



Generic drug deflation

What is the issue?

\n\n

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

\n\n

What are generic drugs?

\n\n

- \n
- A brand-name drug product is originally discovered and developed by a pharmaceutical company.
- \n
- It costs a lot for the innovator to bring a new drug to the market.
- \n
- 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.
- \n
- Generics are off-patent, less-expensive drugs that are chemically similar to an innovative drug.
- \n
- There is a considerable decline in generic drug prices in recent days.
- \n

\n\n

What are the reasons for this trend?

\n\n

\n

- 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.

\n

- Over the next couple of years, as more **competitors** enter the market, the prices drop even more.

\n

- An **imbalance in supply and demand** is said to be the root cause of recent changes in the generics drug market.

\n

- In the US, with the Food and Drug Administration **clearing out a backlog of generic-drug approvals**, more competitors are entering the market.

\n

- Companies are more aggressively undercutting each other's prices for making them competitive.

\n

- Generics companies are missing out on peak profit potential because not as many brand-name products are losing patent protection.

\n

- Generic companies have gone on **acquisition sprees** in an effort to head off some of these challenges.

\n

- But major pharmacy chains, drug wholesalers and pharmacy benefit managers (which operate drug plans for insurers) have united into colossal buying groups.

\n

- This **consolidation in the wholesalers and the retail pharmacy** is also a cause for the deflationary environment.

\n

- There are only three or four purchasers in the market, which are controlling 90-plus percent of the supply.

\n

\n\n

What could be the impact?

\n\n

\n

- **Consumers** - Overall drug spending is still on the rise because of the skyrocketing price of new, brand-name drugs.

\n

- Those who pay cash for generics may not notice a drop in price because many are already cheap.

\n

- **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

\n

- 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.

\n

- 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.

\n

\n\n

\n\n

Source: The Hindu

\n



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative