

## Unlock clarity in pharma pricing: Your go-to glossary for commonly misused terms

Navigating the complexities of pharmaceutical pricing can be overwhelming—especially when key terms are often misunderstood. Having a precise understanding of industry terminology is crucial for making informed decisions.

In an introductory module of their 2-day [\*Essentials of Value Pricing for Successful Market Access\*](#) course, CELforPharma faculty members Gary Johnson and Sam Johnson confront the participants with pricing terms that are often misunderstood and as a result often used incorrectly. The below list summarises the terms discussed in this session.

<b>Cross border trade</b>	Often (but not always) used to mean importing pharmaceuticals for personal use.
<b>Parallel trade</b>	Commercial movement of pharmaceuticals from one country to another by parties other than the manufacturer.
<b>Co-insurance</b>	Often (but not always) taken to mean a fixed percentage of cost of product or service paid by an insured patient. So, patient pays more as price increases.
<b>Co-payment</b>	Fixed contribution to the cost of a product or service paid by an insured patient. So patient pays the same as price increases.
<b>Discount</b>	A price reduction made at the time of invoicing.
<b>Rebate</b>	A (partial) refund after a purchase has been made (usually conditional on something e.g. whether patient responds to treatment).
<b>Margin</b>	A seller's (often gross) profit expressed as a percentage of their selling price.
<b>Mark-up</b>	A seller's gross profit expressed as a percentage of their purchasing price (so, usually applies to re-sellers).

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<b>Price elasticity</b>	The percentage change in volume caused by a 1% increase in price. This is a mathematically precise term.
<b>Price sensitivity</b>	The importance customers place on price – an imprecise term.
<b>Flat pricing</b>	All strengths (e.g. 100 mg, 50 mg ...) for a given pharmaceutical priced the same.
<b>Uniform pricing</b>	Same price in different countries.
<b>International reference pricing</b> (also known as external reference pricing)	Comparing prices of the same pharmaceutical in different countries when setting prices.
<b>National reference pricing</b> (also known as internal reference pricing)	Comparing the prices of different but similar pharmaceuticals in the same country when setting prices.
<b>Price</b>	What a customer pays. Because there are different customers up the distribution chain and because prices can be quoted before or after discounts/rebates, there are many “prices” and “price” always has to be defined precisely.
<b>Value</b>	The worth of what the customer gets.
<b>Price taking</b>	Passively taking the price set by a customer (implying little or no pricing power).
<b>Price making</b>	Actively setting the price for a pharmaceutical (implying some measure of pricing power).

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<b>Ex-factory price</b> (also known as manufacturer selling price)	The manufacturer's posted/list price. May be very different to the net price after discounts/rebates etc. Common mistake is to use this in pricing analysis because it is easy to see. Net price after discounts and rebates may be harder to assess. But, always better to be approximately correct than precisely wrong!
<b>Formulary</b>	A list of products that is reimbursed or paid for by a third-party payer. Formularies started in hospitals and then spread to the retail sector.
<b>Negative list</b>	A list of products that is not reimbursed or paid for by a third-party.
<b>Demand side price controls</b>	Measures that dissuade prescribers of a product from using (e.g. high co-pays).
<b>Supply side price controls</b>	Dictating what a manufacturer is allowed to charge for a pharmaceutical (e.g. Spain).
<b>Minimum noticeable price difference</b>	Smallest price differential that causes change in market behaviour. Often the percentage change in price that is noticed is the same as the percentage change in, say, the brightness of a color that can be noticed. So, this taps into something fundamental in human perception.
<b>Tiered formulary</b>	A formulary with different levels (tiers) whereby patients contribute increasing amounts to the cost of the drug as the tier level increases. Payers use a tiered formulary to encourage patients to use more cost-effective drugs.
<b>Payer</b>	Someone who determines whether a drug is paid for. Many market players can act as payers, depending on circumstances. For example, payers can include national pricing/reimbursement authorities, hospital formulary committees, doctors with prescribing budgets, patients paying out-of-pocket.

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<b>Price-demand curve</b>	A graphical representation of how the volume of a product sold varies as its price is varied. Often the result of interaction of how different market players interact. For example, increasing the price may induce payers to take measures to dissuade prescribers from using. In the face of payers' measures, prescribers may be more inclined to reduce usage for a low-benefit drug than for a high-benefit drug.
<b>Price awareness</b>	Customer knowledge of actual prices. Often pricing research mistakenly implicitly assumes that respondents carry a full price list of all products in their heads at all times.
<b>Top up insurance</b>	Usually private insurance to cover the proportion of medical costs not covered by public insurance. For example, common in France to cover the percentage of drug costs not covered by public insurance.

### If you want to learn about:

- An overview of payer types and of national **pricing & market access systems around the world**.
- The **concepts and language** of pharma pricing and market access that confuse many executives.
- The difference between setting prices and defending prices with **health economics**.
- **Talking to payers using surveys, interviews, and AI** to get the most accurate assessment of the achievable price.
- Using AI and econometrics to analyse **payer behaviour** and predict future pricing behaviour.
- How to anticipate the impact of the **international pricing system** on your prices around the globe.

 Attend Gary Johnson's and Sam Johnson's highly praised 2-day course:

### **Essentials of Value Pricing for Successful Market Access**



With Gary Johnson & Sam Johnson