



# THE HOW OF POOLED PROCUREMENT

AN EVALUATION OF THE  
POSITIVES AND PITFALLS  
IN DESIGN AND EXECUTION

MSH.ORG



# THE HOW OF POOLED PROCUREMENT

AN EVALUATION OF THE POSITIVES AND PITFALLS IN DESIGN AND EXECUTION

Iain Barton, René Berger, and Malcolm Clark

**POOLED PROCUREMENT** is a highly effective driver of affordable access to quality commodities. To stimulate commonality through understanding and to assist policy makers and supply chain professionals in design, negotiation, and implementation, this second paper in the series addresses the approaches and tactics of deployment for best impact.

There are many aspects of design and execution of efficient and effective pooled procurement. We have segmented these into three groups: Getting the Basics Right, Sophisticated Add-Ins, and Secrets for Success.

## GETTING THE BASICS RIGHT

- 1. Political will:** Success demands collaboration and alignment across multiple ministries and/or across countries. Sustained political support and leadership are prerequisites. COVID-19 has taught many lessons, most importantly, that with the right political will and commitment to successful execution, much can be achieved in months, rather than years.
- 2. Stakeholder engagement:** It is essential to map and engage all stakeholders in design, setting of objectives, and timelines. Cross-language and cross-cultural differences add complexity between regulators of customs, medicine registration, treasury, and health, and groups may wish to protect vested interests. As a caution, although building rapport and trust are essential, the desire for consensus must be balanced with the need for progress.
- 3. Collaboration, equity, and harmonization:** A common cultural-linguistic-governance frame underpins the legitimacy, cohesion, and trust in successful systems, such as the Caribbean Gulf Cooperation Council (GCC) and South Africa (SA) antiretroviral (ARV) contracts. The Association Africaine des Centrales d'Achats de Médicaments Essentiels, too, shares French language and commonality of currency. Successful systems have a high degree of economic-monetary-fiscal integration that facilitates contracting and payment. Equally



Success demands collaboration and alignment across multiple ministries and/or across countries.



It is essential to map and engage all stakeholders in design, setting of objectives, and timelines.



A common cultural-linguistic-governance frame underpins the legitimacy, cohesion, and trust in successful systems.

important, members of these systems tend to align around similar levels of economic development. Notably, in the South African Development Community example, where one member is economically dominant (SA), it has proven to be an obstacle to pooling.

**4. Time:** The required levels of support and alignment take time. Expectations must be realistic, and adequate anticipation and planning accommodated. But it is equally important that members and institutions are committed to success and actively and continuously engaged.



The required levels of support and alignment take time.

**5. Agreed model of service:** In their guidelines for (federal business operations) procurement in 2016, the Systems for Improved Access to Pharmaceuticals and Services program detailed four levels of pooled procurement.<sup>1</sup> Although the fourth level provides greatest impact and benefits, the others provide graduated steps of implementation, thereby building confidence, capacity, and trust.



Build graduated steps of implementation for pooled procurement.

- **Informed buying:** Members simply share information about vendors and product specifications but purchase individually. This can be beneficial, takes little time to establish, and requires little secretariat support. In Europe, national decision making on pricing is supported by sharing information, experience, and pricing policy in the Pharmaceutical Pricing and Reimbursement Information network (e.g., Piperska).<sup>2</sup>
- **Coordinated buying:** Members conduct joint market research and share information about vendor performance and prices more systematically but still purchase individually. This again is relatively simple to establish but does require a greater depth of dedicated resources.
- **Group contracting:** Members jointly prequalify vendors and negotiate prices by using group contracts yet purchase individually. This takes longer to establish and requires a significant central structure but brings advantages in cost and supply. The SA ARV tender provides an intra-country example of this, and the GCC group purchasing program is the inter-country comparator.
- **Central contracting and purchasing:** Members jointly conduct tenders and award contracts, and a central buying unit manages purchasing. The Pan American Health Organization (PAHO) Strategic Fund and Revolving Fund empower countries to collectively impact market dynamics. The Organisation of Eastern

Caribbean States Pharmaceutical Procurement Services (PPS) consistently achieves price benefits of greater than 20%. PPS demonstrates the value of pooling for a broad community of small-volume markets, which, individually, would struggle to secure reliable supply at fair prices. Quantifying the costs charged vs. value derived of this model is essential. It is better to pay a value-based fee of, for example, 10% than to accept a fee of 3–5% because it is “the norm” when the added value is questionable.

