

Interview - Hospital chains seek pricing control



[Jonathan Gardner](#)

As the sun set on 2017 the biopharma sector wondered how Amazon's impending entry into the supply chain might disrupt markets. And, as 2018 dawns, it is confronted by the prospect of a new rival – hospitals.

Four major US health systems, including US veterans' hospitals, are launching a not-for-profit generic drug company to combat supply shortages and rising prices. While the group is starting modestly, with a list of 20 essential drugs used in hospitals, it might want to expand its offering to combat what it sees as other market failures, Dan Liljenquist, vice-president of the enterprise initiative office at the Utah-based Intermountain Healthcare, one of the partners forming the company, tells *EP Vantage*.

He says his group has been unable to rely on the supply chain "consistently or at a predictable price" for some essential medications needed for daily operations.

The other partners that have been prompted into action are Ascension, SSM Health, Trinity Health and the US Veterans Health Administration (VHA). The last is the largest integrated health system in America, affording it significant buying power – its presence suggests that the new company will price its drugs no higher than the Federal Supply Schedule that the VHA uses.

No small beer

Intermountain is no small customer for pharma to lose either – it has 22 hospitals, 180 clinics and a health insurance plan with 850,000 enrollees. The five partners together account for 450 hospitals, or 9% of all US hospitals.

Mr Liljenquist will not identify the 20 drugs the as yet unnamed company – for now called Project Rx – has in its sights. The company will be more than a distributor, however, with plans to manufacture drugs or arrange for production through contractors, hold FDA licences and apply for ANDAs.

The focus will be squarely on sterile injectables and some tablets. And with many of these systems owning off-site physician clinics, the company could look at drugs typically administered in those settings. The group has no plans to try to produce drugs typically filled at pharmacies, however.

Mr Liljenquist is leaving the door open to expanding the company's product line, and says the group will welcome customers from outside its band of founders. "We kind of look at this as a long-term public utility for the manufacture of essential generic drugs – no shareholders, no dividend payments, no return on equity expectations," he says.

While new speciality drugs for diseases ranging from hepatitis C to cancers to rare disease have attracted the lion's share of the attention in the pricing debate, old generic drugs have also been subject to substantial rises.

This was brought to light when Turing Pharmaceuticals famously raised the price of its toxoplasmosis drug Daraprim by 4,000%, but that company was not alone. Neither did inflation go away after the spotlight shifted away from Turing ([After Turing, the industry's biggest price gougers, September 23, 2015](#)). More recently, Allergan and Teva were among those companies that raised prices with the new year.

"There are hundreds of drugs we are struggling with," Mr Liljenquist says of the hospital sector.

Stepping up

The announcement that Project Rx had been founded was the culmination of a year and a half of work, he says. Among the advisers the partners had in its development were two former Amgen executives.

Nevertheless, the venture has been met with some scepticism outside the hospital sphere. As Bernstein's Ronny Gal wrote, "Large-scale manufacturing of injectables is highly challenging and has led to failure of capable manufacturers like [Boehringer Ingelheim] and lack of success of entrant Becton Dickenson. Hospital systems are not known as bastions of great management or cost-effectiveness."

A plan to create an entity that intends to compete on price with the likes of Teva and Mylan might only have

been possible thanks to the rapid consolidation of hospital systems in the US. That unification was in response to the negotiating power of the quickly consolidating insurer sector as well as to government incentives to improve healthcare quality. In the first three quarters of 2017, 87 hospital system transactions had taken place, according to the consulting firm Kaufman Hall.

“If the large integrated health systems of this country don’t step in to solve some of these problems, who else can or will?” Mr Liljenquist asks.

To contact the writer of this story email Jonathan Gardner in Virginia at jonathang-us@epvantage.com or follow [@ByJonGardner](https://twitter.com/ByJonGardner) on Twitter

[More from Evaluate Vantage](#)

Evaluate HQ
[44-\(0\)20-7377-0800](tel:44-020-7377-0800)

Evaluate Americas
[+1-617-573-9450](tel:+1-617-573-9450)

Evaluate APAC
[+81-\(0\)80-1164-4754](tel:+81-080-1164-4754)

© Copyright 2021 Evaluate Ltd.