Pricing the EpiPen: This is Going to Sting

Teaching Note

Overview

This case examines the public controversy that erupted over the increasingly high price of EpiPens. Mylan Inc. (Mylan), a generic drug maker, bought the EpiPen product line from Merck in 2007. Since that time, the company both invested in marketing to raise awareness for the drug and dramatically increased the price, lifting it from $100 to $600 per two pack. In 2016, simmering consumer anger about the high prices of pharmaceutical drugs finally reached a boiling point and a media firestorm ensued. Congress was compelled to step in, demanding to know how Heather Bresch, CEO of the company, could justify the high price of EpiPens. The case challenges students to think about the role of fairness in pricing in a rich setting. Health care companies face a tension between doing good in the world and making a profit. Students can debate whether it is fair for drug prices to vary so dramatically across countries, as the EpiPen is priced at $85 in France. They also must consider how the price discounts should be structured in the United States to provide greater access to the drug. The case challenges students to think about how they would handle a public controversy.

The EpiPen case is well suited for students in MBA, MBA for Executives, and executive education programs. For MBA students, it can be placed in first-year marketing, pricing, or marketing communications courses. For executives, it can serve as a vehicle to discuss both ethical issues of pricing and how to handle a public controversy.

Teaching Objectives

- To consider the role of fairness in pricing
- To discuss the concept of price discrimination
- To discuss how to handle a media crisis
- To show how to balance the competing concerns of stakeholders in the pharmaceutical industry, in which companies want to both do good in the world and do well financially
Study Assignment Questions for Students

1. What should Heather Bresch do? Why? What risks do you see with this plan of action?

2. Does the variation in prices across countries seem reasonable? What would happen if Mylan were forced to make its prices more consistent?

3. What changes, if any, would you make to Mylan’s pricing policy? Is there a better way to structure the discounts?

4. What is the biggest risk that Bresch faces?

Teaching Plan and Case Analysis

The case is short, but the issues in it are complex. One teaching plan would be to move through the following three areas of discussion.

1. What should Heather Bresch do? Why? What risks do you see with this plan of action?

This case lends itself perfectly to an action plan discussion. Bresch has a lot of decisions to make in a very short time and the stakes are high.

First and foremost, Bresch has to figure out how to quell public anger about the high price of EpiPens. This will not be easy. As shown in the case, a Kaiser Family Foundation survey found that 72% of Americans thought that the cost of pharmaceutical drugs was unreasonable, and that 74% of Americans thought that they paid higher prices than people in Canada, Mexico, and Western Europe for the same drug. Further highlighting consumer frustration, Martin Shkreli, former CEO of Turing Pharmaceuticals, faced a similar media firestorm the previous year. He became infamous for dramatically raising the price of Daraprim, a medication used to treat malaria and HIV, from $13.50 to $750 per dose. Shkreli was later indicted on fraud and securities charges (not related to price gouging) and became the “most hated man in America.”

You might pre-assign a video of Shkreli defending Mylan if you would like to highlight this aspect of the case: http://www.cbsnews.com/news/ex-pharma-ceo-martin-shkreli-weighs-in-on-skyrocketing-epipen-prices/.

Bresch needs to take clear and decisive action to avoid Shkreli’s fate. On August 25, 2016, a few days after the headlines started to grow, Bresch offered greater discounts, increased eligibility for assistance programs, and sold the pen directly to consumers. These actions were highlighted in a press release titled, “Mylan Taking Immediate Action to Further Enhance Access to EpiPen® (Epinephrine Injection, USP) Auto-Injector.”

From the release:

Mylan is taking the following immediate actions to help further address the needs of patients and families:

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• For patients in health plans who face higher out-of-pocket costs, the company is providing immediate relief by offering a savings card for up to $300. This will effectively reduce by 50% the cost exposure for patients who would have otherwise paid the full list price for EpiPen Auto-Injector.

• Mylan also is doubling eligibility for our patient assistance program to 400% of the federal poverty level. This means a family of four making up to $97,200 would pay nothing out of pocket for their EpiPen Auto-Injector.

• Further, Mylan will continue to offer the EpiPen4Schools® program. The program, launched in August 2012, has provided more than 700,000 free epinephrine auto-injectors and educational resources to more than 65,000 schools nationwide to help them be prepared for anaphylaxis events among students.

• Mylan also is opening a pathway so that patients can order EpiPen® Auto-Injector directly from the company, thereby reducing the cost.”

A few days later, on August 29, 2016, Bresch took further action by offering a generic version of the EpiPen for $300, which represents a 50% discount from the branded product’s price. Amazingly, the same company was now offering both branded and unbranded versions of the EpiPen.6

You might begin the discussion by allowing the students to develop an action plan for Bresch. After capturing their plan and broader issues on the board, you might then reveal what Bresch decided to do and ask whether they feel satisfied with this plan.

Some broader issues to capture:

• What is the role of fairness in pricing?
• Should Mylan be allowed to price discriminate by offering coupons?
• Should Mylan be allowed to price discriminate by offering the EpiPen for $600 in the United States and for $85 in France?

2. What is price discrimination?

A second area of discussion revolves around the topic of price discrimination. Part of the discussion could be dedicated to understanding general attitudes about the practice. Another part could be dedicated toward understanding what happens when firms are allowed to price discriminate.

Price discrimination is the practice of charging different prices to different people for the same good or service. Before class, you might poll your students to understand their attitudes about price discrimination by asking the following questions:

Please state whether you agree or disagree with the following statements:

• It would bother me to learn that other people pay less than I do for the same products.