## SOPHISTICATED ADD-INS

- 1. Segmentation:** One size does not fit all. The economics and characteristics of each market and the nature of each product and its production influence price negotiations. Not all products show economies of scale in manufacture or distribution. Dividing demand into more specific subgroups may allow for more targeted efforts and better results. PPS procures an 840-item product portfolio from more than 30 prequalified suppliers, but countries buy their other needs directly from vendors.

Price demand elasticity is greatest when the number of competing vendors is high, when buyers can commit to significant volumes, and when low- and middle-income countries' (LMICs) markets represent a significant share of the total global market (e.g., ARVs). However, where vendors are concentrated (or where even aggregated volumes are low), representing a small percentage of global sales, pooling has little impact on price. Between 2010 and 2012, the Global Drug Facility's share of the global market for second-line TB drugs increased from 26.1% to 42.9%, while prices decreased by as much as 24%. Conversely, the facility's market share of first-line drugs fell from 37.2% to 19.2% during this time, while prices increased by 7%.<sup>3</sup>

Even in these conditions, a pool may succeed in securing supply and drawing vendors to the market. This contradiction has been clearly seen in COVAX. Not only did this Advanced Market Coalition expedite the ability of LMICs to secure access to COVID-19 vaccines, but it had significant influence on vendors seeing LMICs as viable markets. Yet, initially, it exerted little impact on unit price.

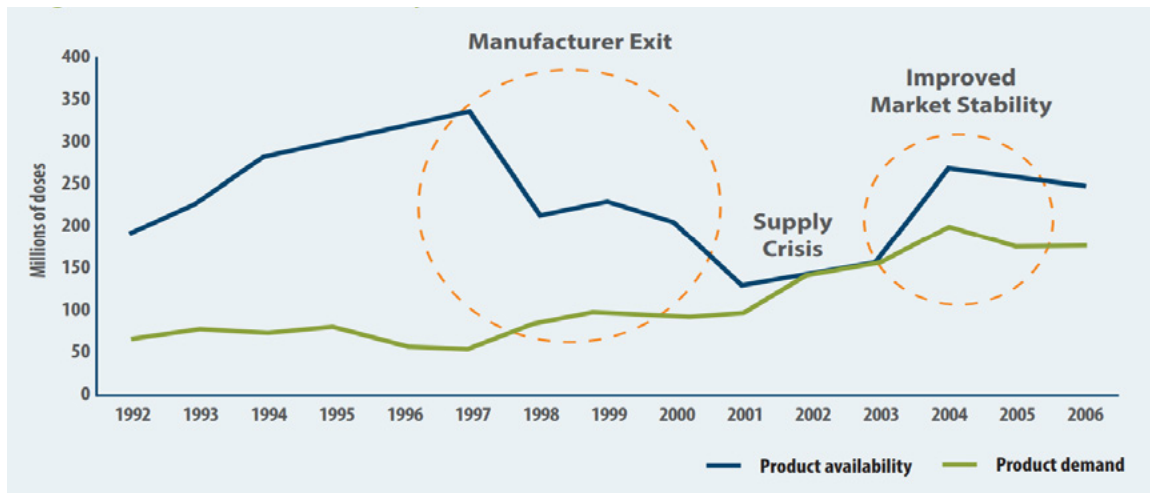


The economics and characteristics of each market and the nature of each product and its production influence price negotiations.

**2. Smart pricing:** Race-to-the-bottom approaches to price negotiation can drive up incidences of substandard and falsified medicines and even provoke vendor exit, as vendors choose to reduce quality standards or withdraw from markets for commercial reasons.<sup>4</sup> This can have a significant negative impact, driving prices higher as competition decreases. The UNICEF experience with measles vaccine some 20 years ago provides a clear example of this (figure 1).<sup>5</sup>



Race-to-the-bottom approaches to price negotiation can drive up incidences of substandard and falsified medicines...



**Figure 1. Measles vaccine availability and demand**

**3. Secure funding:** Credit risk rating can be a significant driver of a vendor’s unit costs. Vendor confidence can be secured through joint guarantees across members or by restricting membership to reliable payers. Adding buyers with a higher credit risk to the pool may drive up prices paid by reliable members.



Credit risk rating can be a significant driver of a vendor’s unit costs.

**4. Dislocating contracting from stock draw-off:** Two concepts combine to exert significant positive impact on availability and total system costs.



Two concepts combine to exert significant positive impact on availability and total system costs.

