Worked example for Price Disclosure – Method for price reductions from 1 October 2014

Scenario: Brands of three pharmaceutical items with same drug and manner of administration

Data collection period: 1 April to 30 September

	10mg capsule Pricing Quantity (PQ) is 60 on each price sampling day for the 6 month period AEMP on each price sampling day is $100 for 4 months, then $95 for next 2 months (August price change)
Step 1—Net revenue for brand (excluding initial month)	Brand A = $68,000
Step 2—Adjusted volume for brand	Volume supplied is 800, pack size of 60 = 800
Step 3—av.AEMP for brand (rounded)	= (100+100+100+100+95+95)/6 = $98.33
Step 4—Disclosed price for brand (step 1/step 2)	= $68,000/800 = $85
Step 5—Price percentage difference of brand (step 3 - step 4)/step 3 (% to 2 decimal places)	= ($98.33-$85)/$98.33 = 13.56%
Step 6—Repeat steps 1 to 5 for each brand of the same pharmaceutical item	Brand B: Step 1 = $66,000 Volume supplied is 1,200, pack size of 30 Step 2 Adjust to the PQ on the final day, which is 60, = (1,200*30)/60 = 600 Step 3 = (100+100+100+100+95+95)/6 = $98.33 Step 4 = $66,000/600 = $110 As the disclosed price $110 is greater than $98.33, adjust to $98.33. Step 5 = ($98.33-$98.33)/$98.33 = 0%
Step 7—Total adjusted volumes of brands of the same pharmaceutical item (PI)	= 800 + 600 = 1,400
Step 8—Weighted average percentage difference for the pharmaceutical item (WAPD) (Sum (step 2*step 5) for each brand of PI)/(step7) (% to 2 decimal places)	= $\frac{\text{Brand A (800*0.1356) + Brand B (600*0)}}{\text{Total adjusted volume of the brands (1,400)}}$ = 7.75%

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Step 9—Repeat steps 1 to 8 for each pharmaceutical item with related brands (eg. different forms)

20mg tablet

PQ is 50 on each sampling day for the first 2 months, then 100 for the next 4 months
AEMP is $60 on each sampling day for the first 2 months, then $120 for the next 4 months

Brand C:
Step 1 = $35,000
Volume supplied is 2,000, pack size of 25
Step 2 Adjust volume to the PQ on the final day, which is 100
= (2,000*25)/100 = 500
Step 3 (3) Adjust AEMP for first 2 months to PQ on the final day, which is 100
(60/50)*100 = 120
Step 3 (2)= (120+120+120+120+120+120)/6 = $120
Step 4 = $35,000/500 = $70
Step 5 = ($120-$70)/$120 = 41.67%

Brand D:
Step 1 = $32,000
Volume supplied is 400, pack size of 100
Step 2 = 400
Step 3 = (120+120+120+120+120+120)/6 = $120
Step 4 = $32,000/400 = $80
Step 5 = ($120-$80)/$120 = 33.33%

Step 7 = Total adjusted volume for this PI = 500 + 400 = 900
Step 8 = WAPD = ((500*0.4167) + (400*0.3333))/900 = 37.96%

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40 mg SR tablet

PQ is 90 on each sampling day for the 6 month period
AEMP is $150 on each price sampling day for the first 4 months, then $120 for the next 2 months
Brand F delists on 1 October

Brand E
Step 1 = $105,000
Volume supplied is 1,000, pack size of 90
Step 2 = 1,000
Step 3 = (150+150+150+150+120+120)/6 = $140
Step 4 =$105,000/1,000 = $105
Step 5 =($140-$105)/$140 = 25%

Brand F
Step 1 = $63,000
Volume supplied is 2,100, pack size of 30
Step 2 Adjust to the PQ on the final day, which is 90
= (2,100*30)/90 = 700
Step 3 = (150+150+150+150+120+120)/6 = $140
Step 4 =$63,000/700 = $90
Step 5 = ($140-$90)/$140 = 35.71%

Brand G
Step 1 = $99,000
Volume supplied is 900, pack size of 90,
Step 2 = 900
Step 3 = (150+150+150+150+120+120)/6 = $140
Step 4 =$99,0000/900 = $110
Step 5 =($140-$110)/$140 = 21.43%

Step 7 = Total adjusted volume for this PI = 1,000 + 700 + 900 = 2,600
Step 8 = WAPD = ((1,000*0.25) + (700*0.3571) + (900*0.2143)/2,600 = 26.65%

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Step 10—Weighted average percentage difference
for all related brands (for this drug/MOA)

a) (step 7)*(step 3) for each PI then add them up. a) = (1,400*$98.33) + (900*$120) + (2,600*$140) = $609,662.00

b) (step 7)*(step 3)*(step 8) for each PI then add up. b) = (1,400*$98.33*0.0775) + (900*$120*0.3796) + (2,600*$140*0.2665) = $148,671.61

c) Divide (b) by (a) (% to 2 decimal places) c) = 148,671.61/609,662 = 24.39%

Step 11—Weighted average disclosed price (WADP) for related listed brand of drug/MOA

(step 3)-(step 10) for each brand. Round to 2 decimals

Brand A and Brand B = $98.33 – 24.39% = $74.35

Brand C and Brand D = $120 – 24.39% = $90.73

Brand E and Brand G = $140 -24.39% = $105.85

Brand F = (Delisted)

Step 11 (3) Adjust PQ if necessary

No adjustment for pricing quantities on relevant day required. PQ on final day = PQ on relevant day for each pharmaceutical item.

10% Test

10 mg capsule: Brand A and Brand B:
PBS AEMP on 1 October = $80
Test percentage reduction = ($80 - $74.35)/$80 = 7.06%
OUTCOME: No price reduction below the 1 October price on next price reduction day. (ie. price on next 1 April expected to be $80#)

20 mg tablet: Brand C and Brand D:
PBS AEMP on 1 October = $110
Test percentage reduction = ($110 - $90.73)/$110 = 17.52%
OUTCOME: Price reduction would occur on next price reduction day. (ie. price on next 1 April expected to be $90.73#)

Brand F: Delisted 1 October. No price calculated.

40 mg SR tablet: Brand E and Brand G:
PBS AEMP on 1 October = $120
Test percentage reduction = ($120 - $105.85)/$120 = 11.79%
OUTCOME: Price reduction would occur on next price reduction day. (ie. price on next 1 April expected to be $105.85#)

Unless price change occurs in intervening period or on 1 April for other reasons.