

Professionalization of purchasing and innovation in hospitals: A promising duet



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ABSTRACT: The buyer today is an essential gateway to hospital innovation through their cross-curricular competency and role as a professional interface between supply and demand. The creation of hospital central purchasing, capable of detecting emerging, for market operators and to accelerate the diffusion of innovative solutions, is a key to the future of the hospital purchasing.

Purchases represent, in many cases, a strategic gateway for innovation in hospitals. In most cases, the implementation of change within an organization is linked to the acquisition of a new product or a new service.

Paradoxically, hospital purchasers still play a minor role in the management of innovation. Despite its strategic importance and its direct impact on efficiency, innovation is not subject to any transversal coordination.

Usually, innovation monitoring is based on the direct dialogue of manufacturers with prescribers and users, e.g. doctors, nurses, engineers or managers. These professionals provide, essentially, the supply of innovative products, solutions and services in hospitals today.

Such a situation, unusual in the private health sector, is not satisfactory in terms of performance. Innovation needs to be driven and monitored.

Inside hospitals, the potential candidates to carry out this monitoring are the purchasing departments, which are being reinforced in France by means of an interdepartmental programme called PHARE (Hospital Procurement Performance). Their role as the dedicated interface between industry supply and internal demand of the hospital, as well as their transversal competences, turn them into the best operators to act efficiently in this field.

However, purchasing departments, in order to provide real added value, need to follow two key objectives:

- + Ensure that have accurate expertise and a comprehensive understanding of their purchasers. They should use the whole "Procurement" toolbox, from market surveys to value analysis as well as the full cost approach.
- + Make sure they pool their strengths, which are: purchasing volume, resources and expertise. Indeed, this is likely to enhance the relationship of hospitals with their industrial ecosystem.

Mission and tools of the hospital purchaser

As regards to innovation, professional hospital purchasers are responsible for the organization of internal and external dialogues.

Implementing a rigorous and impartial professional methodology turns them into the guarantors of hospital purchases' performance.

Through their mission of leading and coordinating the demand, purchasers are led to search for innovative solutions that might improve the quality of care for patients or medical staff working conditions, at a reasonable cost.

Their added-value is mainly based on their ability to establish and develop a fruitful dialogue between internal prescribers and external suppliers, to express "fair need".

From this perspective, several tools are available to bring and question innovation at different stages of the purchasing process.

+ Market study: By definition, market studies are business-oriented and aim to assess the existing offer as well as to identify other key players involved. For a given purchasing segment, a market study analyzes the state of the market and estimates innovation trends.

At that stage, many questions arise: What are the existing solutions in the sector and how will they evolve? Is there a standard offer on the market? Are there alternative solutions and what are their distinctive features? Who are the main innovators in this area, what are the characteristics of their offer and what is their marketing strategy? What is the added-value of one solution compared to another? What are the risks and issues related to the proposed innovations? What were the previous experiences, with what outcomes? What the price break down, what is the cost due to innovation? How to qualify the innovation available: is it related to the product, the economic model or the associated services? Who are the other purchasers of this innovation and which suppliers did they select?

Within a market study, the purchaser should, ahead of the expression of the internal demand, monitor new developments and innovation.

+ Expression of needs and internal demand management: This stage is both very crucial and related to the previous ones since market and demand are deeply interconnected, especially concerning innovation: novelty creates needs and vice versa.

It is the role of purchasers to define the fair need based on the results of market studies and dialogue with internal prescribers. A progressive questioning process will match the

internal demand with the offer, existing or potential.

To reach this match, the following issues will need to be addressed: What are the real needs considering the organization's priorities and dedicated resources? Is this functionality, this specification or this service really necessary? What is its added-value? Is it esteem value or use value? Which price can we afford to pay for it, given the prices on the market and the possible return on investment? Are we able to recoup the cost of the solution in the long run? Should we encourage the suppliers to innovate their economic models (e.g. pay-as-you-go) rather than in warranty levels (e.g. commitment on a maximum consumption rate)?

It may happen that no satisfying solution exists on the market. The purchaser then has to provide answers and push competent vendors into proposing relevant innovative solutions, as for instance, in the frame of a competitive dialogue procedure.

