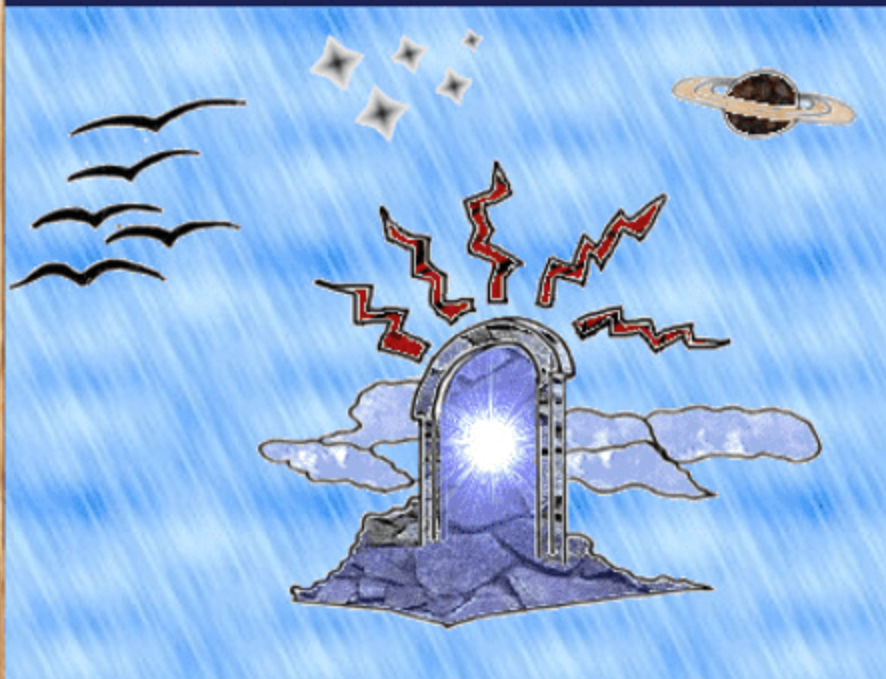


Unconventional Wisdom Series

Open Payments (Sunshine Act) - Just What You Need to Know



Jean Patrick Tsang, PhD & MBA (INSEAD)

Bayser Consulting

4709 Golf Rd, Suite 803, Skokie, IL - 60076

Tel: (847) 920-1000 Email: bayser@bayser.com

Web: www.bayser.com

Thanks to the Freedom of Information Act, we now have access to payments physicians and hospitals receive from manufacturers in regards to drugs, devices, biologics, and medical supplies. Yes, we are talking about the Open Payments (a.k.a. Physician Payments Sunshine Act) data. There are two cuts as of today. The first one covers Aug to Dec 2013 (5 months) and the second one the entire year of 2014. The data is made up of 5 feeds: 3 for physicians (General, Research, and Investment) and 2 for hospitals (General and Research).

Some quick facts on the data:

1. Total Payments in 2014 = \$6.49 billion
2. Physicians (~600K) represent 81% and Hospitals (~1,000) 19% of dollars paid.
3. Research represents 50%, General 39% and Investment 11%.
4. A physician received on average about \$3,300 under General (~600K physicians), about \$166K under Research (~15K physicians) and about \$164K (~4K physicians) under Investment. This includes not only drugs but also any product and unidentified products.
5. A hospital received on average half million dollars under General (~1K hospitals), and about 1 million dollars under Research (~700 hospitals).

Let's now turn to the 3 most popular questions that we are asked.

Question 1. How accurate and complete is the data?

First off, reported payments are exclusive of samples, which in 2012 amounted to a whopping \$5.7 billion according to The Pew Charitable Trusts, and, to a lesser extent, a whole range of payments made to oncologists under the aegis of ASCO (American Society of Clinical Oncology) and CCF (Cancer Care Foundation).

The product (e.g., drug, device, supply) is not always reported. The field may be left blank or reported as something akin to "NA" (none, no product discussed, etc.). Also, the product name itself can sometimes refer to a class such as TNKase, dermatology products, biologics, and the like. In yet other cases, the product name simply refers to the activity that triggers the payment such as Ad Board. Non-blank product names correspond to 81% of physician payments and 64% of hospital payments.

