Generic drug deflation

What is the issue?

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- Amid the public fury over the escalating costs of brand-name medications, the prices of generic drugs have been falling.
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- This has raised concerns with the profitability of major generic manufacturers.
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- It has also led to serious question as to whether it will benefit the end consumer in the long run or not.
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What are generic drugs?

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- A brand-name drug product is originally discovered and developed by a pharmaceutical company.
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- It costs a lot for the innovator to bring a new drug to the market.
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- So a patent allows the innovator to sell the branded drug exclusively in order to recoup the money spent during development and to generate a profit.
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- Generics are off-patent, less-expensive drugs that are chemically similar to an innovative drug.
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- There is a considerable decline in generic drug prices in recent days.
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What are the reasons for this trend?

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- Generic drugs are mimic versions of brand-name products and their prices are expected to drop over time. When a **brand-name drug first loses its patent protection**, prices fall slowly.
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- Over the next couple of years, as more **competitors** enter the market, the prices drop even more.
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- An **imbalance in supply and demand** is said to be the root cause of recent changes in the generics drug market.
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- In the US, with the Food and Drug Administration **clearing out a backlog of generic-drug approvals**, more competitors are entering the market.
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- Companies are more aggressively undercutting each other's prices for making them competitive.
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- Generics companies are missing out on peak profit potential because not as many brand-name products are losing patent protection.
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- Generic companies have gone on **acquisition sprees** in an effort to head off some of these challenges.
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- But major pharmacy chains, drug wholesalers and pharmacy benefit managers (which operate drug plans for insurers) have united into colossal buying groups.
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- This **consolidation in the wholesalers and the retail pharmacy** is also a cause for the deflationary environment.
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- There are only three or four purchasers in the market, which are controlling 90-plus percent of the supply.
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What could be the impact?

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- **Consumers** - Overall drug spending is still on the rise because of the skyrocketing price of new, brand-name drugs.
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- Those who pay cash for generics may not notice a drop in price because many are already cheap.

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- **Manufacturers** - If the trend continues generic drugmakers will continue to feel pressure on profits in the pharmaceutical market, encounter nearly flat revenues and could become unviable
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- This could drive the drugmakers to drop out of the market, and the resulting **shrinkage in suppliers** may lead to **vaccine shortage** and serious health complications.
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- On the other hand, this could lead to a wave of **mergers and acquisitions**, reducing competition and leading to higher prices, in the long run.
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Source: The Hindu

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