

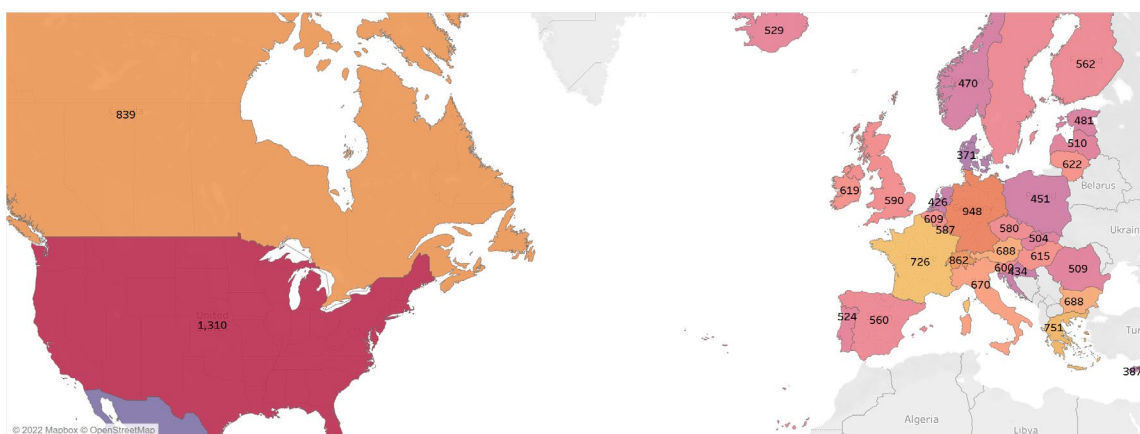
The Mark Cuban Cost Plus Drug Company

In January 2022 the Mark Cuban Cost Plus Drug Company (MCCPDC)—or Cost Plus Drugs, for short—launched. The company’s aim is to lower the price of pharmaceuticals in the US. Its strategy involves a simple “cost plus” price paid by the patient for a limited range of medicines offered at a substantial discount from listed prices.

Pharmaceutical Spending in the US

The US leads the world in consumer spending on pharmaceuticals. The OECDⁱ (Organization of Economic Cooperation and Development) collects data on pharmaceutical spending. This regularly puts the US well ahead of all other nations (see figure 1 for 2020 data).

Figure 1. 2020 Pharmaceutical Spending, US Dollars Per Capita, Selected Nationsⁱⁱ



Health insurance is the primary mechanism for managing healthcare costs in the US, although 8.6% of Americans (28 million people) had no insurance at any point in 2020ⁱⁱⁱ. Insurance is offered by a variety of public and private organizations. In 2020, 54.4% of Americans had employment-based insurance, 18.4% had Medicare (mostly

older Americans), and 17.8% had Medicaid (poorer Americans), 10.5% bought their insurance directly, and 3% had insurance through their connection to the military¹.

In the US, the typical approach to seeking medical help is to see a healthcare provider (e.g., a doctor), who prescribes a medicine, “gives a prescription.” Pharmacies then “fill the prescription” (i.e., provide the medicine). Patients are responsible for paying the pharmacy, but insurance often covers most of the cost of the prescribed medicines, apart from a co-pay, which varies by insurance product, or “plan.” The rules are complex and depend on the specific insurance plan. And some medicines are simply not covered by some plans.

Pharmaceutical companies have various schemes to help defray the costs of medicine for those who can’t afford it.^{iv} Still, many Americans feel that the cost of prescription drugs are too expensive. In a survey,^v 83% said that costs are unreasonable, and 26% said that they had problems paying for their prescriptions. Of these, those who had a serious condition (33%), were poorer (less than \$40,000 annual income, 35%), needed four or more prescriptions (32%), or were in the 30–49 age range (31%) were the most likely to say that they had problems paying.

The Cost Plus Drug Company

Mark Cuban is a well-known figure in the US. Having gained his fortune in technology, he bought the Dallas Mavericks, a basketball team, and appeared on Shark Tank, a popular TV show about entrepreneurship.^{vi} Cuban, a serial entrepreneur, was approached by Alexander Oshmyansky, a radiologist and medical entrepreneur, and asked to help him set up the Mark Cuban Cost Plus Drug Company. Cuban agreed with the idea, stating that:

¹ These numbers total more than insured population, since some people changed their insurance or held multiple forms of coverages sometime in the year.