- ✦ **Analysis of the bids:** This is about analyzing and comparing the value of the proposed solutions in relation to the expressed needs, in order to identify the best offer. The quality levels should be assessed in the light of the various choice criteria listed in the tender documents.
- ✦ **Contractualization and execution follow-up:** The implementation of the selected solution has to be closely monitored and secured, especially given its innovativeness. The legal framework has to be carefully established. It has to organize many aspects such as the progress plan, quality of service, reversibility of the chosen solution, levels of warranty, etc.

Special attention should also be paid to intellectual property (IP) rights. In case of co-innovation, more frequent than people think, IP rights have to be fairly distributed between a hospital and its supplier. This is why the purchasing department must monitor the whole supplier relationship. Even when the latter takes place a long time ahead of the selling and can thus be compared to a joint R&D phase.

Roles and assets of hospital central purchasing

Hospital central purchasing organizations catalyze and accelerate innovation for more performance.

On the one hand, organizing the internal and external dialogue around innovation and implementing the dedicated toolbox requires important resources which are sometimes not affordable for a single hospital.

On the other hand, needs expressed by one hospital, even big, can be unprofitable for suppliers who operate on globalized markets.

The future of hospital procurement lies in central purchasing, through the pooling of demand and expertise. Central purchasing organizations provide hospitals with a negotiation force against big health care operators and accelerate the dissemination of innovative solutions, arising mainly from SMEs and start-ups. These group purchasing organizations (GPOs) are meant to be, within the next ten years, the major players of innovation in hospitals.

In the US, the three biggest GPOs MedAssets, Premier and Novation, purchase respectively for 34 billion, 32 billion and 30 billion Euros each year.

The situation is very different in Europe where pooling of hospital

purchases only just beginning. However, only hospital GPOs have the capacity to carry out more and more complex purchasing projects on industrial markets. This is due to the strategic, economic or legal challenges brought by these projects.

A GPO can be a great progress accelerator: it is likely to harmonize the innovation demand towards industry and to accelerate its distribution in health care organizations with an affordable cost. GPOs thus support the development of high added-value service providers.

The European Commission takes it for granted. Demand-side innovation policy tools that stimulate the demand for innovations now complement its usual funding schemes to support the supply of R&D and innovation.

GPOs and the acquisition of existing innovation

Pooling purchases facilitates the identification, assessment, sourcing and dissemination of innovation existing in the market. In France, this is for instance the role played by the Economic Committee of Health Care Products (Comité économique des produits de santé) for innovative and high-cost pharmaceuticals and medical devices. Acting like a national GPO, it negotiates with industry and concludes framework agreements specifying ceiling prices and volume clauses.

This is an interesting approach, but it can be enhanced with regards to purchasing strategy. And it is not replicable in all sectors.

GPOs and the acquisition of new solutions to cover unmet needs

This is a very important development strategy for GPOs. Hospital demand is too fragmented to make industry to offer tailor-made solutions in order to cover these needs.

The cost of the development of these solutions is too high to be amortized over a couple of customers, as hospital computer systems show.

That problem can be solved by the pooling of needs and the broad distribution of innovative products. GPOs can also co-finance innovation with industry. Several competitive calls are then launched (feasibility study, prototype, first series, etc.) with a fair distribution of intellectual property rights between the GPO and the selected supplier.

From this perspective, the European Commission supports the use of procedures called pre-commercial procurement (PCP).

The future belongs to GPOs investing in innovation

In a context of budget reduction, the future belongs to the GPOs which will be able to provide their members with additional performance, in terms of quality or costs control.

The competition between central purchasing organizations will probably occur at the European level: the European Union (EU) proposal for a directive on public procurement offers the possibility for public authorities to go to a GPO of their choice, wherever it is located in the EU.

As a consequence, innovation policies will become strategic for the development of GPOs. Most of them will probably have to pool their resources and members to remain competitive. Depending on the requested strategy: either regionally-based, activity-oriented (e.g. cancer fighting) or gathered on a specific project (e.g. HAPPI project on healthy ageing innovation coordinated by Resah-idf), these GPOs will be multifaceted.