the Pharmaceutical Research and Manufacturers of America, called the plan risky. He said part of the reason prices are so high is the millions spent to research and develop new drugs.

Sager presented his report yesterday at a meeting of the American Public Health Association at the Hynes Convention Center.

The plan's key is volume.

By ramping up production, drug makers could make the same profits while providing medications to all Americans who need them, even the 25 percent without drug coverage, Sager said.

"There will be a huge rise in demand when you cut prices," he said.

The drug makers could save another $27 billion each year by trimming marketing, advertising, and "copycat research," data designed to create new drugs that are only slightly different from existing popular drugs.

There is no guarantee that Sager's plan would work, said Trehwitt.

"Biomedical research has a very high failure rate," Trehwitt said. "You never know when you start a new research project how much it is going to cost in research and development."

Companies spend an average of $500 million to develop a single new drug, Trehwitt said. The cost of research, he added, has escalated from $2 billion in 1980 to $26.5 billion in 2000.

Trehwitt also said the plan would be a dangerous precedent.
"The last thing we need is a patchwork quilt of differing and conflicting state laws," he said.

A small group of protesters gathered outside the Hynes Convention Center yesterday to call for lower drug prices.

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Increasing production volume and eliminating production of copy-cat drugs would mean affordable prescription drugs and more research dollars, says Sager

John Softcheck

WASHINGTON FAX
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The solution to lowering drug prices for all Americans, while ensuring manufacturer profit and support for breakthrough research, will not be found in efforts focused solely on either increased spending or lowered drug prices, says Boston University School of Public Health researcher Alan Sager.

Sager, who has authored several related reports outlining the causes for increasing drug prices, discussed his own "peace treaty" to provide Americans with affordable drugs at a November 13 meeting of the American Public Health Association in Boston. Sager's presentation and accompanying reports highlight approaches that could make needed medications available to all Americans without substantially increasing spending—and that he claims would liberate over $27 billion for research into breakthrough medications.

In his presentation, Sager pointed out several factors, such as the number of American's lacking insurance (almost 1 in 4), U.S. income inequality, and rising costs as evidence of the core problem that medications are becoming increasingly unaffordable to Americans—despite the fact that the U.S. buys between one-fourth to one-third of the world's medications.

The cause, says Sager, is a lack of responsible commitment to affordable health care and fear that methods used by other nations can't be employed responsibly in the U.S. "We should be able to employ our purchasing power to get the lowest prices, not pay the highest," noted Sager. "The greater U.S. responsibility has largely been forced on us by...drug makers and...foreign nations in setting or negotiating lower prices."

Sager notes while drug makers first insisted U.S. prices were not higher, they now often acknowledge our prices are higher, but that high prices are necessary to finance research—a claim Sager dismisses as false. He points to patterns of wasteful spending within the industry, and draws attention to what he calls a "paralysis of public action" through "rhetoric and appeals to free market ideology."

"Where is the risk that justifies such high rewards?" asked Sager. "If you earn the highest profits of any industry year after year, that is like going gambling with $1,000 each year and returning with $1,300 or $1,400."

He argues profits on medications are much higher than published numbers disclose, because the published data are firm-wide and include non-prescription drug goods and services.

Further, Sager argues the appeal to a free-market is an appeal to an illusion. "There is no free market," he says. "Lacking a free market, we will continue to suffer growing pharmaceutical anarchy if government does not intervene."

As evidence, Sager offers the concentration of sales in just a few firms in most therapeutic classes, growing concentration due to industry mergers, and the suppression of competition through legislation extending patents and marketing of slightly reformulated products to reset the patent clock.

Sager also rejects drug makers claims that public action to cut prices or profits will result in crippling cutbacks to research, calling such tactics a "fog
of fear," he that much of the riskiest research is financed publicly through NIH and that "the drug makers' own policies are the real enemies of research."

Questioning drug makers' dedication to breakthrough research, Sager stated, "They are wasting some $27 billion annually on copy-cat research and on marketing and administration—dollars that could and should be devoted to breakthrough research.

Drug re-importation, and private management through PBMs, as well as other efforts to contain spending by limited use, are ineffective and fail to address the "main source of high U.S. drug prices—the prices charged by manufacturers at the factory door." Similarly, efforts to contain spending via limited use will only press drug makers to raise prices.

Other solutions, such as Vice President Gore's proposal to subsidize drugs under Medicare, or Governor Bush's suggestions to subsidize drugs through state charity programs and HMO's both are very costly. And both would yield substantial windfall profits to drug makers, because revenue would rise far faster than their costs.

Likewise, efforts to cut prices alone might work well for one state or one group of patients—such as those on Medicare, but Sager doubted whether such price cuts could be accomplished nationally because of the lost revenue suffered by drug makers.

Instead, Sager proposed his "peace treaty," which could be used at the state or federal level, maximizing the power of individual states or clusters of states with the buying power to win substantial price cuts.

Sager's treaty would require cutting prices to the Federal Supply Schedule level. A $35 billion initial reduction in drug makers' revenue would translate into a 42% overall average price cut, including existing discounts and rebates of around 8% or 9% overall, Sager explained. But drug manufacturers would immediately recoup most of that lost revenue through higher private market volume, and they could be guaranteed the remainder through publicly subsidized purchase of medications for patients who could not afford even the newly discounted prices.

While profits would be lower due to the increase in production, Sager's treaty would restore those profits by reimbursing five cents on every retail dollar to cover the higher cost of manufacturing, or a public cost of $1 billion to make $20 million worth of medications.

"Now their revenues and profits are back where they were—and there are no financial impediments to maintaining research—but all Americans are now getting all prescriptions filled, at a tiny additional cost," Sager observed.

Finally, Sager outlined a plan to free up over $27 billion annually for breakthrough drug research, through two basic reforms.

"Drug makers waste too much of their finite research dollars developing copy-cat drugs," noted Sager, providing estimates that some 40% of industry-financed research aims to develop "me-too" drugs. "That translates into $10.6 billion this year alone."

While he admitted that copy-cat drugs could offer some clinical benefit to patients and might promote lower prices through price competition, he countered that "it would be simpler and more direct to legislate lower prices and thereby save the $10.6 billion.

"Drug makers need to be rewarded with substantial profits for breakthrough drugs, and not rewarded for developing a copy-cat drug," he stated.

Sager further argued against the revenue spent on marketing and administration.
"Wouldn't it be better if they devoted 10% of their revenue to marketing and administration, and 30% to research, instead of the other way around?" he asked.

"Let's shut down drug marketing, and instead disseminate all data about drug efficacy, safety, costs, and indications through FDA," he said, arguing that this approach would encourage drug makers to focus resources on breakthrough research. Sager estimated the change would liberate an additional $16.7 billion for new research, which would bring the total for both reforms to $27.3 billion.

To view the supporting .pdf material for Sager's presentation, go to:
and
[http://dco2.bumc.bu.edu/lcmerr/UHealthreform.htm]

-- John T. Softcheck

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