"Everyone should have safe, affordable medicines with transparent prices."

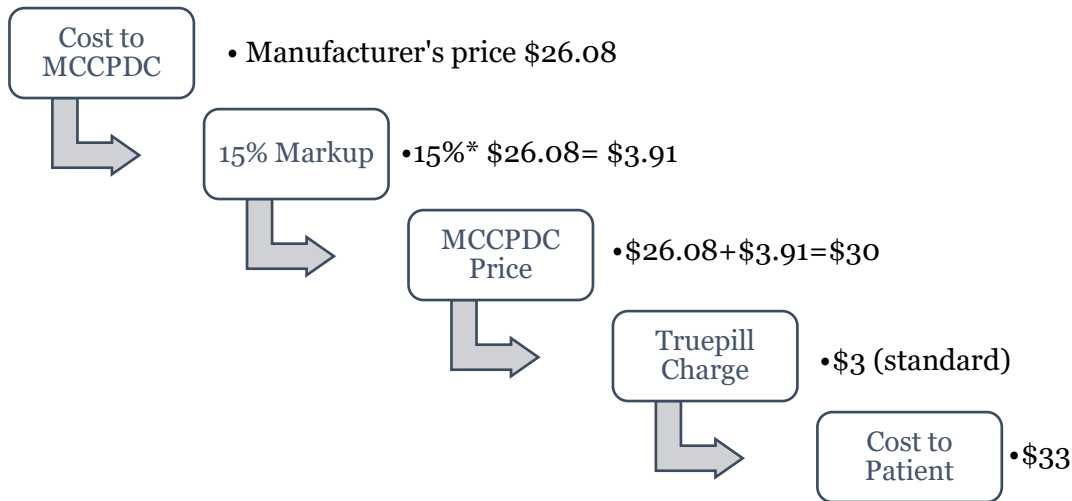
Mark Cuban^{vii}

Together they set up the organization as a private company. This means that a small number of shareholders—e.g., Cuban and Oshmyansky—would control it. They operated the company in Texas but registered in Delaware as a public benefit corporation (PBC). This is a for-profit company that also has an explicit social mission beyond profit. The mission of Cost Plus Drugs is to make medicines more accessible.

"Shockingly, in the USA, it's not unusual for disadvantaged populations to suffer from rampant outbreaks of hookworm....Our goal is to dramatically reduce the cost of drugs like Albendazole [which treats hookworm], but we also think that it is just as important to introduce transparency to the pricing of drugs so patients know they are getting a fair price."^{viii}

Pricing at the Cost Plus Drug Company

Cost Plus Drugs discloses the prices at which they purchase pharmaceuticals from manufacturers. For example, for a course of Albendazole, the company states (mid-2022) that they pay the manufacturer \$26.08. The company then adds a 15% markup to the cost (hence the "cost plus" name). This markup represents the cost to run the company, pay employees, make a profit, etc. There is then a standard \$3 prescribing fee charged by its partner, Truepill (and maybe some postage fees). The cost to the patient adds up to \$33, which compares with costs of up to \$500 for the medicine elsewhere^{ix}.



Business Model

Cost Plus Drugs does not take insurance^x. Patients pay for their prescriptions as they would at any online store.

Even when the advertised price of a medicine is cheaper at Cost Plus Drugs than elsewhere, this does not necessarily mean that insured patients get a better deal through Cost Plus Drugs. For a patient with good health insurance, the co-pay (what the patient actually pays) could be less than what Cost Plus Drugs charges, and the patient would get nothing from their insurance if they went through Cost Plus Drugs. As such, the company is certainly not the right choice for all patients at all times.

Cost Plus Drugs stocks only a limited range of medicines. One type of medicine it does not supply is controlled drugs, those with a likelihood of leading to physical or mental dependence. Examples include ADHD and anti-anxiety medications and opioids^{xi}.

Cost Plus Drugs has access to relatively cheap drugs because it supplies generics. These are drugs that have come off-patent. A patent gives exclusive rights to those who have developed a new idea, such as a pharmaceutical. The explicit intention behind patents is to reward those who develop new ideas. Many patented drugs are “branded”; they are given a unique name and may be advertised directly to the consumer (DTC). Such DTC

advertising might suggest that you “ask your doctor if [this medicine] is right for you.” Only New Zealand and the US allow DTC advertising^{xii}.

