M&As in pharma can boost revenues and save money, but not necessarily for the public

Mergers and acquisitions can reduce marketing costs but also lead to drug price increases.

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When two pharmaceutical companies announce a merger, they often tout the benefits: combined capabilities, improved R&D under one roof, greater efficiencies and savings for patients.

Yet research finds this only to be partly true, as evidenced by a study published in the *Journal of Marketing Research* by Vardit Landsman and Stefan Stremersch. In an analysis of 375 drugs targeted in M&A deals, they find that M&As do indeed create efficiencies, specifically in marketing, but that these efficiencies do not result in lower drug prices.

The M&A mindset

Mergers and acquisitions are major ways for firms to increase revenues and total market share in many industries. They are particularly appealing in the pharmaceutical industry, where firms that own legacy drugs that are approaching the "patent cliff" (when key patents expire) will often acquire other firms to diversify their portfolios. In 2023, pharma, medical and biotech accounted for 15% of M&A value across all industries, amounting to some $472 billion.

The most obvious reason for M&As in pharma is to improve R&D, but there are marketing benefits, too. Pharma is an industry that depends heavily on direct-to-physician promotion, known as “detailing,” in which sales representatives visit doctors to promote their portfolio of drugs to prescribing physicians. Companies dedicate considerable marketing resources to this effort, so amalgamating portfolios to have sales reps promote a wider range of drugs on the same visit makes sense.

Landsman and Stremersch put a number on it, finding that there is a reduction in detailing spend following a merger, amounting to $3.18 million per drug across the sample studied in the two years following the deal.

This is partly because of the streamlining of portfolios. It can also be due to firms with experience of certain kinds of drugs knowing how to market them well and having strong existing relationships with key physicians. This allows firms to cut spending while growing revenues: Among the 375 branded drugs studied, acquiring firms generated over $23 billion more in revenues in the two years following a deal, while spending over $1 billion less on detailing than in the two years prior.

Do consumers benefit from corporate cost-saving following a merger?

Pharma companies often claim these savings will be passed on to patients, but the research did not back this up. Indeed, drug prices tend to rise after mergers and acquisitions.

The cost of M&As

Drug prices tend to rise after mergers and acquisitions between pharmaceutical companies, resulting in more expensive drugs for patients.

26.9 %

The median price increase between pre- and post-deal periods.

Firms tended to increase the prices of the drugs they acquired after the deal — and not just a little bit. The median price increase is about 26.9%. One notable example is the 2015 acquisition of Salix Pharmaceuticals by Valeant Pharmaceuticals. Following that merger, the price of a number of drugs rose steeply, including an 800% rise for the diabetes drug Glumetza.

Firms are able to do this because they gain market power post-merger. They are a larger company and may face less competition if they control more of the treatments for a particular disease.

Mergers and acquisitions are watched by government agencies precisely because they consolidate power and can drastically reduce competition. The pharmaceutical industry may need particular observation in light of this research. While drug prices have increased generally over the years, for branded drugs acquired via a merger or an acquisition, prices increased considerably more than the norm.

Drug pricing reform is gaining ground in the United States through acts such as allowing Medicare to negotiate prices for certain drugs and the Trump administration's recent executive orders. Given the high costs to individuals and society, further measures may be needed to limit how much acquiring firms can increase a drug's price relative to a non-acquired drug or a similar drug in another country.

About the research

The study looked at 375 branded drugs acquired in M&A deals in the United States between 2007 and 2020.

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