Cost-plus pricing for setting the price of pharmaceutical products

WHO Guideline on Country Pharmaceutical Pricing Policies

A plain language summary

Main points

- Cost-plus pricing sets the price of pharmaceutical products by assessing production costs and adding a profit margin.
- Cost-plus pricing is currently difficult to implement because obtaining reliable cost information from suppliers is difficult.
- Stakeholders are developing technical and policy frameworks for setting medicine prices according to cost inputs. This approach may, therefore, be more operationally feasible in the future.

Pros

- Cost-plus pricing may be seen as fair because pricing rules are transparent and easy to understand.
- Prices remain relatively stable unless there is a significant change in production costs. Stable prices may help with expenditure management.

Cons

- Transparent, accurate and verifiable information on costs is not readily available.
- Relatively stable prices may not reflect changes in market situations (e.g. changes in currency exchange rate and costs of business). If left unaddressed, companies might choose not to supply.

HIGHLIGHTS

For policymakers responsible for promotingaffordable access to health products

WHO GUIDELINE

Conditional* recommendations *against* the policy

* Consult stakeholders to understand the conditions within country context before full adoption

WHO suggests against countries using cost-plus pricing as a primary policy for setting the price of pharmaceutical products, given the current lack of transparency and the lack of an agreed framework among stakeholders regarding the inputs for price determination.

World Health Organization

What is the policy?

Cost-plus pricing is the practice of setting the price of pharmaceutical products considering a wide range of costs, including those associated with research and development, manufacturing, regulatory processes and compliance, overheads and operational expenses, and profit.

Why is the policy implemented?

Cost-plus pricing is straightforward, in theory, with clear and justifiable pricing rules that provide a level of certainty for budgetary planning and profits for the suppliers.

How is the policy implemented?

Neither the extent of use, nor the practical details of cost-plus pricing are widely known. Many countries (e.g. in Europe) use costs as only one of the criteria for price negotiation, when such information is available. This is likely due to the challenges of obtaining reliable information from suppliers regarding direct material and labour costs; research and development costs; manufacturing costs; costs associated with regulatory processes and compliance; and other business operation costs. Determining a final price is also challenging because the supplier and the purchasing authority need to agree on a profit margin in addition to the estimated costs.

How commonly is the policy used?

Cost-plus pricing has not been widely used for setting medicine prices at the ex-manufacturer or ex-wholesaler levels.

THINGS TO CONSIDER

Implementation

- What alternatives to cost-plus pricing or supplementary approaches can we consider?
- How can we ensure manufacturer-supplied price information is accurate when using cost-plus pricing?

For more information

See the *WHO Guideline on Country Pharmaceutical Pricing Policies* for more information, including an overview of the evidence about cost-plus pricing and nine other pharmaceutical pricing policies.
https://www.who.int/publications/i/item/9789240011878

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