Patents are time limited, and after an idea comes off-patent others are free to employ the idea—in this case, manufacture the off-patent drugs. Generic drugs, drugs that are off-patent and unbranded, are typically much less expensive than their branded versions (branded drugs may continue to exist in a market even after their patent has expired).^{xiii}.

In the next couple of years, Cuban hopes to sell branded goods, such as epipen, that will come off patent^{xiv}, but this is not yet the case as of mid-2022.

Reinventing the Pharmacy

The Cost Plus Drug Company is just one of several companies that have aimed to disrupt the pharmaceutical industry and ultimately lower prices for US consumers. Mark Cuban feels that he is in a good position to do so because he has the personal skills and resources to make a difference.

“I’ve been incredibly blessed in that my next dollar is not going to change my life. But my ability to invest in costplusdrugs.com is an ability to change millions of lives in this country, if not tens of millions over the next two years. And, you know, if there’s a mission that I like to accomplish, that’s it.”^{xv}

Endnotes

- ⁱ OECD, Better Policies For Better Lives, <https://www.oecd.org/about/>, Accessed August 2nd 2022
- ⁱⁱ Data available at OECD DATA, Pharmaceutical spending Total, US dollars/capita, <https://data.oecd.org/healthres/pharmaceutical-spending.htm>, Accessed August 2nd 2022
- ⁱⁱⁱ US Census Data, Health Insurance Coverage in the United States: 2020, September 14, 2021, Report Number P60-274 Katherine Keisler-Starkey And Lisa N. Bunch <https://www.census.gov/library/publications/2021/demo/p60-274.html>.
- ^{iv} Ethan Wolff-Mann, Drug companies might give you a discount — if you ask, January 9, 2019, Yahoo!finance, <https://www.yahoo.com/now/drug-companies-might-discount-ask-195619496.html>, Accessed Aug 2, 2022
- ^v Kaiser Family Foundation, Public Opinion on Prescription Drugs and Their Prices, Liz Hamel, Lunna Lopes , Ashley Kirzinger, Grace Sparks, Audrey Kearney, Mellisha Stokes, and Mollyann Brodie <https://www.kff.org/health-costs/poll-finding/public-opinion-on-prescription-drugs-and-their-prices/>, Accessed Aug 2 2022
- ^{vi} Mark’s Bio, Mark Cuban Cost Plus Drug Company, <https://markcubancompanies.com/marks-bio/>, Accessed Aug 2 2022.
- ^{vii} Mark Cuban Cost Plus Drug Company, <https://costplusdrugs.com/>, Accessed Aug 2 2022.
- ^{viii} Our Mission: A letter from Mark Cuban, <https://costplusdrugs.com/mission/>, Accessed Aug 2 ,2022
- ^{ix} Our Mission, <https://costplusdrugs.com/mission/>, Accessed Aug 2 ,2022
- ^x Annika Kim Constantino, Mark Cuban’s pharmacy startup is actually making drugs less expensive. It’s still working on solving the real problem, Jul 28 2022, <https://www.cnbc.com/2022/07/28/mark-cuban-pharmacy-cost-plus-drugs-struggling-with-brand-name-drugs.html>, accessed Aug 2 2022
- ^{xi} Ross Phan, What Is a Controlled Substance?, GoodRX Health, <https://www.goodrx.com/healthcare-access/medication-education/what-are-controlled-substances>, accessed Aug 2 , 2022
- ^{xii} C. Lee Ventola, Direct-to-Consumer Pharmaceutical Advertising: Therapeutic or Toxic? <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3278148/>, Pharmacy and Therapeutics, 2011 Oct; 36(10): 669-674, 681-684.
- ^{xiii} Annika Kim Constantino, Mark Cuban’s pharmacy startup is actually making drugs less expensive. It’s still working on solving the real problem, Jul 28 2022, <https://www.cnbc.com/2022/07/28/mark-cuban-pharmacy-cost-plus-drugs-struggling-with-brand-name-drugs.html>, accessed Aug 2 2022
- ^{xiv} PBS Interview, Mark Cuban aims to lower prescription drug prices with online pharmacy, June 5, 2022 <https://www.pbs.org/newshour/show/mark-cuban-aims-to-lower-prescription-drugs-prices-with-online-pharmacy>, accessed Aug 2 2022
- ^{xv} Ibid (citation same as above)