

# Centralised procurement as a powerful health idea

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## Introduction:

Franchising, or a business franchise model, is a contractual business model or relationship whereby an established brand, known as the 'franchisor,' allows an independent business owner, or franchisee, to use its branding, business model, and other intellectual property. Centralised procurement is a defining feature of the franchise model which enhances its efficiency and profitability.

## Case of healthcare in India:

1. In India Many countries and international organisations (including McDonald's) have shown that a pooled buyer model for drug procurement addresses many issues that are related to price efficiency, stockouts and quality concerns.
2. But for reasons that have remained mysterious for decades, the central government chooses to ignore the merits of pooled procurement when it comes to schemes such as the Central Government Health Scheme (CGHS), the Pradhan Mantri Jan Arogya Yojna (PMJAY) and the Employees' State Insurance Scheme (ESI).
3. Corporate hospital chains, on the other hand, are well aware of the benefits of pooled procurement. For years on end, they have conducted direct negotiations with pharmaceutical companies, and availed of significant discounts.
4. More hospitals can team up to form buyers' clubs, benefit from better bargaining power, and then, being not for profit institutions, pass on these cost savings to patients.

## The focus in these papers:

1. A recent paper, "A National Cancer Grid pooled procurement initiative, India", demonstrates the viability of just such an idea. Group negotiation, uniform contracts, and, finally, purchases by hospitals associated with the National Cancer Grid (NCG) for 40 drugs resulted in savings of ₹13.2 billion. Without pooled procurement, the cost would have been ₹15.6 billion, with savings ranging from between 23% to 99%.
2. As the authors say with quiet understatement in the last sentence of their abstract, their study reveals the advantages of group negotiation in pooled procurement for high value medicines. This approach, they conclude, can be applied to other health systems besides cancer.
3. The central government is not consistent in how it covers different categories of beneficiaries under the CGHS, ESI and PMJAY. The same procedure, for example, might be available in one scheme, but not the other.

## The issue of price:

1. It is not that the central government is unaware of the benefits of pooled procurement and price discovery. When the government (through the National Aids Control Organization or NACO) procures male contraceptives, it invites tenders from private manufacturers and then offers to buy from all those who are willing to match the lowest price.
2. How does the government ensure that the suppliers are not colluding to keep the price high? HLL Lifecare Ltd., a public sector unit (PSU), with the highest manufacturing capacity in India, provides a benchmark price. All the bidders know that if they are not competitive on price, the government will just procure all its requirements from HLL and they will be left with unused manufacturing capacity — and as a result, face huge fixed costs and overheads.
3. The government can follow this model for most of the drugs it procures. It has many pharma PSUs that can provide benchmark prices and also ensure that the government has leverage. Such leverage ensures that the government is not forced to buy from private manufacturers, given that there is competition from PSUs which can make supplies at a competitive price.

### **The issue of better quality:**

Finally, in addition to cost savings, buyers' clubs can ensure better quality by having the supplies tested independently rather than having to rely on the drug regulator to ensure quality. This is not a new idea; this is standard operating procedure for buyers in many developed nations.

### **Conclusion:**

Centralised procurement, or pooled procurement, is a simple yet powerful idea that has the power and the potential to reduce costs, ensure better deployment of funds in other areas related to health care, and ensure availability of lifesaving drugs in this country. It is an idea with both theoretical backing, and now empirical validation. It is an idea that India should implement at scale, and as soon as possible.

