



Strengthening purchasing of medicines

Research commissioned by the Dutch Association of Hospitals

Final Report, November 2016

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Management summary

Strengthening purchasing of medicines by hospitals is one means of safeguarding accessibility and affordability

The costs of medicines have increased significantly in recent years. This has led to the Ministry of Health, Welfare and Sport and parties in the field cooperating intensively to safeguard the accessibility and affordability of Medical Specialist Healthcare (MSZ) medicines. The Dutch Hospital Association (NVZ) has established an expensive medicine taskforce to focus on strengthening hospitals' purchasing role. The end of patent terms for various expensive medicines offers opportunities to limit the increase in medicine costs to a certain extent, using a strong purchasing organisation. Hospitals do not announce any negotiated discounts on medicines. And yet there are both national and international signals and figures that indicate that Dutch hospitals could purchase medicines for lower prices. This report offers concrete advice on how to do this.

The report is the result of interviews and an expert meeting

The content of this report is based particularly on interviews. The information from the interviews was enriched and placed in context using desk research. Results from interviews and desk research were refined during an expert meeting. The expensive medicines task force and consulted experts have responded to the draft report.

There is no 'magic bullet' to safeguard affordability of expensive medicines

It seems tempting to rigorously redesign the current model for the purchase of expensive medicines; which are purchased mostly by hospitals. A new model could probably address the challenge of keeping medicines affordable in the Netherlands. This could include purchasing by other parties, such as healthcare insurers or the Ministry of Health, Welfare and Sport. There could also be

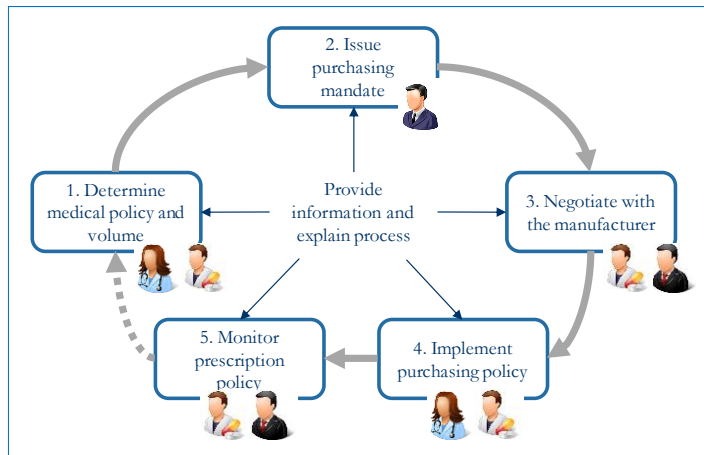
increases in scale by purchasing expensive medicines at a national or even at European level. During the research we have, however, had to conclude that there is no 'magic bullet' - no simple solution for this difficult problem. The solution to the problem assumes incremental innovation and gradual improvement of structures and processes that mainly already exist.

Hospitals can strengthen purchasing by systematically following 5 steps of effective purchasing

Hospitals can strengthen medicine purchasing by systematically following five steps of an effective purchasing process in their own hospital and/or in the purchasing organisation to which they are affiliated. These steps are: (1) Determine medical policy and volume, (2) Issue purchasing mandate, (3) Negotiate with the manufacturer, (4) Implement purchasing policy and (5) Monitor prescription policy. Interviews demonstrated that, in undertaking these steps, the following three elements were particularly important:

- Medical specialists should be involved in formulating the medical policy for purchasing (step 1) in their own hospital. They are after all those who are 'at the helm' in implementing the contract agreements.
- Those involved in their own hospital may not make other agreements with medicine suppliers once the purchasing mandate has been issued to their own hospital's purchasing team or the joint purchasing organisation (step 2). The level of compliance with contract agreements is determining for the credibility and thus the purchasing power of the purchasing organisation.
- Frequent benchmark information is essential in implementing the purchasing policy (step 5). Feeding back information contributes to raising awareness of prescribers about prescribing behaviour and can be used to convince medical specialists regarding the purchasing policy.

The 5 steps for an effective medicine purchasing process



- Hospital pharmacists, managers or board members take the lead in the purchasing process. Leadership is required in preparing and implementing steps during the purchasing process. The persons taking the lead should have the required ‘soft skills’.
- Build in compensation/incentives to enable policy to be implemented faster. It is important that as much possible transparency exists regarding the negotiated discounts (within the legal frameworks of the contracts with manufacturers) and how the savings are used. The experience of some of those interviewed shows that compensation of required costs to implement the medicine policy and/or further incentives for hospital pharmacists and hospital departments contribute to faster volume movements.

