



Best Practices in Global Fair Market Value Processes

***Fredrick Eaton, Partner
Polaris Management Patners***

September 11, 2012 (Shanghai)

**Second Asia Pacific Pharmaceutical Compliance Congress and Best
Practice Forum**

Agenda

- 1. FMV - Paying for time**
- 2. Contracting / FMV Implementation considerations**
- 3. FMV Challenges**
- 4. FMV Approaches**
- 5. Discussion Questions**

FMV Is Fundamentally About How To Value a Consultant's Time

- **Whether payments are made on an hourly rate or fixed fee basis, Payments should be linked to the work required and an FMV hourly rate**

- **Determining the value of a physicians time should be done in an objective and consistent manner**
 - FMV rates should not change based on the type of work conducted
 - Since FMV is usually a range not a precise number, services may be paid based on different rates within the FMV range

 - FMV rates will change:
 - By country due to local market valuation for clinical expertise
 - By level of expertise (premium rates for top experts / Key Opinion Leaders)

 - In most countries, FMV rates should be tied to salaries / incomes of physicians with the targeted level of expertise
 - Salaries are an objective measure of value from outside Pharma industry
 - Premium rates for consulting services are usually appropriate
 - Premiums rarely justified at multiples of underlying salary rates

FMV – What is are reasonable hourly rates necessary to convince a physician to offer their services as a consultant?

Expertise Is The Relevant Factor In Justifying FMV Levels

Expert Premiums

- **Expert premiums designed to recognize that markets will typically compensate higher levels of expertise with higher levels of pay**
 - Common three tier structure summarized below
- **Expert premiums need not be correlated to the earnings of specific physicians**
 - Often top experts do not earn the highest salaries in a market
 - Academic salaries are often lower than private pay salaries, but top physicians may choose these positions for the prestige or intellectual opportunities
 - Top experts usually have the opportunity for higher paid salaried positions if they choose to modify their professional focus

Local Expert

- Associated with average to above average expertise
- Rates set at average to above average levels for market

National Expert

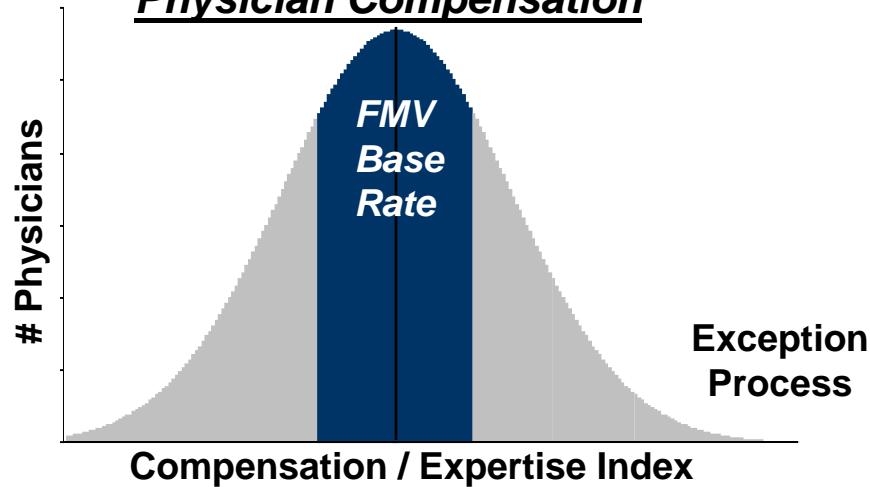
- Consistent with significantly above average expertise
- Well recognized in their field within their country but with only limited recognition (if any) in other countries

Regional / Int'l Expert

- Top experts in their field (e.g. top 5-10% in a country)
- Recognized internationally or in other countries within the region (EMEA)

To Avoid Allegations Of Favoritism, FMV Rates For Physicians Must Be Supported By Objective Indicators Of Expertise

Sample Distribution Of Physician Compensation



Segmentation



Objective Expertise Criteria

Typically based on indicators of clinical expertise such as:

- Publication record
- Experience in clinical trials
- Type of employer & title
- Scientific and educational presentations
- Leadership roles in national/int'l associations

Problematic Criteria

Avoid measures of prescribing influence or company specific knowledge*

- Knowledge of product
- Prescribing experience
- Volumes of patients

* Some factors may be appropriate for “selecting” a physician for a particular service but not for determining expertise level and FMV rate

Fixed Fee Contracting & Understanding Of Time Requirements Can Facilitate a Smoother Contracting Process

- **Fixed Fee contracting is an effective approach for managing contracting efforts**
 - Use hourly rate contracting for services when work is uncertain
- **Carefully evaluate all time associated with services**
 - Consider all elements of the work effort (Prep time, travel)
 - Payment might be considered low unless a complete assessment of the work effort is included in calculating a Fixed Fee payment level
- **Avoids getting drawn into negotiations focused on hourly rates**
- **Contract also should define payment provisions for cancellations**

Fixed Fee contracting has significant benefits:

- **Requires business to have a clear vision of service expectations**
- **Focuses any fee negotiation on total payment**
- **Facilitates audit & reconciliation**
- **Reduces uncertainty about value of payments to be made**

Objectivity, Consistency, And Documentation are Key To Successful Implementation

Objectivity

- **Assure payments are made based on a robust analysis of FMV**
 - Protects against allegations of subjectivity

Consistency

- **Ensure that physicians with similar skills conducting similar services receive similar fees**
 - Protects against allegations of favoritism in the implementation of payments

Documentation

- **Keep necessary records of key factors used in**
 - Creating methodologies
 - Determining FMV rates and Expert status
 - Calculating fee schedules
 - Determining need for services

Developing FMV Methodology Needs To Address Several Challenges

Key Challenges

Limited Data

- **In many countries surveys of physician compensation are not readily available**
 - Limited data available for gov't employed physicians
 - Little information available about private sector wages

Gov't Centered Employment

- **In most countries, incomes determined based on salaries or fees paid by Gov't insurance programs**
 - In countries with significant fiscal challenges, incomes more a function of budget constraints than market forces

Industry Contracting Practice

- **Developing accurate industry benchmarks is difficult**
 - Some companies contract at hourly rates while others use fixed fees
 - Need to understand hours paid to properly evaluate industry benchmarks

Three FMV Calculation Approaches Can be Used To Address Potential Data Limitations For Individual Countries Or HCP Types

Salary Data Calculation

- Strong measure of FMV but available data may underestimate market prices
- Salary data can be collected for specific countries and HCPs specialties
- Hourly FMV rates can be calculated by converting salary data to hourly consulting rates

Survey Of Industry Payments

- Valuation measure with potential biases which may over-estimate market price
- Some surveys of hourly rates and fixed fees paid by pharmaceutical companies to physicians for a variety of consulting services are available from Cutting Edge

Cross-Country Indexation

- Labor indexed exchange rates can provide a basis for estimating FMV from countries with strong datasets
- FMV rates can be calculated using FMV in another country multiplied by applicable index value

FMV Hourly Rates
Based on available data

Contact Information

Fredrick Eaton, Partner
Tel: +1.212.502.1873
FEaton@PolarisManagement.com



www.polarismanagement.com

Amsterdam • New York • San Francisco