




# Global Best Practices in Medical Device Procurement

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*L.E.K. Consulting is a leading global strategy consulting firm*

Overview	Global network
<p>Advise senior executives facing complex, high value strategic, commercial and operational issues</p> <p>Global reach across many sectors</p> <ul style="list-style-type: none"> <li>900 staff led by 104 directors</li> <li>20 offices</li> <li>Asia: 180 staff led by 20 directors</li> </ul> <p>Clients include 20% of largest 200 companies globally</p>	

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## *The Medtech sector has experienced a proliferation of centralized procurement*

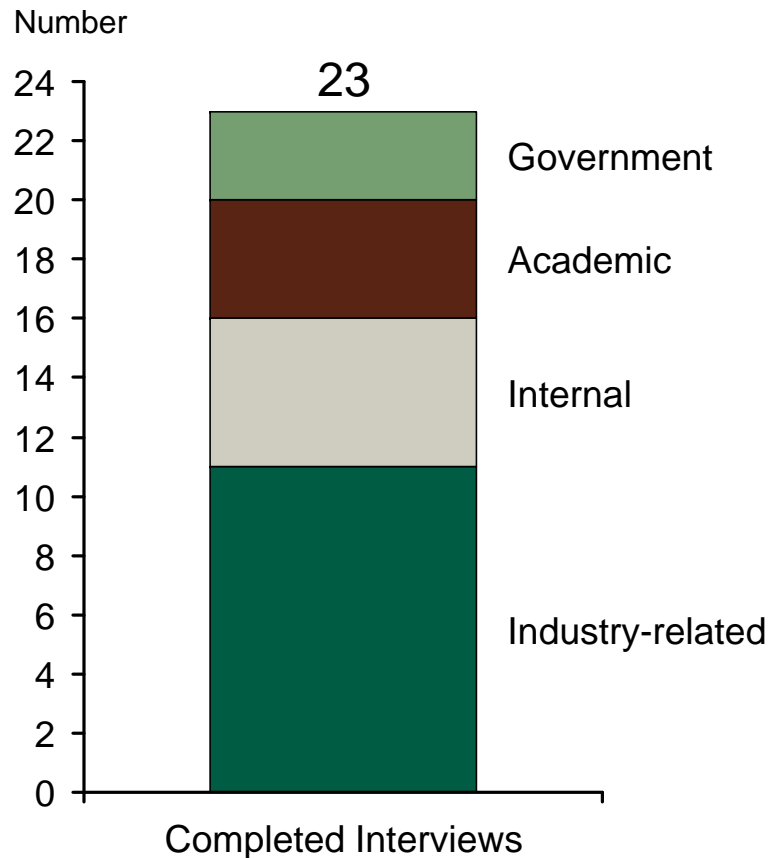
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- Governments are increasingly turning to centralized procurement as a means to drive down medical device costs and reduce healthcare spending
- Although tendering increases buyer power and usually drives lower pricing levels ...
- ... at the same time governments can generate unintended consequences for quality of care, total episodic costs and access to care

L.E.K. reviewed the advantages and disadvantages of various procurement models to identify “best practice principles” to help guide centralised procurement and the establishment of objective, efficient and flexible medtech procurement strategies

## L.E.K. assessed tendering systems across 10 countries

### Completed interviews



- 20+ interviews with market participants
- Review of 147 secondary sources
- Ten countries analysed
  - North America: Canada, United States
  - Europe: Germany, Norway, Sweden, UK
  - Asia: China, Hong Kong, Singapore, Taiwan

Article available in May 2011 edition of  
Journal of Medical Marketing

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*Despite common cost reduction objectives, there is significant variation in tender design*

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### Scope

- Geographic coverage
- Hospital type(s) covered
- Products covered

### Process

- Degree of physician involvement
- Product selection mechanism
- Process transparency

### Contract Structure

- Contract duration
- Contract rigidity
  - ✓ volume commitments
  - ✓ ability to use off-tender products)