Effective purchasing organisations are credible and are able to shift volumes quickly

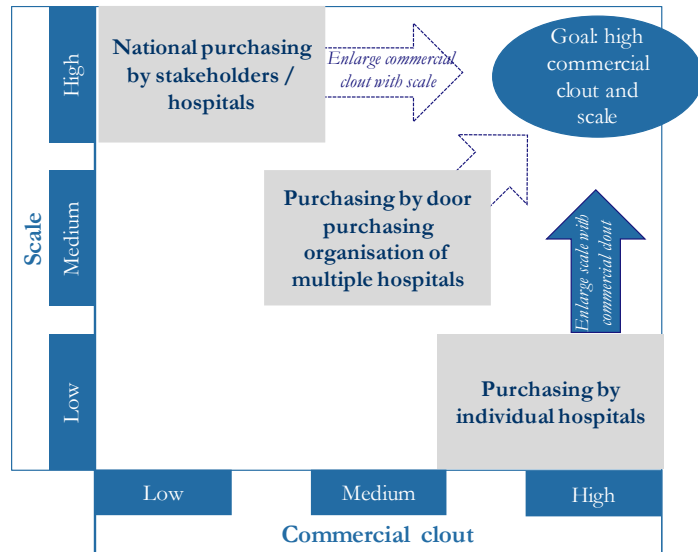
Hospitals can go through the purchasing stages individually or do this together with other hospitals by connecting to a purchasing organisation. In choosing to strengthen a purchasing organisation, hospitals should mainly focus on the following organisational elements:

- Credibility and fast volume movement .The cooperating hospitals are strong in directly implementing purchasing agreements and can realise volume movement quickly.
- Relevant volume bundling. An individual hospital/purchasing organisation represents a relevant percentage of the market, while implementation of contract agreements is safeguarded.

Commercial clout is determining for the optimum scale of an effective purchasing organisation

The optimum scale on which a purchasing organisation acts depends on the medicine segment. Considerations between scale and commercial clout determine the choice of the promising purchasing combinations. A purchaser has *commercial clout* if it can switch prescription volumes physically and in time from one medicine to the other. Commercial clout is particularly realised locally by medical specialists. The innovation strength of medical specialists and pharmacists in an individual hospital is then greater than that of national scientific associations, particularly if this does not concern a specialist centre. After commercial clout, *scale* is important. With scale (if combined with commercial clout) the purchaser strengthens its negotiating position.

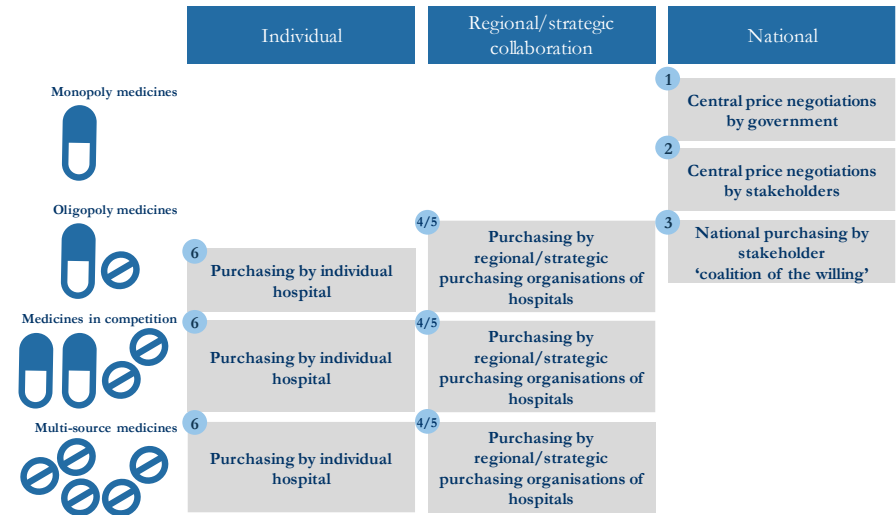
The purchase of medicines is a trade-off between commercial clout and scale (schematically)



For monopoly medicines, only national scale is effective; for oligopoly medicines, national scale can be promising under certain conditions

Two to three promising purchasing combinations have been developed per medicine segment. For *monopoly medicines* national commercial clout is only realised with legislation and regulations. This is also necessary when taking into account that price negotiations currently do not take place for the majority of monopoly medicines. For *oligopoly medicines* searching for scale is probably more important than for *medicines in competition* because, for a hospital, this forms a small proportion of a medicine’s costs. The operational costs of purchasing then weigh relatively highly. National purchase of oligopoly medicines can only be successful if scientific associations formulate medical policy in time that is supported by prescribers in hospitals.

Promising purchasing combinations for hospitals individually, in regional/strategic cooperative networks or in a national connection



Commercial clout is particularly determining for the choice of hospitals between the promising combinations per medicine segment

The choice between the promising combinations per medicine segment involves making trade-offs between commercial clout and scale. It is clear that commercial clout is more important than scale. The share of the relevant segment within the total medicine budget is also important. Are the costs of realising commercial clout and scale compensated by the returns?

