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Hospital drug procurement

— more a can of worms than a can of beans

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Procurement of pharmaceuticals and non-pharmacy items are different and this is usually acknowledged within the NHS and the Purchasing and Supply Agency (PaSA). However, a series of initiatives from government aimed at reducing the non-pay spend within the NHS has targeted drug purchasing. The resulting standard approaches to procurement, advocated regularly to trusts by external consultants, are often problematic when applied to pharmaceuticals. Why should this be?

In supermarket procurement, if there are no baked beans on the shelf then customers can use spaghetti hoops. It is not an exaggeration to state that the end result of a pharmaceutical supply failure, where demand is highly unpredicatable, can be fatal. The "just in time" principle has worked well for many manufacturing industries where demand is constant but has caused problems in the pharmaceutical supply chain. This places huge demands on buyers and requires clinical expertise to suggest alternatives in times of shortage. As a result, pharmacy procurement specialists often have to source alternative supplies — at short notice — from overseas.

A licensed pharmaceutical product is always required as a preference as it gives a much higher assurance of quality, but limits the sourcing options (and makes purchasing medicines a specialised skill). The sourcing of unlicensed products is more complex and appraising suppliers and products is a vital skill that requires pharmaceutical knowledge. It is not only quality that is regulated but price, too. The workings of the pharmaceutical price regulation scheme are complex and it is essential that buyers understand the ability of companies to modulate their prices across a product range allowing price manipulation that skews markets.

Buyers in pharmaceuticals also have to deal with a large number of stock lines (maybe 5,000) including raw materials for production and packaged medicines with varied storage requirements. Another feature of the pharmaceutical buyer is a close working relationship with colleagues in quality assurance.

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Innovation

The pharmaceutical industry is known for its product innovation, with Big Pharma living or dying on its ability to produce the next blockbuster product. There is therefore an inexorable market trend away from traditional medicines to new patent protected therapies which provide improved treatment. The inception of the National Institute for Health and Clinical Excellence (NICE) has furthered this trend. The NHS must now implement NICE guidance. There is, by definition, no direct competitor for a patented product although, by using clinical expertise, therapeutic substitution can sometimes be used to increase purchasing leverage. Buyers therefore have to use a wide supplier base to obtain all these unique products and often have their choice about supply channels made for them.

The market for pharmaceuticals is driven by promotional activity. Big Pharma invests in large numbers of sales representatives. Doctors, pharmacists and nurses prescribe medicines, but most are relatively insensitive to cost (and thus exhibit inelastic demand). Patients are the ultimate consumer but without direct-to-consumer marketing they have limited power. Government has the money but does not have the expertise or power to direct prescribers. It does however attempt to influence them via independent bodies like NICE and the National Prescribing Centre.

Within secondary care, where buyers have some scope to negotiate price, there is use of strategic methods to improve buyer power by use of collective purchasing via consortia or regional groups or strategic arrangements such as the Pharmacy Market Support Group. Other advantages of these arrangements include information sharing, developing purchasing strategies, conducting joint vendor ratings and educating members with little purchasing experience.

Buyers in secondary care pharmacy also have a huge advantage — they have the ability to control demand side through a formulary and medicines and therapeutics committee. The Audit Commission recognised the part that procurement plays in overall medicines management in "A spoonful of sugar". Procurement pharmacists working within the hospital environment can liaise closely with clinical pharmacy and medical staff involved in this process. This is a much more effective control on medicines spend than any buying initiative but requires a full grasp of the therapeutic issues involved.

Stakeholders

Stakeholders (eg, NICE) in the pharmaceutical supply chain have recently increased dramatically. Decision-making by stakeholders who may have conflicting agendas and who have no direct connection with the pharmaceutical supply chain can have a major influence on its efficiency and effectiveness. It is important that pharmacy procurement staff have a knowledge and understanding of all stakeholders and what their main agendas and influences are. It is only then that procurement strategies can be formulated to ensure effective and efficient procurement.

A standard procurement approach is to rationalise the supplier base, consolidate demand and develop a close relationship with the remaining suppliers. For the reasons given above this is problematic with pharmaceuticals. Pharmaceutical manufacturers are huge multinationals. The UK represents only 3.8 per cent of global spend on medicines and globalisation has meant that companies tend to be less flexible than previously. Suppliers and manufacturers are increasingly using a single channel for distribution and limiting the buyers scope for consolidation.

It is important that everyone involved in pharmaceutical procurement realises just how different it is now. Many of the standard procurement approaches are not effective when applied to the pharmacy model and may actually be dangerous. This is why quality and safety underpin all our decision-making and means that generic procurement policies should be introduced with the utmost caution.