Source: Secondary reports; Academic papers; L.E.K interviews and analysis

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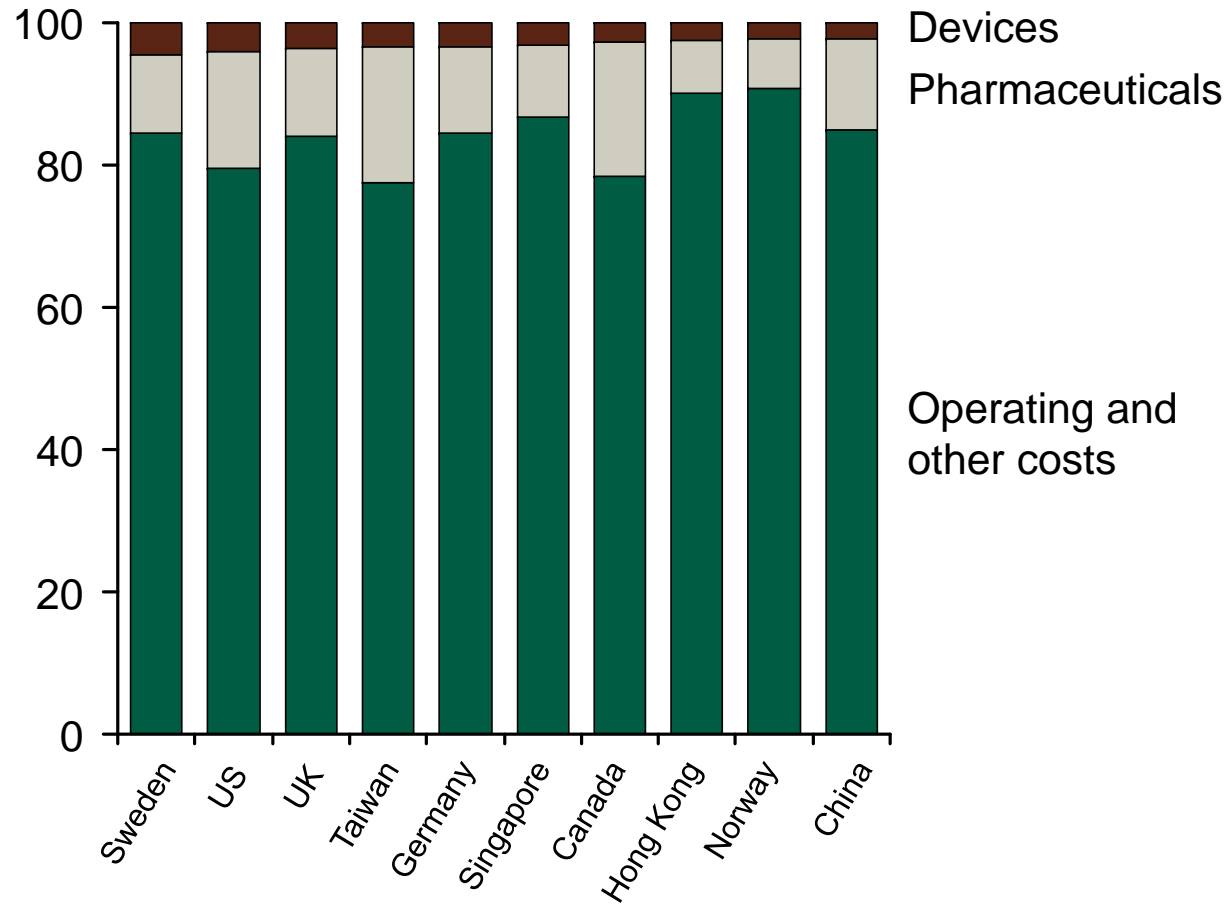
*Tendering system variance results in variable levels of success in meeting key challenges*

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- 1 Effectively lowering total healthcare spend
- 2 Maximizing patient access
- 3 Ensuring sustainable competition
- 4 Efficiently managing administrative burden

## Medtech cost savings offer only limited potential to contain total expenditure ...

Healthcare spend by use of funds (% , 2008)



Source: Espicom; WHO; World Bank, LEK analysis

***Though initially more expensive, innovative or high quality products can drive longer term “whole of system” cost savings***

Cost Saving Drivers			
Improvements in:	Early detection / diagnosis		
Reductions in:	Accidents / errors	Procedure time	Follow-up care
	Complications	Length of stay	Medication required
	Side effects	Hospital admission / readmissions	
		Repeat procedures	

Healthcare economics is one means being employed to encourage a more holistic view on costs, but can be highly time and cost intensive for manufacturers

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## *A common complaint among caregivers is that tendering can limit patient access to life saving and improving therapies*

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- Tender contracts restrict purchasing to a limited number of products

“... a limited number of suppliers and products cannot satisfy a broad spectrum of specific needs ...”

*Centralised Procurement in the Health-Care Sector, University of Oslo, 2007*

- An overemphasis on price can indirectly discourage innovation by failing to reward product development efforts

“... suppliers are not always incentivized to introduce innovation as there is too much intermediation and focus on unit price ...”

