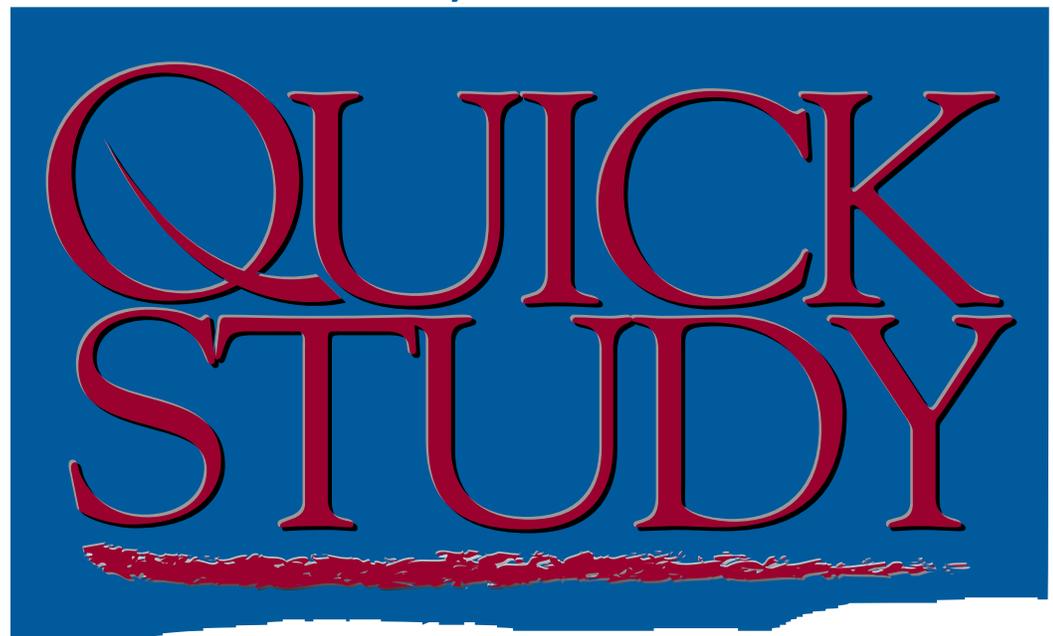


As the market for prescription drugs becomes more competitive, consumers have more choices of high-quality drugs at reasonable prices. Competition and DTC advertising — not government regulation — enable choices and will enhance the benefits. If legislators and health policy experts want to ensure that more drugs are available at lower prices, they should consider policies that encourage advertising and competition. We have no reason to fear advertising; what we should fear is the people who want to control it.



## WHO'S AFRAID OF PHARMACEUTICAL ADVERTISING?

### *A Response to a Changing Health Care System*

Many health policy experts believe that direct-to-consumer (DTC) advertising by pharmaceutical companies misinforms gullible consumers, encourages drug overconsumption, increases health care costs, strains doctor-patient relationships and undermines the quality of patient care.

For example, the American College of Physicians and the American Society of Internal Medicine (ACP-ASIM) in a joint policy statement wrote, "We are concerned that advertising will result in increased consumption of these [highly advertised] drugs; though their use may be neither appropriate nor necessary." The organizations also wrote, "Many times, physicians will give in to the demand and when they don't, often patients will 'doctor shop' until they find a physician who will prescribe the medication."

However, the above-mentioned concerns largely are misdirected. They focus on the evolving pharmaceutical marketplace when in fact the whole health care system is in transition. And direct-to-consumer pharmaceutical ads are a *response* to the transitional process, not the *cause* of it.

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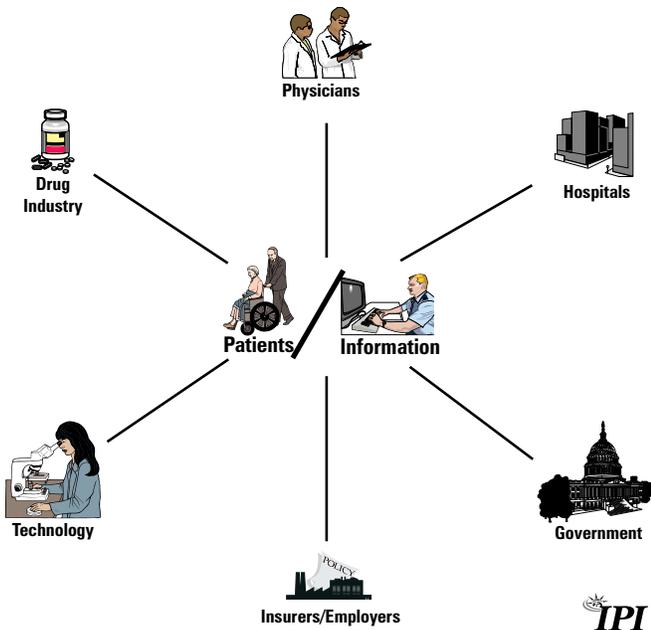
#### A HEALTH CARE SYSTEM IN TRANSITION

A generation ago physicians were the possessors of all medical information. Patients went to physicians and accepted evaluations and diagnoses almost without question. Today, things are very different. As the illustration on the next page shows, the U.S. health care system is transitioning from a physician-directed system to a patient-directed one in which all of the components cater to the patient, rather than the physician.

