

An empirical study of market-based purchasing policies for generic pharmaceuticals in Sweden

In Sweden, the government funds an insurance programme covering 75–80% of the cost of prescription drugs for patients. Since 2002, in an attempt to contain costs, pharmacists have had to inform consumers whether less expensive substitute products are available. Only the cheapest available generic (chemically and medically identical) substitute or parallel imported product will be fully reimbursed.

The Swedish Medical Products Agency is responsible for setting prices of generic prescription pharmaceuticals and regulates delivery and payment in a highly transparent way. Monthly auctions are held for the nominal right to be the sole provider of each substance-strength-form-package size combination, and the nominal right is given to the lowest bidder.

In a detailed empirical study of the Swedish generic pharmaceutical market, Mats Bergman, David Granlund and Niklas Rudholm investigate whether long-term savings can be achieved by increasing the market share of the lowest bidder and seek to determine how the number of firms operating in the Swedish market can influence price [1].

IMS Sweden data were interrogated to identify causal effects of a number of firms. The data covered all off-patent prescription pharmaceuticals sold in the Swedish reimbursement system at Swedish pharmacies between 2006 and 2011. A total of 49,256 observations of actual transaction prices and total national sales related to 169 pharmaceutical substances and over 800 distinct product markets were identified.

The following estimates were made: the effect of the market share of the lowest-priced product on the cost per defined daily dose; the effect of this market share on the number of firms in the market; and the effect of the number of firms on the average costs. Short- and long-term effects on the cost per defined daily

dose of increasing the market share of the lowest-priced product were then calculated.

The investigators found that a 1-percentage-point gain in market share of the lowest bidder reduced average costs by 0.3% in the short term and 0.8% in the long term, but also reduced the number of firms by 1%. Reducing the number of firms had a strong positive (and hence counteracting) effect on average prices, i.e. a 1% reduction raises prices by around 1%.

They believe that their findings have potentially important policy implications. They suggest that instead of focusing on a more efficient system for pharmaceutical substitution at pharmacies and increasing the lowest bidder's market share, more attention should be paid to lowering barriers to entry by, for example, reducing the fees for being active in the market.

They also believe that, although purchase costs will be minimized in the short term by giving the winner full market exclusivity, costs may in fact increase because the market's equilibrium response is to reduce the number of bidders.

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Reference

1. Bergman M, Granlund D, Rudholm N. Squeezing the last drop out of your suppliers: an empirical study of market-based purchasing policies for generic pharmaceuticals. *EconPapers*. No 116.
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