*Strategic Review of the Collaborative Procurement Hub Programme, Ernst and Young, 2008*

- These challenges are highlighted by the “conflicts” over reduced access between caregivers and payers in a number of jurisdictions



A number of systems have initiated changes, for example leaving a proportion of the market untendered

## *Tendering can struggle to ensure sufficient and sustainable levels of market competition*

- In jurisdictions which utilized “all-or-nothing” purchasing, unsuccessful suppliers are effectively excluded from the market and may exit it altogether

“... companies that fail to win a tender withdraw their products from New Zealand as there is no longer any market for them. In fact, entire companies have had to withdraw because their continued presence has become no longer viable in New Zealand ...”

*New Zealand Medical Journal, Vol 115, 2005*

- As the number suppliers decreases, competition weakens reducing the procurer’s leverage in future rounds and resulting in higher prices and decreased product diversity

“... since 2000, NAV\* decided to concentrate contracts on fewer suppliers through a series of tenders. This has had the consequence that a number of domestic manufacturers have closed down... with the consequences this may have for selection, price and quality ...”

*Centralized procurement in the health-care sector, University of Oslo, 2007*

Some countries have refined procurement policies to limit ‘anti-competitive’ consequences, with for example shorter term tenders

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## *Finally, tendering can increase administrative cost burdens*

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- While pooling demand creates pricing leverage, the processes and institutions used to operate a tendering system can become unwieldy or opaque
- ... inadvertently resulting in extra costs
  - ✓ excessive paperwork
  - ✓ process duplication
  - ✓ need to revise or repeat improperly conducted tenders
- ... or creating opportunities for corruption in some jurisdictions
- These issues can result in:
  - ✓ higher costs for bidders and procurers
  - ✓ government investigations
  - ✓ lawsuits

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## *Key Conclusions*

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- Mixed evidence regarding success of medical device procurement
- Limited potential impact of medical device procurement on overall healthcare spending
- The need for bona fide physician involvement with the procurement process
- Limited relevance and risks in tendering for high value / differentiated products (vs. commodities)
- Collaborative relationships with payers promote proactive monitoring of tendering policy implications and ongoing improvements

## *L.E.K. has identified five best practice design principles*

Design Principles	Examples of Observed Best Practices
Evaluate total cost of care	<ul style="list-style-type: none"> <li>Cross-functional involvement in product selection</li> <li>Use of healthcare economics data</li> </ul>
Ensure clinical input	<ul style="list-style-type: none"> <li>Physician involvement in purchasing</li> <li>Monitoring of the clinical impact of tendering</li> </ul>
Embed some flexibility in contracting	<ul style="list-style-type: none"> <li>Provisions for rapid adoption of new products</li> <li>Provisions to allow for off-tender purchasing</li> </ul>
Encourage supplier diversity	<ul style="list-style-type: none"> <li>Selection of multiple suppliers</li> <li>Avoidance of whole-market tenders</li> <li>Increased frequency of contract turnover</li> </ul>
Ensure process transparency	<ul style="list-style-type: none"> <li>Clear definition of process and requirements</li> <li>Oversight of the bidding process</li> <li>Communication of results and rationale to all bidders</li> </ul>

***Provincial tendering for medical products began in Canada in the late 1940s; the current system utilizes multi-level tendering via provincial frameworks***

Current system characteristics	Description
Date of implementation	● Late 1940s
Group responsible for implementation	● Federal government, Hospital purchasing personnel
Managing organization	● Hospital or SSO/GPO; Ministry of Finance (broadly)
Institutions covered	● All public facilities
Products covered	● All medical devices; only generic pharmaceuticals
Average contract length	● 3 years with optional 2 year extension
Degree of contract rigidity	● Medium

- Tendering for healthcare products developed along with the advent of the public healthcare system in the late 1940s
  - Tendering in Canada is promoted by the Ministries of Finance & Health and provincial governments as a cost control mechanism
  - All healthcare-related tendering is public and subject to the same rules and regulations governing other public procurement
  - Lawmakers passed National Assembly Bill 17 in 2006, which standardized regulations as well as increased transparency and compliance on all public tendering
- Canadian tenders vary widely in size and scope
  - Multi-provincial, provincial, GPO, Shared Service Organization, hospital group, and individual hospital tenders exist
- Tendering is broadly overseen by the Ministries of Finance & Health, and observed by the Canadian Competition Bureau
- Tendering covers all medical devices but only generic pharmaceuticals
- Canadian RFPs are highly specific; in many cases, they are designed to result in a specific desired product being selected
- Canadian tendering contracts do not include volume commitments or exclude off-tender purchasing

## Questions?

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### L.E.K. Consulting's Global network

