CONCERNING VALUE

Editor's Note

Whether you are the CFO of a large employer, the medical director of an insurance company, CEO of a major pharmaceutical company, a primary care clinician, or a working mother looking for the best coverage for her family, it is nearly impossible to have a conversation about healthcare today without talking about "value." While cost containment is an imperative for our strained healthcare system, our primary goal should be realizing the best clinical outcome for each healthcare dollar spent. To engage our readers in lively discussion, *The American Journal of Managed Care* is inaugurating a series of editorials on value in healthcare. This month, Richard T. Clark, CEO of Merck & Co., provides his perspective. We invite you to share your thoughts with us about how value affects your industry, practice, and everyday lives.

The Value Proposition in Healthcare

The rising cost of healthcare is an important issue for our country and for American businesses. The number of employers offering healthcare coverage is declining, as frustrated employers and patients question the value they receive for their healthcare spending. Our healthcare industries employ thousands of people dedicated to promoting healthier, longer lives; yet there is broad public distrust of pharmaceutical companies, managed care plans, and pharmacy benefit managers and a general lack of transparency regarding motives, incentives, and pricing. If we all don't do a better job, the private employer-based market will continue to weaken and the country will move toward rationing of care and greater government control, with greater pressure for a single-payer model with price controls.

Despite medical advances, significant treatment gaps still exist in many areas and patients are not receiving care in accordance with well-established clinical guidelines. Conditions such as obesity and diabetes continue to spread at an alarming rate. Payers face the challenges of managing costs, coping with the demand for new technology, and addressing treatment gaps, all while trying to get the best value for their spending. But simply shifting cost to patients is a blunt instrument to contain costs. If you charge more for something—whether it is overutilized or underutilized—you will get less utilization. This does not represent application of "evidence-based medicine," as some have called it, because it is not driven by quality and value.

To create consumer support for evidence-based medicine, the policy development process must be both public and transparent. We do not support a single government agency approach—we in the private sector must come up with solutions. We need to work with our customers to advance the development and utilization of evidence-based medicine policies that will improve patient outcomes. Successful implementation of evidence-based medicine will shift the utilization of products and services to those that produce the best value for patients and payers.

Merck is now redefining its approach to drug development and marketing based on a value proposition. We are focused on this key question: "What incremental benefit is provided over the alternatives and at what cost?" We need to work with payers as we implement this new, value-based approach. It is not enough to merely say that a drug has a new mechanism of action.

Historically, pharmaceutical companies focused on demonstrating efficacy and safety compared with placebo and took that information to the medical community. However, to be successful in the future, we need to include the payer perspective earlier in the drug development process. To that end, Merck is creating early product development teams. The idea is to develop products with a compelling value proposition from the physician, patient, and payer perspectives.

I invite payers to work with us to develop and implement evidence-based medicine policies. Fostering this relationship will help us create research, development, and business practices that are responsive to healthcare payers, not just prescribing physicians. This relationship will also help payers better understand our expectations and potentially make them more receptive to innovations as they reach the market.

We also must collaborate with payers to understand and educate consumers, with the goal of helping patients make decisions about their healthcare. In

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other words, we have to help patients understand healthcare value. When patients better understand their healthcare options and the associated costs, the efficiency of the healthcare market can improve. We know from our experience that simply raising prescription copayments does not necessarily lead patients to seek less expensive alternatives to comply with a formulary. In many cases, it means prescriptions are not filled or patients discontinue their medication. That is one example of how a move to consumer-directed healthcare may not lead to market efficiency or better care.

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Currently, we price our products to health plans on a per tablet basis, regardless of who the patient is. Within a given health plan, patients share the same benefit design with the same copayment for a given drug. To control costs, payers raise copayments and set up formularies to restrict use. To create demand and drive volume, we promote our products to the physicians and patients. But what if we all focused on quality measures, appropriate patients, treatment gaps, and goals instead? What if we priced to the plan on a population basis, the way a health plan manages its business? Maybe some products are overused among some patients and underused by others. Maybe some patients should be discouraged from using a product (through higher copayments or other restrictions), while other patients should be encouraged. Should a patient who has already had a double bypass and a stent, and who has multiple comorbid conditions, really have the same copayment for his cholesterol drug as an otherwise healthy 40-year-old with mildly elevated cholesterol who is responding to a direct-to-consumer ad? The media have recently reported on the growing diabetes epidemic and how payers will spend tens of thousands of dollars on foot amputations but not preventive visits. Some innovative employers are reducing or eliminating copayments for certain medications or procedures for certain patients to get more value from their spending.

In summary, the healthcare industries face many common challenges. As the CEO of Merck, my strategy is to be more value focused. I want to get the payer perspective on what we do—from early development through our promotion in the marketplace. I invite other stakeholders to work with us on areas of common interest: how to encourage evidence-based medicine and appropriate use of health technology assessment, and how to develop, price, and promote our products to support their value. I believe that such collaboration will preserve the private health insurance market, improve quality of care, and improve the value of healthcare spending.

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