Pooled Procurement for Health Products in LMICs

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Ideas to Action: Independent research for global prosperity
Healthcare supply chains in LMICs: high level overview

Upstream Manufacturing

Highly globalized, concentrated in low-cost production

International Financing, Supplier Selection and Procurement, Primarily based on Lowest Cost Purchasing

Weak Technical Capacity & Know-how

In-country Distribution (mostly government + some private)

Health Service Delivery Point

Poor performance

Pooled Procurement: Clear benefits, stable equilibrium?
The locus of procurement?

What parts of the procurement function should be carried out at what level of geographical aggregation?

- Facility level
- Sub-national (district, province/state)
- National
- Regional
- Global

Intrinsic tradeoff:
Richer local information & agility
vs economies of scale (and scope) = lower prices, better lead time, innovation incentives
Some pending questions on pooled procurement architecture

- **Geographic proximity-based pools**
  - geographical proximity within the pool
  - high income heterogeneity within the pool
  - Politico-economics more feasible

- **Income proximity-based pools**
  - lack of geographical proximity within the pool
  - Income homogeneity within the pool
  - Politico-economics less feasible

- How do different procurement strategies, particularly pooled procurement strategies, effect
  - Prices
  - Lead times
  - Innovation
  - Health outcomes and social welfare
  - distribution of welfare/benefits between the supplier(s) and purchasing countries
Pooled procurement design and pricing
4 archetypes

Independent
Perfect Price
Discrimination

Each buyer purchasing independently

Joint
Homogeneous
Income

Identical buyers purchasing together

Joint
Heterogeneous
Income

Different buyers purchasing together

Independent
Single Price

All buyers offered the same price
The continuum of procurement and where pooling benefits the most

Technology horizon scanning → Understanding Market Dynamics → Technology & Product Selection

Analyze demand/forecasting → Procurement Strategy → Procurement

Estimate requirements for procurement
Ideally under different demand scenarios

The locus of where procurement will occur?
Key attributes of supplier selection

Identify → Evaluate → Negotiate & Contract → Manage

Identify suppliers in the market
Develop RFI/RFQ/RFP

Weighting of different attributes
Evaluate potential suppliers on different attributes

How many?
With a selected few
Long term vs. transactional relationship

Contract management
Performance monitoring
Retrospective spend analysis
Often ignored issue: Does pooled procurement help in better supplier selection from a TCO perspective?

Easier to measure, report publicly, pass the tests of public scrutiny

Harder to Measure, Report

Resilience

- Lead Time Impact
- Poor Quality Costs
- Late Delivery Costs
- Other Field Effectiveness parameters

- Field Failures
- Service & Repairability

- Planning
- Purchasing
- Quality Control

Unit Price

Freight Costs

Duties

Warehousing & Inventory