The primary reason for the transition is the growing availability of health care information. For example, according to health care consultant Lyn Siegel, more than 50 percent of adults who go on the Web use it for health care information.

Increasingly, patients are entering the health care system armed with information — and sometimes misinformation. They may not know how to practice medicine, but many know something about their medical condition and the options available to them.

## Patient-Directed Health Care System



It is impossible to overstate the magnitude of this change. We haven't reached a patient-directed system yet, but we are moving — or being pulled — in that direction.

### ADVERTISING PROVIDES INFORMATION PEOPLE WANT

In virtually every sector of the economy, those with products or services to sell must get information to those who will buy. Advertising is the vehicle for getting information to the intended customers. It tells prospective customers about product availability, quality and cost — the information those prospects need in order to make comparisons.

There is a general assumption that advertising raises the costs of products. But advertising can — and should — lower costs. Holman Jenkins of the *Wall Street Journal* explains the rationale:

The media also complain about advertising as if this were an extra cost borne by [prescription] drug users. Drug companies spend on advertising because it's profitable — it pays for itself by generating additional sales, allowing development costs to be spread over a larger number of users. The average price to each user is lower.

In the absence of competition, advertising might raise prices. But in the absence of competition, vendors would likely raise prices whether they advertised or not. Advertising spurs competition, and competition keeps prices lower. Eliminating either element will drive prices up, not down.

### THE GROWTH OF PHARMACEUTICAL ADVERTISING

For years pharmaceutical companies have devoted most of their marketing budgets to advertising their products in professional journals, sending sales personnel to visit doctors and providing samples that doctors then passed on to their patients — all of which is known as “professional spending.” In 1999 drug companies spent only 13 percent (\$1.8 billion) of their marketing dollars on direct-to-consumer efforts and 87 percent (\$12 billion) on professional spending.

If marketing expenditures were actually driving up the cost of drugs, you would expect to see a significant increase in total marketing spending since 1997, when the FDA relaxed DTC ad rules. But as Figure 1 demonstrates, total marketing expenditures have grown at a fairly steady rate.

However, the allocation of dollars within the marketing budget is changing. As health care shifts from a physician-directed to a patient-directed system, pharmaceutical companies are

Figure 1 Growth of Marketing Expenditures (in billions, 1999)

