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Inside The Secret World Of Drug Company Rebates

**Matthew Herper**, FORBES STAFF*I cover science and medicine, and believe this is biology's century.* [FULL BIO](#)

The free market is alive and well when it comes to drug prices – if you're an insurance company or a government program. But not if you're a consumer.

Top-selling pharmaceuticals, protected by patents, often seem priced in a manner that has little to do with the laws of supply and demand. Want that new cholesterol medicine (\$2,000 per year), that cancer treatment (\$60,000 per year), or the medicine for your child's rare disease (\$300,000 per year)? No negotiation. It's your money or your life.

But in fact drug companies are constantly negotiating, not with individuals but with payers – Medicare, Medicaid, insurers such as United [Health Care](#) and [Aetna](#) [AET -0.29%](#) and pharmacy benefit plans such as [Express Scripts](#) [ESRX -0.53%](#). They don't reduce the price of their medicines. Instead, the drug firms pay rebates after the fact. For Medicaid, the price decreases are mandated by law, but everywhere else, free market forces are very much in effect. Me too drugs and those facing patent expiration have to deal with bigger rebates. Drug firms annual price increases are partly a way to deal with all this rebating. Of course, if you're a person without health insurance buying medicines at the counter of [Walgreen](#) [WAG +0%](#)'s, you're stuck with the list price.

Rebates cut about \$40 billion out of the drug industry's sales every year, says Pratap Khedkar, a principal at pharma marketing consultancy ZS Associates. We know that because the drug industry reports both its gross sales (before the rebates) and net sales (after the rebates are taken out). The size of the rebate average about 30% of a medicines sales, Khedkar says, and can be as low as single digits or as higher than 50% of gross sales.

Exhibit 1077

"These may not be visible to the consumer," says Khedkar. "But between the insurance company and the pharma company, it is a very efficient free market."

What Drug Companies Give Back			
Drug	IMS estimated U.S. sales (\$Bil)	Company reported U.S. Sales (\$Bil)	Estimated rebates (%)
Lipitor	\$7.7	\$5.0	35%
Plavix	\$6.8	\$6.6	3%
Nexium	\$6.2	\$2.4	61%
Abilify	\$5.2	\$4.0	24%
Advair	\$4.6	\$4.0	13%
Seroquel	\$4.6	\$3.3	27%
Singulair	\$4.6	\$3.5	23%
Crestor	\$4.4	\$3.1	30%
Cymbalta	\$3.7	\$3.2	14%
Humira	\$3.5	\$3.4	2%

Sources: IMS Health, company statements, analyst reports

No company reports how much of the gross sales of an individual drug are being given back to the payers. But there is a way to peer into the hidden world of pharma rebates. Every year, IMS Health, the prescription data tracking service, publishes its own lists of the most prescribed and the top-selling medicines in the country. But IMS' data capture gross sales at pharmacies, before the rebates happen. By comparing the gross sales reported by IMS to the sales the companies report to the Securities and Exchange Commission, it's possible to get an idea of how much of a medicine's gross sales are being given back in the form of rebates.

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Caveats: there are other factors that could be affecting the difference, including if drug wholesalers are buying up extra inventory of a medicine, temporarily boosting sales. But generally speaking, I think we can assume that the bulk of these differences are from the rebates.

In the table in this story, I've calculated the difference between the IMS numbers and the numbers reported to the S.E.C. If U.S. sales were not immediately available, I took them from reports from sell-side analysts. The resulting figures show how greatly the numbers vary and give some hints as to why.

In the face of sudden generic discounts, [Pfizer](#) PFE -0.85% seems to have given a lot of rebates to keep Lipitor on insurance company formularies, giving up 35% of gross sales, up from 26% last year. (This matches up with [reporting I did here](#); promotion of Lipitor is [finally grinding to a halt](#).) By contrast, Bristol-Myers Squibb and Sanofi-Aventis, the makers of Plavix, only gave 2.6% of sales in rebates; Plavix was until now the only medicine of its kind, and competitors from Eli Lilly and AstraZeneca have been unable to unseat it.

The most stunning discount is for Nexium, the purple pill for heartburn sold by AstraZeneca and derided by many as the perfect example of a me-too drug. Astra is giving back 60% of gross sales, most likely in the form of rebates. IMS lists Nexium as the third-best-selling drug in the country based on gross sales of \$6.2 billion. But AstraZeneca reports U.S. Nexium sales of just \$2.4 billion, putting it more on a par with Eli Lilly's cancer drug Alimta than behemoths like Lipitor and Plavix.

Why? As much as people rail against me-too drugs, being a me-too med is actually bad for the company, too. Insurers may be using the fact that they could direct consumers to generic Protonix or over-the-counter Prilosec or Prevacid as a bargaining stick, forcing Astra to cede ground.

Medicines in the same category seem to have the same level of discount. Astra's Crestor, a cholesterol drug that competes with Lipitor, seems to be giving 30% in rebates. The antipsychotics Seroquel (sold by AstraZeneca) and Abilify (from Otsuka & Bristol) give rebates of 27% and 24%, respectively.

AstraZeneca spokeswoman Stephanie Andrzejewski wrote via email that the company would not "discuss or disclose specifics around rebates" for Nexium. She added: "What I can tell you is that AstraZeneca is committed to helping people get the medicines they need and we understand our medicines won't do patients any good if they can't access them." She said it would be "inaccurate" to say AstraZeneca gave a 60% discount "across the board" – which is true. That appears to be the average discount.

The good news here is that, in the world of health insurers and drug giants, the free market is having an effect on drug prices. The bad news is that you have to be participating in this market by being insured in order to get those reduced rates. People who walk in off the street pay full price.