Some payments are in dispute. The way this works is that the pharma company reports the paid amount and the physician is informed of what was reported, at which point the physician may dispute the reported amount. For all practical purposes, the disputed amount is negligible: 0.2% under General and 0.4% under Research. We can assume the payments are fairly accurate.

When prying open the database for the first time, one may expect there would be only one company that makes payments in regards to one drug. While this makes good sense, this is not what we see in the data. Consider payments made in regards to Effient. 5 companies are involved: (1) Daiichi Sankyo Europe GmbH, (2) Daiichi Sankyo Inc., (3) Eli Lilly and Company, (4) Eli Lilly Export S.A. Puerto Rico Branch, and (5) Lilly USA, LLC. Likewise, payments in regards to Actemra come from 6 companies: (1) Chugai Pharmaceutical Co., Ltd., (2) F. Hoffmann-La Roche AG, (3) Hoffmann-La Roche Limited, (4) Roche Products Limited, (5) Genentech USA, Inc., (6) Genentech, Inc. What this means is that for any given drug, we need to roll up payments from all companies, including non-US companies.

Question 2. What are some of the insights that can be gleaned from this data?

1. What kind of services are physicians paid for? Payments are reported under several categories which we find more meaningful to group under the headings below.

- 1) [20%] Feedback/Sounding Board (the physician is paid to provide feedback on a product)
- 2) [32%] Influencer (the physician is paid to exert influence on peers)
- 3) [22%] Sales Commission (the physician is paid a royalty based on sales of a drug, very much like a sales rep gets commissions)
- 4) [2%] Financial Incentive (the physician is given serious financial incentives to make the drug succeed commercially)
- 5) [1%] Research (the physician is paid to conduct research that would benefit the company)
- 6) [23%] Other (all other payments that do not fit under any of the 5 categories above)

2. Payments are not only made towards currently marketed drugs, but also towards drugs in clinical trials. That's only a very small percentage though. Less than 0.3%.

3. Consider this. A physician makes an investment of X in a company and that investment turns out to be worth Y. That's one scheme - a creative one you have to admit - under which a company can make a payment of Y-X to a physician. The data indicates that physicians put in about \$475 million worth of investment valued at \$700 million (ROI = 1.48). In many instances, the physician invests just \$1,000 which is then valued at \$1 million or more. In other cases, the investment is 0 and the corresponding value quite sizable.

Question 3. How can I use this data?

1. A great way to identify who the key physicians are for a given TA. Indeed, a physician that receives a significant amount of money from a company must be worth something in the eyes of that company. This data is particularly useful when it's difficult to get good sales activity data on the competition. Case in point: SP markets where the competition routinely blocks the data.

2. Ideal for physician recruitment as the data allows us to tell apart "free electrons" (no allegiance to any particular company) from those that are "taken" (strong allegiance to one company). Indeed, the data indicates how many companies a given physician receives money from (note: companies need to be rolled under one drug as several companies may make payments towards the same drug, as noted earlier). To ensure that we are looking at something meaningful, all payments under \$1,000 are discarded. Now, physicians can be described along 2 criteria: (1) total amount of money received across all drugs, and (2) largest payment for a single drug expressed as a % of all payments larger than \$1,000. The data indicates there are only 28K physicians that receive payments larger than \$1,000 that can be traced back to a specific drug. 50% of these physicians receive total payments between \$1K and \$10K and their largest payment for one drug exceeds 75% of all payments larger than \$1000. Also, as you'd expect, the number of physicians increases with the share of the largest payment coming from a single drug.

3. This data allows us to get an appreciation of the nature of the involvement a physician has with a company. In addition to the sheer dollar amount, we have the currency of the payments, which ranges from (I) honoraria for providing feedback on a drug - 20% of dollar payments to (II) royalties on sales of a drug - 22% of dollar payments to (III) financial investment schemes - 2% of dollar payments.

Finally, the data raises interesting research hypotheses for further investigation. For example, what is the optimal investment vehicle for a given disease state? What works better: education that falls under CME or education that falls under uncertified and non-accredited education? Royalties or ownership? And the list goes on...