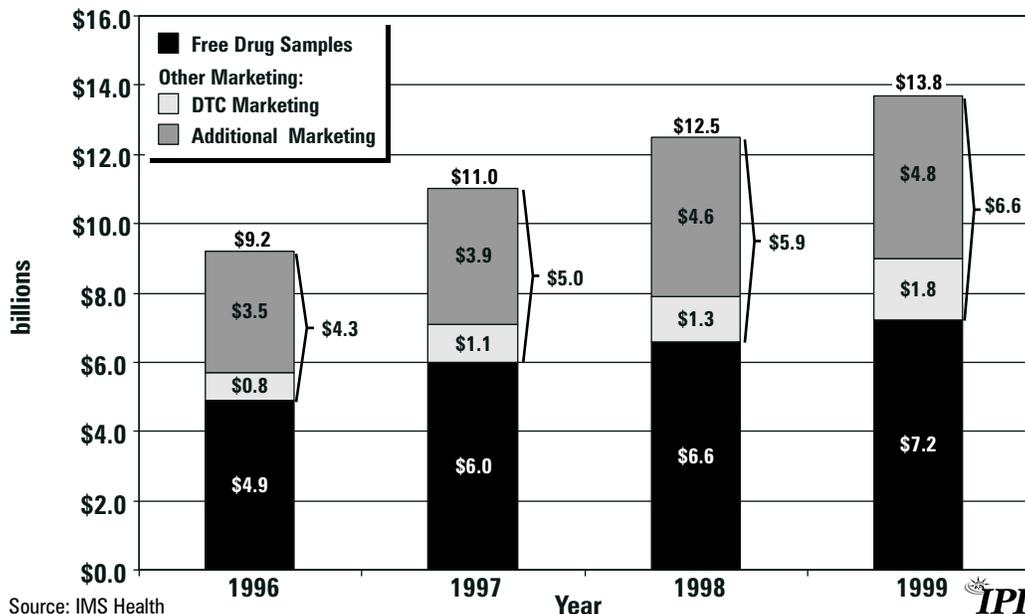
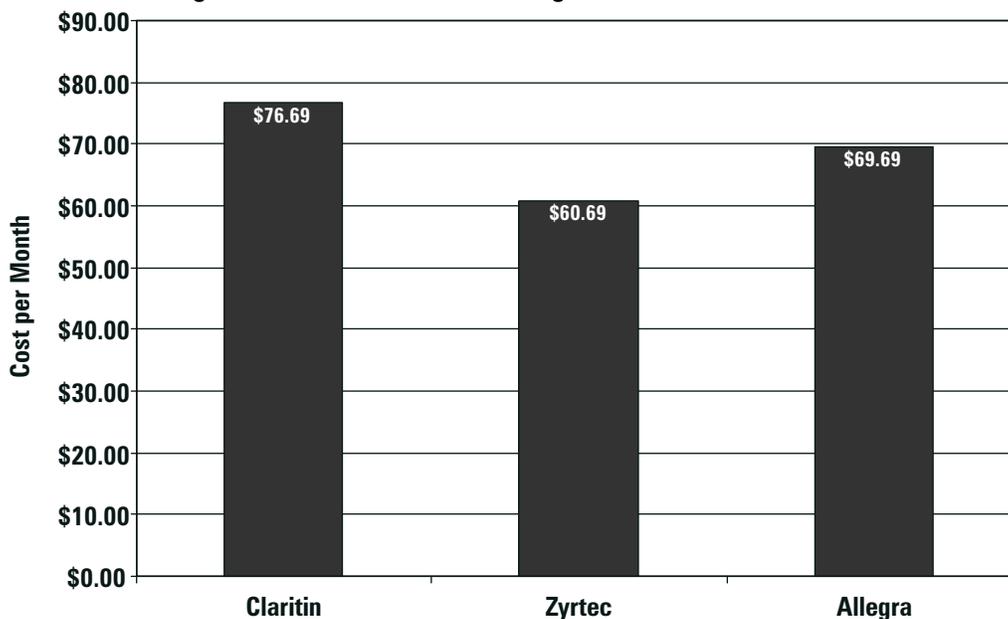


Figure 2

### Does Advertising Affect the Retail Price of Drugs?



Source: The retail price (with no discounts) at a nationwide pharmacy chain. Prices would likely vary at other pharmacies.



changing their marketing focus from doctors to patients — at least with respect to those drugs that have a broad-based public appeal. In less than a decade, DTC advertising has increased from \$55 million (1991) to \$1.8 billion (1999), with most of the increase coming since 1997.

But doesn't the increase in DTC advertising drive up the cost of the advertised drugs? Not in any discernable way. Let's look at the three leading prescription oral antihistamines: Claritin, Zyrtec and Allegra. The amount spent advertising these drugs has varied widely. Schering-Plough spent \$137.1 million in 1999 promoting Claritin to consumers, while Pfizer spent less than half that amount promoting Zyrtec (\$57.1 million), and Aventis spent about a third as much on Allegra (\$42.8 million).

As Figure 2 shows, Claritin is a little more expensive than the other two, but its ingredients may account for the price difference. Claritin is non-sedating while Zyrtec is. The ability to work, drive or operate machinery while taking an oral antihistamine would easily be worth an extra \$16 a month to many employees. Allegra is only \$7 a month less than Claritin, which spends about three times as much on DTC advertising. If there were a direct correlation between advertising expenditures and price, you would expect Claritin to be significantly higher than the other two, and Zyrtec to be more expensive than Allegra. That's not the case.

#### COMPETITION AMONG PRESCRIPTION DRUGS

The drug industry is very competitive. No drug company has more than 5 to 6 percent of the worldwide pharmaceutical market.

Of course, critics argue that drug patents, which prohibit generic drug manufacturers from selling an identical product for much

lower prices, limit competition. This is true in the sense that a soft drink manufacturer cannot copy the ingredients of Coca-Cola and market the resulting product as "Close-a-Cola." But competition in the soft drink industry is fierce.

Similarly, among the top 50 prescription drugs advertised DTC in 1999:

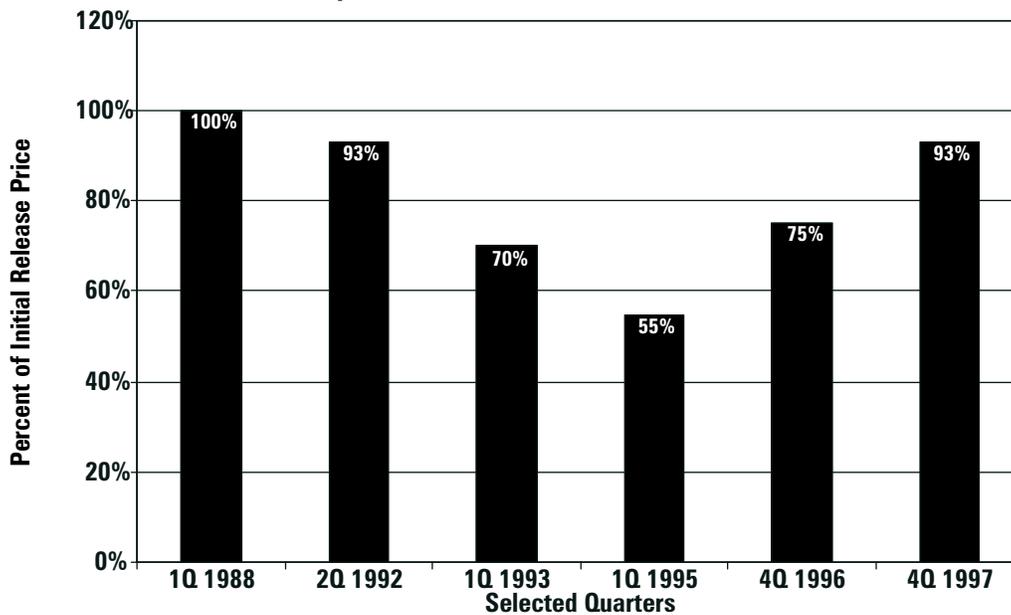
- Three (Claritin, Zyrtec and Allegra) were oral antihistamines for allergies.
- Four (Flonase, Nasonex, Flovent and Nasacort) were inhaled respiratory steroids.
- Three (Glucophage, Rezulin and Avandia) were oral diabetes medications.
- Three (Premarin, Cenestin and CombiPatch) were for menopause.

**Case Study: Pain Medicines.** Pharmaceutical research and development have led different companies to create different patentable products for the same condition. For example, in January 1999, Pharmacia subsidiary Searle released its new COX-2 inhibitor Celebrex, which was followed a few months later by Merck's Vioxx. These COX-2 inhibitors, termed "superaspirins," are as effective as other non-steroidal anti-inflammatory drugs (NSAIDs) if not more so, and they block the COX-2 enzyme that is believed to cause gastrointestinal problems some patients suffer when taking other NSAIDs.

The release of these two drugs caused an enormous market shift in the traditional NSAID market. By December 1999, out of 49 million U.S. prescriptions written for arthritis, 29 percent were for the COX-2 inhibitors. By the end of November 2000, sales of Vioxx about equaled sales of the four biggest-selling non-COX-2 inhibitors combined, while Celebrex sold about a third more than all the non-COX-2 inhibitors combined.

Figure 3

Launch Price of New Antidepressants



Source: "Pharmaceutical Prices: What's Missing in the Public Discussion," *Economic Realities in Health Care Policy*, Vol. 1, No. 3, Pfizer Inc., 2000, based on data from IMS Health.



The growing level of competition forces drug companies to keep prices down. Figure 3 shows the release dates (by quarter) of several antidepressants, beginning with the first in 1988. All of the subsequent antidepressants were launched at a lower price than the original drug, indicating an attempt to gain market share. Thus competition led to more choices *and* lower prices.

health care marketplace cannot work exactly like a normal market. But it still can be competitive, and that competition will keep prices low. Advertising will play a major role in expanding drug company competition. We have no reason to fear advertising; what we should fear is the people who want to control it.

### WHAT DO CONSUMERS THINK OF PHARMACEUTICAL ADVERTISING?

Consumers appear to like the fact that pharmaceutical companies are reaching out directly to them. And surveys indicate they make use of that information. According to a recent survey by the federal Food and Drug Administration:

- 51 percent of respondents who had seen a doctor in the last three months said that a prescription drug ad caused them to look for more information about the drug.
- And 72 percent rejected the notion that prescription drug advertisements made it seem that a doctor wasn't needed to decide if a drug was right for them.

### CONCLUSION

Putting information in the hands of consumers who didn't have that information before is a revolutionary business — and revolutions engender change. Health care spending may go up, but there is nothing wrong with that if people are getting treated for medical conditions that had gone undiagnosed. And increased communication between the physician and patient may enhance the doctor-patient relationship.

As long as patients are insulated from the cost of medical care and doctors stand between patients and their prescriptions, the

### Want More Info?

This study is a summary of IPI Policy Report # 155, *Who's Afraid of Pharmaceutical Advertising? A Response to a Changing Health Care System*, by Merrill Matthews Jr., Ph.D.

Copies of the full study are available from our website ([www.ipi.org](http://www.ipi.org)), in both HTML and Adobe® Acrobat® format. Point your browser to our website, and follow the dialogs to the Policy Reports section. Or contact IPI at the address below, and we'll mail you a full copy.

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