- Hospitals with treatments in which *oligopoly medicines* are used frequently, prefer to strengthen their own purchasing organisation. Other hospitals prefer to participate in a strong regional/strategic purchasing connection (and implement the agreed medical policy) or connect to a national purchasing organisation for oligopoly medicines.

- Hospitals for which *medicines in competition* are an important expense item and therefore work proactively on the affordability of those medicines prefer to strengthen the commercial clout of their own individual purchasing organisation. Other hospitals can connect to regional/strategic purchasing connections.

To create effective purchasing organisations, hospitals should make efforts to scale up the good examples through further strengthening existing and new regional/strategic purchasing connections and the hospitals' internal purchasing process. Existing purchasing organisations demand that new entrants show commitment to the medicine policy so that the increase in scale is not at the expense of commercial clout.

Healthcare insurers can contribute to central price negotiations for monopoly medicines; however, their role is limited regarding purchasing medicines in other three segments

Healthcare insurers can contribute knowledge and expertise for any central price negotiations for new *monopoly medicines*. For the purchase of *oligopoly medicines*, *medicines in competition* and *multi-source medicines* the role of healthcare insurers is limited during medicine purchasing:

- Healthcare insurers have recently taken the initiative to establish a national purchasing organisation for *oligopoly medicines* in which they work together with other parties in the field. Participation in this purchasing organisation can potentially be promising for hospitals for which the oligopoly medicines form a small part of the medicine budget. The commercial clout of a national purchasing organisation is, however, more limited than that of a regional/strategic purchasing network. What's more, participation of healthcare insurers in a national purchasing organisation can further reduce the commercial clout if there is little trust between them and the hospitals and medical practitioners.

- Participation of individual healthcare insurers in regional/strategic purchasing networks or in purchasing organisations of individual hospitals, leads to undesired situations in which the hospital has to purchase multiple preferred medicines.

Hospitals should realise that healthcare insurers must safeguard the affordability of expensive medicines. They will try to reign in the costs. They will do this for example by using a 'tariff deduction/reduced tariff' based on the good examples. They can ask hospitals which discounts they have negotiated or use information from the national purchasing organisation for oligopoly resources.

The NVZ can strengthen purchasing by promoting the scale-up of good examples through purchasing networks and individual hospitals and by functioning as a sounding board for national initiatives

The possible role of the NVZ differs per medicine segment and per scale of the purchasing organisation:

- *Central price negotiations for monopoly medicines:* the Ministry of Health Welfare and Sport can, in consultation with parties in the field, decide that central price negotiations are desirable by parties in the field for all new monopoly medicines. If the choice falls on this purchasing combination, the parties in the field can, for example, establish a price negotiation agency under the management of sector associations NVZ, NFU and ZN. This can only happen if the Ministry of Health, Welfare and Sport also delegates the decision about the admittance to the basic benefits package to parties in the field. The Ministry of Health, Welfare and Sport should establish a so-called ‘decentralised lock’ for this purchasing combination.
- *National purchase of oligopoly medicines:* the NVZ can function as sounding board for the national purchasing organisation for oligopoly medicines in which healthcare insurers participate.
- *Purchase of oligopoly and healthcare resources in competition through regional/strategic purchasing networks:* the NVZ can, in cooperation with the NVZA, act as promoter of the scale-up of good examples of leading projects, mainly of individual hospitals. NVZ can use good examples to actively stimulate the distribution, for example, via a monitor. NVZ can then organise exchange of knowledge and expertise between the leading hospitals and other hospitals that generally participate in regional/strategic purchasing associations.

Scientific institutions are determining for the medical policy for monopoly medicines, as well as making statements about exchangeability that are essential for the scale-up of good examples

Clear and timely statements from scientific associations about the effectiveness and exchangeability of medicines are of great importance:

- For new *monopoly medicines* it is important that scientific associations give timely advice to ZIN about the effectiveness of a new medicine. The FMS also makes recommendations about this in its “Vision document expensive medicines”. It states that scientific associations should make statements about whether a medicine deserves a place in the treatment management arsenal.
- Statements by scientific associations about the exchangeability of *oligopoly medicines* and *medicines in competition* are essential in order to be able to scale-up the good examples from leading hospitals. After all, statements about therapeutic equivalence and exchangeability of medicines form the basis for the medical policy of purchasing organisations that are not at the forefront.

Clear and timely statements from national scientific associations about exchangeability are also of great importance for patient associations and their followers. A lot of unrest and uncertainty can be prevented in the surgery if medical specialists have stated nationally that the effect of the medicine concerned is equivalent to the previously used medicine.