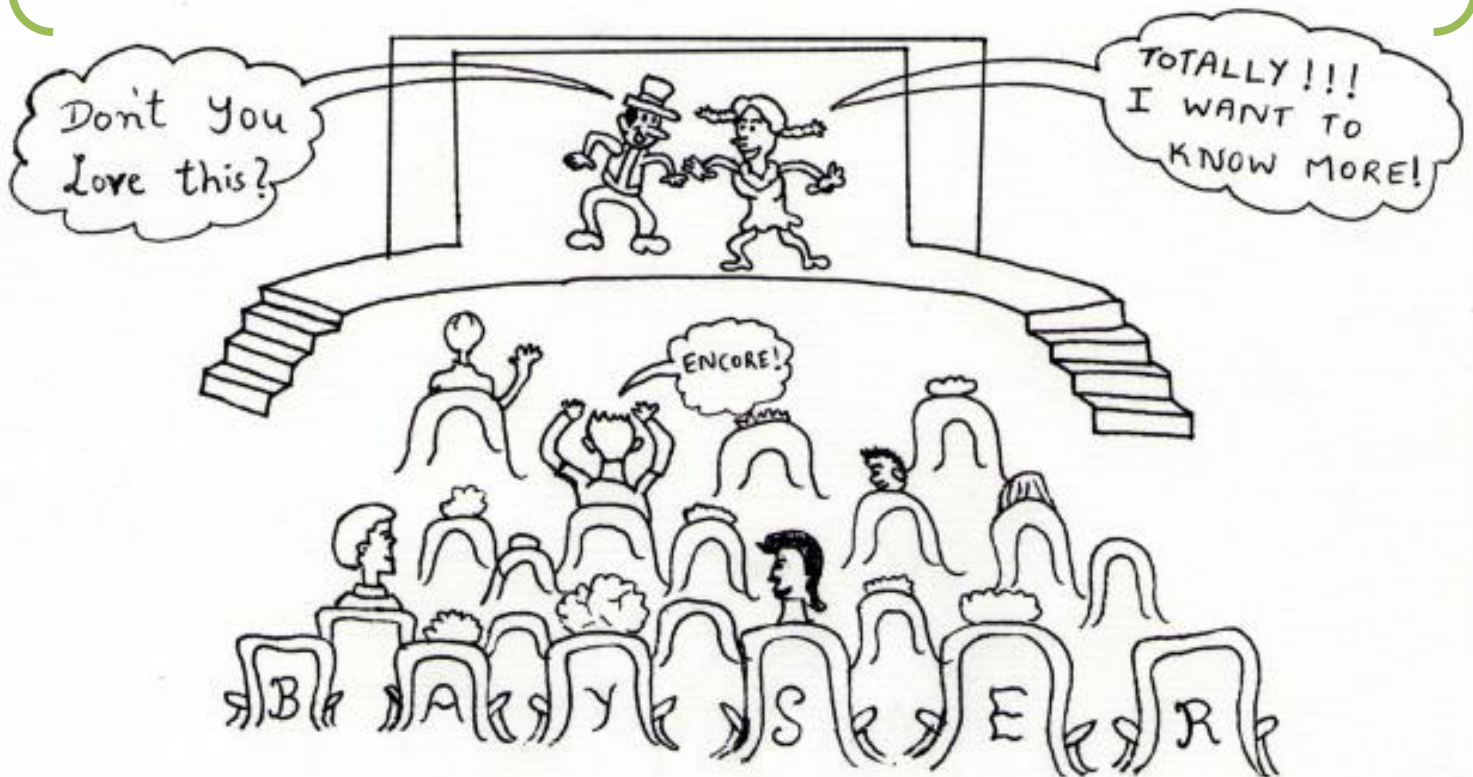


JP Tsang, PhD & MBA (INSEAD)

Founder & President

Jean-Patrick Tsang is the Founder and President of Bayser, a Chicago-based consulting firm dedicated to pharmaceuticals sales and marketing. JP has worked on 250+ projects to date including ROI optimization, data strategy, and study design to mention just these. JP publishes and gives talks on a regular basis and runs one-day classes on various subjects related to data and analysis.

In a previous life, JP deployed Artificial Intelligence to automate the design of payloads for satellites and was the adviser of two PhD Students. JP holds a Ph.D. in Artificial Intelligence from Grenoble University and an MBA from INSEAD in France. He was also the Recipient of the PMSA Lifetime Achievement Award in 2015. He can be reached at (847) 920-1000 or bayer@bayer.com.



BAYER

**4709 Golf Rd, Suite 803,
Skokie, IL 60076**

**(847) 920 - 1000
bayer@bayer.com**