- **Long-term, centralized framework agreements (LTFAs):** Aggregation of demand into central (national or regional) contracts leverages buying power, but commitment to long-term contracts can exert even greater impact on price by providing vendors security of tenure. LTFAs are best for price-stable commodities or when price increases are anticipated. Shorter agreements are better when price reductions are anticipated. LTFAs should cover vendor performance, including penalties/censure for failure. A real complicating influence is the inability of multilateral and bilateral donors to make longer-term

budgetary commitments, often no longer than a year. This undermines the negotiating power of all buyers.

- **Short-interval, decentralized draw-off:** Best practice is frequent supply at best total delivered cost—drawing what is needed as it is needed. Draw orders are placed at a national or sub-national level, or even individual points of care. False economy is bulk purchases for a discounted unit price, which then incurs delivery delays, long-term storage costs, and potentially damages and expiries.

5. **Multi-awards vs. winner takes all (WTA):** Multi-awards provide a range of benefits over WTA. Multi-award spreads the risks and rewards, encouraging a vibrant, competitive, sustainable market. WTA risks vendor exit, and so implementing LTFAs is best linked with multi-awards. WTA also incurs risk, should vendors experience business disruption.



Multi-awards provide a range of benefits over WTA.

## HIDDEN SECRETS

1. **Vendor managed inventory:** Quality, reputable vendors have specialist supply chain teams with deep experience in demand planning, inventory optimization, and fulfilment. They have entire quality assurance teams and, where relevant, cold chain management and monitoring. They leverage global contracts to secure best price and service levels. It makes absolute sense to contract the obligations for these activities (and the risk associated with them) onto the vendors—even though they will surely protest vigorously at being forced from the low cost, low risk position of comfort that current procurement practices provides them!



Quality, reputable vendors have specialist supply chain teams with deep experience in demand planning, inventory optimization, and fulfilment.

- **Incoterms to reflect true cost:** Buying stock ex-works for a low unit price is a false economy. The correct comparator is total delivered cost, which includes freight moves, storage, damages, losses, expiries, and all other apparent and hidden costs.
- **Make-to-stock vs. make-to-order:** Make-to-order procurements place all risk on the buyer, with the vendor incurring no risk until in possession of a confirmed order and perhaps even prepayment.
- **Short-order delivery lead times:** This requires the vendor to produce and hold inventory, smooths forecast accuracy, and maximizes availability on the shelf. In the SA ARV tender, the 14-day-draw delivery lead time causes vendors to make to stock

and position sufficient stock in SA. In USAID's Supply Chain Management System (SCMS) and Global Health Supply Chain (GHSC) contracts, the regional distribution centers essentially eradicated country stock-outs by enabling shortened-draw delivery lead times from regional stock holding. WHO is reviewing a regulatory remnant that obstructs flow, known as residual shelf life. Residual shelf life on importation was developed to protect countries from receiving short-dated stock (sometimes "dumped" by donors or suppliers in an effort to move it off their books). But in a modern supply chain, when ordering semi- or monthly to replenish an in-country buffer of 90 days stock, why enforce 20 months of residual shelf life on import?

- **Manufacturer risk:** The risk in expiries, thefts, and damages remains with the manufacturer, preferably until delivery to point of care.

**2. Group purchasing organizations:** Pooling procurement is not the sole domain of the public health system. Successful "buying groups" have long played a pivotal role in the development of private retail pharmacy networks. Current success stories include MedSource in Kenya, mPharma in Ghana, and mClinica in southeast Asia.

**3. Vendor development:** Multi-awards provoke vendor development when a small but not insignificant portion of volume is allocated to new market entrants, thereby reducing barriers to entry and improving long-term market dynamics. These new entrants may initially charge slightly higher unit prices but should be seen as a value add to ensure a healthy market of suppliers in the long term. Conversely, disruptions in antibiotic supply seen in the last decade due to production plant fires and quality failures are painful examples of the risks when procurement practices drove and even incentivized vendor aggregation.

**4. Vendor partnerships:** Major cost changes are achievable by partnering with manufacturers to address inefficiencies in process chemistry and packaging configuration (e.g., multi-month packs). A horizon-stretching concept is pooling procurement of active pharmaceutical ingredients (APIs) and then having vendors compete for allocations of APIs based on the efficiency and effectiveness of their conversion, finishing, packaging, and supply operations. When APIs contribute a major portion of total unit price, aggregation of



Pooling procurement is not the sole domain of the public health system.



Multi-awards provoke vendor development when a small but not insignificant portion of volume is allocated to new market entrants...



