

# Cost-plus drug pricing: the latest project among top PBMs and payers

Market Event Summary

# Express Scripts and CVS Health to adopt cost-plus drug pricing model

## Cost-plus drug pricing

### • Event(s)

Express Scripts launched a pharmacy network option, ClearNetwork, in late 2023 that will operate through a cost-plus pharmacy pricing model.

About the same time, CVS Health publicized its plan of rolling out a reimbursement model for its network pharmacy, CVS CostVantage, which also embraces the cost-plus drug pricing approach.

### • Implementation

Express Scripts' ClearNetwork will be available to all its clients in early 2024, and the pricing model will apply to the plan sponsor's list of covered generic, branded, and specialty drugs. CVS CostVantage will be available to PBMs for their commercial payer contracts in 2025.

## Background and context

The cost-plus pricing model has been popularized in the U.S. healthcare industry by Mark Cuban's Cost Plus Drug Co., which sets rates for its homegrown generic drugs through this approach that includes unit cost price, a 15 percent markup, and a fixed \$5 pharmacy processing fee.

Express Scripts intends to use third-party benchmarks to identify the lowest acquisition cost of a drug, add a markup of no more than 15 percent of the drug cost, and levy a flat pharmacy dispensing fee. Further, the pricing model will apply to the plan sponsor's list of covered generic, branded, and specialty drugs.

This strategic move from the PBMs will have a financial impact on all stakeholders of the pharmaceutical supply chain but may also offer fair drug pricing to consumers.

### + Patient

The model may reduce out-of-pocket costs of prescription drugs for consumers, as well as improve access and adherence to drugs.

### - Pharma

Since drug prices determined through this model do not reflect changes in market situations—such as currency fluctuations, supply and demand, and competition—it may eventually affect the incentives for innovation and quality improvement within the pharmaceutical industry.

### + Payers

The pricing model may generate substantial cost-savings for payers, offer a level of certainty in their budgetary planning for drug expenditure, and reduce the complexity and variability of drug pricing.

### - PBMs

If implemented with transparency, the pricing model may reduce the bargaining power of PBMs and lower their profit margins.

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## Open questions

- **Industry norm**

How will the pricing model impact the demand and utilization of drugs covered on Express Scripts and CVS Health's formularies?

Will the model encourage more generic drug production and competition since it could reduce the price gap between branded and generic drugs?

- **Patient behavior**

Will this model affect the quality and safety of care or overall healthcare spending since patients may switch to cheaper drugs or consume more drugs than necessary?

- **PBM impact**

How will the national PBMs apply this model to branded and specialty drugs bypassing the politics of the pharmaceutical lobby? What methodology will they apply to determine the markup percentage on covered drugs ?

Will these initiatives increase affordability of prescription drugs for consumers, or is it potentially another project that will bring in hidden profits for PBMs?

## Strategic implications

As a pioneer among PBMs and payers adopting the cost-plus drug pricing model, Express Scripts and its clients will likely gain competitive advantage in the market.

According to public announcements, CVS CostVantage will be implemented a year after Express Scripts' ClearNetwork goes into operation, which indicates that the latter's implementation plan will serve as a blueprint for other industry leaders that embrace the pricing model.

Since the cost-plus drug pricing model impinges upon the profit percentage of retail pharmacies, they may resist participating in Express Scripts' ClearNetwork and CVS CostVantage.

## Factors for consideration



Current public information suggests the percentage markup on drug cost and pharmacy dispensing charges may be variable for prescriptions fulfilled through Express Scripts' ClearNetwork based on the drug variant, manufacturer, and pharmacy outlet.



The cost-plus drug pricing model may face challenges from regulatory bodies, patent protections, and supply chain stakeholders that limit the availability and accessibility of drugs.

# About the Author



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- **Author Bio**

Piya Roy is a healthcare research and data analyst with Clarivate's Market Access Insights team since June 2023. Piya researches growing and dynamic trends within the U.S. healthcare industry and synthesizes qualitative and quantitative analysis for the company's product suites such as MCO Analyzer, Health Plan Analysis, and Pharmacy Benefit Evaluator. She previously worked on Clarivate's Healthcare Business Insights team, where she contributed to best practice reports, featured researches, analyst advisories, and scorecards on revenue cycle management.

- **Did you know?**

Piya completed her bachelor's degree in dental surgery and then pursued a Master of Public Health with a specialization in health administration from Tata Institute of Social Sciences, Mumbai.



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