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- It would bother me to learn that other people get better discount coupons than I do for the same products.
- If a store I shop at frequently charges me lower prices than it charges other people because it wants to keep me as a customer more than it wants to keep them, that’s OK.

The students’ responses can then be compared with the results of an Annenberg study⁷ that asked the same questions. From the study:

- 76% agree that “it would bother me to learn that other people pay less than I do for the same products.”
- 64% agree that “it would bother me to learn that other people get better discount coupons than I do for the same products.”
- 72% disagree that “if a store I shop at frequently charges me lower prices than it charges other people because it wants to keep me as a customer more than it wants to keep them, that’s OK.”

The Annenberg study shows that the general public thinks the practice of price discrimination is unfair. Many businesspeople, however, take the firm’s right to price discriminate for granted. The public’s skepticism is important to understand, however, because it gives us some insight into the consumer backlash. Many American consumers would disagree with Bresch’s remark, “We do subsidize the rest of the world...and as a country we’ve made a conscious decision to do that. And I think the world’s a better place for it.” Americans think it is unfair that they have to pay $600 for an EpiPen that sells for only $85 in France. Bresch’s remark is out of touch with American sentiment.

You might push the students to think more critically about the practice of price discrimination with a simple example. Give them a market with four consumers and ask them to compare what happens (1) when a monopolist is forced to charge everyone the same price and (2) when a monopolist is allowed to price discriminate.

Consider changing contexts to a good that is not health related, which will allow you to contrast “nice-to-have” and necessary goods. For example, suppose four consumers are willing to pay the following prices for a Coke:

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<tr>
<td>Albert</td>
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<tr>
<td>Becca</td>
<td>$1.50</td>
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<tr>
<td>Clair</td>
<td>$2.50</td>
</tr>
<tr>
<td>Danny</td>
<td>$3.00</td>
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For ease of calculations, further suppose the marginal cost of producing a Coke is $0. What happens under the two scenarios?

If the firm can charge only one price, it should charge $2.50. The implications are that:

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⁷ Joseph Turow, Lauren Feldman, and Kimberly Meltzer, “Open to Exploitation: American's Shoppers Online and Offline,” a report from the Annenberg Public Policy Center of the University of Pennsylvania, June 1, 2005, [http://repository.upenn.edu/cgi/viewcontent.cgi?article=1035&context=asc_papers](http://repository.upenn.edu/cgi/viewcontent.cgi?article=1035&context=asc_papers) (accessed Aug. 29, 2016).

• Clair and Danny buy a Coke. Danny feels great because he would have paid $3, but it cost him only $2.50. Clair is indifferent.

• Albert and Becca do not buy because it's not worth it to them.

• Coke makes $5.

If the firm can price discriminate, it charges Albert $1, Becca $1.50, Clair $2.50, and Danny $3.00. The implications are:

• Every consumer buys a Coke.

• All are indifferent because they buy it at their reservation price, but all have access to the product.

• Coke makes $8.

This simple example raises an interesting question about the fairness of price discrimination. When the firm is allowed to price discriminate, it charges consumers their reservation price, so no one gets a good deal. On the other hand, price discrimination grants broader access to the product, as all consumers are able to enter the market.

Some students may have argued that it is important to regulate the price of pharmaceutical drugs. You can push them by asking if it isn't even more important to allow price discrimination in the drug market than it is in the soda market. Who cares if someone cannot have a Coke? But it does matter if a person cannot have an EpiPen. This sharpens the distinction between a nice-to-have and a necessary good. Since a Coke is only nice to have, the students are talking about a consumer’s willingness to pay. Since an EpiPen is necessary, they are talking about a consumer’s ability to pay.

Students may object that it is unfair to charge consumers exactly what they are able to pay. You might ask the class to articulate a better way to divvy up the rents. How might we allow consumers to have access to drugs without losing their shirts and allow companies to make a profit and invest in innovation?

3. **When is price discrimination more or less acceptable?**

You might finish the case with a broad discussion of when it is fair to price discriminate. Start by highlighting the variation in prices of pharmaceutical drugs across countries, and ask if the students agree with Bresch. Many will argue that it is unfair that consumers in France, a relatively wealthy country, pay only $85 for an EpiPen whereas people in the United States pay $600. There may be less concern about the couponing form of price discrimination, where poorer people pay less for an EpiPen. You might contrast these forms of price discrimination by asking whether people are as upset about the couponing as they are about the variation in prices across countries.

You might conclude the discussion by eliciting reactions to various forms of price discrimination and asking when it seems less fair. Provocative examples include:
• The same product being priced higher when targeted at women than it is when targeted at men (the “pink tax”)?

• Asians paying more for test prep services (the “tiger mom tax”)

• Coke changing the price of a soda depending on temperature

The pink tax and the tiger mom tax seem particularly sketchy because it is illegal to price discriminate on the basis of sex or race. The tiger mom tax actually occurs because the test prep service discriminates on the basis of geography, not race.

These examples might be contrasted with less provocative ones:

• Lower prices for buying an airline seat weeks in advance

• Bulk discounts

• Coupons

• Scholarships

Ask the students whether they can explain why some forms of price discrimination are less offensive than others. One common aspect of the less provocative examples is that the difference in price is framed as a discount. A behavioral explanation for this may be that losses loom larger than gains. Other themes and insights will emerge from the discussion.

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