Major cost changes are achievable by partnering with manufacturers to address inefficiencies in process chemistry and packaging configuration.

cross-manufacturer volumes could deliver significant savings in total costs. For scarce commodities, vendor partnerships can induce investment in capacity by vendors.

- 5. Vendor obligation to supply at contracted price:** In a multi-award scenario, should a vendor be unable to supply their minimum quota, the vendor should be obligated to make good by purchasing inventory from another contracted vendor, even if that results in a financial loss.



**Vendors should meet supply at contracted price in multi-award scenario.**

## WHERE BARRIERS LIE

Pools often rely on a central governance structure and/or secretariat. The PPS and PAHO eliminated this barrier by establishing the pool within a recognized regional/international institution.

In funder-controlled pools (UNICEF, Global Fund, GHSC, SCMS) many decisions on source, quality, quantity, and timing are negotiated by the funder. Engagement with the recipient country may cover standard treatment guidelines (STGs) and quantification, but even regulations may be overridden with waivers, with significant negative connotations for the national drug regulatory authorities. Without a significant shift in approach, these funder-controlled pools cannot contribute to the development of strong country-led procurement systems nor transition to a model of country ownership.

In a world where the scourge is less fake/counterfeit/falsified medicines and is more substandard medicines from supposedly reputable vendors, assessing quality requires post-marketing surveillance and pharmacovigilance to detect issues and the process, regulations, and will to enforce censure on offenders.

## LAST THOUGHTS

Successful pooled procurement takes significant will and time to establish, but the returns keep on coming. It's possible to start small and expand and even to stage the level of integration. It takes human capacity, skills, and systems but does not necessarily need any physical infrastructure. Indeed, used judiciously, it can be used to drive overall supply chain transformation and performance.

**KEY FACTORS** in successfully implementing and operating pooled procurement include:

- **Secure buy-in:** Political will driving ongoing stakeholder commitment, collaboration, harmonization, and standardization to identify challenges and drive continuous improvement
- **Continued buying-in:** Committing purchases to the monopsony—not circumventing it
- **Secure financing:** A trusted financing facility to underpin cash cycles and long contracts
- **Dedicated capacity:** Permanent, autonomous, and professional secretariat capacity
- **Visibility and transparency:** Reporting and managing operations and vendors



## REFERENCES

- <sup>1</sup> Ghoneim R, Mpundu M, Mabirizi D, Nfor E. 2016. Establishing Pooled Procurement Systems among Faith-Based Organizations: A Guidance Document for Successful Implementation. Submitted to the US Agency for International Development by the Systems for Improved Access to Pharmaceuticals and Services (SIAPS) Program. Arlington, VA: Management Sciences for Health.
- <sup>2</sup> Vogler S, Haasis M, van den Ham R, Humbert T, Garner S, Sulemand F. European collaborations on medicine and vaccine procurement. *Bull World Health Organ* 2021; 99:715–721; <http://dx.doi.org/10.2471/BLT.21.285761>
- <sup>3</sup> Arinaminpathy N, Cordier-Lassalle T, Lunte K, Dye C. The Global Drug Facility as an intervention in the market for tuberculosis drugs. *Bulletin WHO* 2015 Apr 1;93(4):237–48A. <http://dx.doi.org/10.2471/BLT.14.147256>
- <sup>4</sup> Hasnida A, Kok MO, Pisani E. Challenges in maintaining medicine quality while aiming for universal health coverage: a qualitative analysis from Indonesia. *BMJ Global Health* 2021;6:e003663. doi:10.1136/bmjgh-2020-003663
- <sup>5</sup> William Davidson Institute at the University of Michigan. Pooled Procurement in the Vaccine Market: UNICEF's Experience. Dec 2015

## ACKNOWLEDGMENTS

The authors would like to thank the following individuals for their contributions to these papers: Dan Kress, Prashant Yadav, Francis (Kofi) Abogaye-Nyame, Emily Mason, Gordon Comstock, and A.K. Nandakumar.

## CITATION

Barton I, Berger R, Clark M. The How of Pooled Procurement: An Evaluation of the Positives and Pitfalls in Design and Execution. Management Sciences for Health, Arlington VA, January 2022. Available at: <https://msh.org/resources/the-positives-and-pitfalls-of-pooled-procurement/>



Copyright © 2022  
Management Sciences for Health

All rights reserved. Any translation, adaptation, or commercial use of any part of this journal in any form or medium requires prior written permission from the publisher. Please send any questions or requests to [communications@msh.org](mailto:communications@msh.org).