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Press Release

Payers Faced with Decision – Endure Ballooning Costs or Reevaluate Management of Specialty Therapies

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In an otherwise bleak pharmaceutical landscape, specialty therapies have endured as industry darlings; continued market growth attracting manufacturer interest and investment. However, those left to pay for these therapies are significantly less enthusiastic about their growth.

As commercial health plans look for ways to confront rapidly growing costs within specialty markets, a new study finds that current payer management strategies have had only limited success in the specialty sector. Payers have come to the realization that sustainable specialty spending will only be possible through more proactive and aggressive category management.

Based on primary research with 102 managed care decision makers from commercial health plans in the U.S., The Zitter Group's Fall 2008 *Managed Care Injectables Index* – the twelfth in a series of semiannual studies - finds that despite growing payer concern and increased management focus on specialty categories, health plans have been largely unable to control specialty drug costs.

“There is a clear disconnect between the robust management aspirations payers have for specialty categories, and the only limited inroads that they have actually been able to make.” said Kirk McConnell, Manager of Syndicated Research at the Zitter Group, the lead author of the recent study. “Faced with specialty budgets that continue to grow nearly unimpeded, payers have to do a bit of a gut check. Organizations are trying to decide if it is time for them to roll up their sleeves and tackle categories that have historically been hands-off.”

To this point, payers have placed great hope on reimbursement reform to reduce overall utilization and biologics spend. However, it is becoming clear to payers that effective specialty management will require coordinated effort across all elements of an organization. Rather than considering ASP adoption as a panacea for specialty drug concerns, reimbursement reform must be considered part of a multi-pronged approach to ensuring that specialty therapies are used in the proper context by the appropriate patients.

“As payers finish successfully transitioning their easier markets to ASP pricing, greater effort will be required to further grow ASP adoption among more challenging market segments,” says Nicole Dautel, Associate Director at The Zitter Group. “I think we are approaching an era of ‘Post-

ASP' management in which payers are going to have to more actively manage access to and utilization of specialty therapies in addition to minimizing drug acquisition costs.”

The research findings included in The *Injectables Index* provide a comprehensive analysis of changes in specialty pharmacy management by commercial payers and future strategies for managing biologics and injectables. Key highlights from this most recent study include:

- There continues to be market transition to ASP pricing at the expense of decreasing payer reliance on AWP methodology, but the pace of new ASP adoption has slowed.
- There is a discrepancy between broad payer category management priorities and the specific specialty categories on which they focus management attention. Although payers want to more aggressively manage high cost categories, there are certain diseases, such as cancer, in which intense management focus will yield either a disproportionately small impact on category dynamics or negative consequences that outweigh the potential savings.
- The volume of office-based therapies distributed through specialty pharmacy will not significantly increase until payers drive physician reimbursement down past the point of provider financial viability or landscape dynamics change in such a way that payers have the negotiating leverage to mandate distribution channels.
- More than one third of payers believe there will be a tipping point at which time they will have to put a greater management focus on orphan drugs. Payers are becoming increasingly aware that the combination of formidable price tags and potential for expanded use might necessitate a reevaluation of management philosophy.
- Payers believe clinical inter-category agent differentiation to be in short supply. Over the past four editions of the *Injectables Index* there has been a steadily increasing gap between the majority share of payers that cite price differentiation among specialty therapies and the minority that report efficacy differences. While some specialty categories are more susceptible to commoditization than are others, manufacturers must be aware that payer perceptions in specialty markets are increasingly based on a therapy's economic, not clinical, profile.

About The Zitter Group

The Zitter Group (TZG) is the leading developer of strategic solutions for managed markets that secure, establish, and maintain essential links between brand goals and the economic needs of business decision-makers. Founded in 1989, TZG helps pharmaceutical, biotechnology, and medical device companies work more effectively within managed markets. TZG is the premier firm in the insurer segment because of its extensive experience, rich analytic capabilities, and commitment to the highest level of service. Visit www.zitter.com.