

Hospital Value-based Procurement

Market Insights

Application to Pharmaceuticals in France

“Price is what you pay – Value is what you get”

Warren Buffett

January 2022

Smart Pharma Consulting explored to which extent the development of services associated with pharmaceuticals enables to win hospital tenders without been the lowest bidder

Context – Objective – Methodology

Context

- Competition on pharmaceuticals is intense, leading to **drastic decrease of purchasing prices** through the hospital tender process
- The performance of pharma companies on the hospital market is strongly altered, especially for their brands competing with me-too, biosimilar or generic products

Objectives

- To slow down the erosion of purchasing prices, pharma companies have proposed services directly related to their product procurement and use
- Smart Pharma Consulting wishes to explore the opportunity to apply the concept of Value-based Procurement to pharmaceuticals sold to hospitals in France

Methodology

- Literature search regarding the concept of value (e.g., economic, perceived, experiential, social, relational) and...
- ... its application to medical devices and pharmaceuticals bought by hospitals
- Interviews of stakeholders operating on the French hospital market:
 - 2 pharma companies
 - 6 purchasing groups (national – regional)
 - 1 central referencing office

The Value-based Procurement (VBP) is part of the Value-based Health Care (VBHC) which put into perspective the best outcomes for patients at the best possible cost

Key definitions

Value

- The term “Value” refers to the benefit one gets for a certain cost
- It is a notion relative to efficiency

$$\text{Value} = \frac{\text{Benefits}}{\text{Costs}}$$

Value-based Health Care (VBHC)

- Value-based Health Care is about achieving the highest health gains (outcomes) for patients, against the total cost of care
- The most powerful lever for reducing cost is improving outcomes

$$\text{VBHC} = \frac{\text{Health outcomes that matter for patients}}{\text{Total costs over the full cycle of care}}$$

Value-based Procurement (VBP)

- Value-based Procurement, in line with the VBHC approach, considers the price of a product, or a service, the outcomes for patients, the reduced total cost of care, and the benefits for HCPs, hospitals, the health care system and the society

$$\text{VBP} = \frac{\text{Outcomes for patients and other stakeholders}}{\text{Total costs (incl. care delivery)}}$$

The Value-based Procurement is a purchasing approach that considers the global value of an offer, with respect to the actors of the value chain, beyond the price criterion

Value-based Procurement – Key principles (1/2)

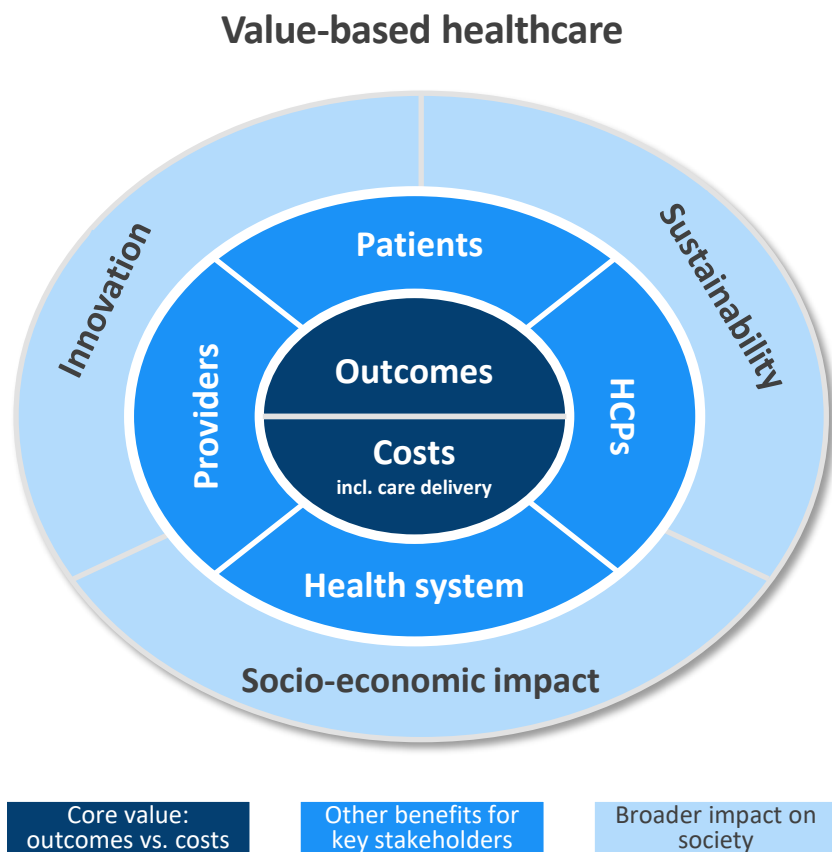
- Health care systems continue to face escalating costs, low-value care, and huge disparities in patient outcomes
- In this context, Value-based Procurement (VBP) can have a significant impact
- VBP is defined as the attempt of procurers to use their purchasing power to stimulate competition on **criteria other than price or on price in combination with other criteria**
- This approach focuses not only on the **price** of a particular product or service but also on the **overall value of the solution** it can create, in terms of improved outcomes for patients, reduced total cost of care, and benefits to stakeholders (e.g., hospital workers)
- As a result, it is becoming an **important lever** for improving the **quality of care** and the **financial sustainability of providers and health care systems**
- In 2014, the European Parliament and Council passed a directive on public procurement that encourages contracting authorities to **move away from price-focused procurement**
- Therefore, many buyers are shifting from a traditional approach based on single-unit cost-saving to a more **holistic approach**, encompassing long-lasting performance evaluation, including the highest possible number of stakeholders and wider sets of indicators
- In France, the DGOS¹ has launched in October 2011 the program **PHARE**² to generate “**intelligent savings**”, including the implementation of the **Total Cost of Ownership**³ (TCO) approach, as described in ARMEN⁴ 6 project (2019), representing a **first step towards the Value-based Procurement**

Sources: BCG: How Procurement Unlocks Value-Based Health Care 2020 – Pay less and spend more: the real value in healthcare procurement 2019 – Value-based procurement of hospital Medicines Denmark (VIVE 2018) – Smart Pharma Consulting analysis

¹ Direction Générale de l’Offre de Soins (General Directorate of Health Care Offer) – ² Performance Hospitalière pour des Achats Responsables (Hospital Performance for Responsible Purchasing) – ³ Includes costs related to the product procurement and use – ⁴ Consists in identifying initiatives of savings coming from best practices

For procurers and providers, Value-based Procurement leads to improved patient outcomes, lower total costs¹ and increased benefits for other stakeholders, such as HCPs

Value-based Procurement – Key principles (2/2)



- In the EU, the costs of care delivery (e.g., HCPs time spent preparing or dispensing drugs, usage of infrastructures) account for ~70% of total health care costs
- Thus, focusing on cutting the cost of procured drugs is not the most effective strategy to contain costs
- A more holistic approach is needed, considering:
 - Costs (e.g., purchasing, ordering, storage, decommissioning, care delivery)
 - Patient outcomes (clinical efficacy and safety, quality of life)
 - Other benefits for key stakeholders:
 - Secondary patient benefits (e.g., convenience, adherence)
 - HCPs' benefits (e.g., secure usage, ease-of-use, training)
 - Providers' benefits (e.g., support on administration, storage or logistics, in improving efficiency along the patient pathway)
 - Health care system benefits (e.g., reduce rehospitalization, # of treatments, of hospital days, long-term costs of treatment)
 - Broader impact on society (e.g., development of innovations, sustainable development, corporate social responsibility, socio-economic impact, such as on absenteeism)

The hospital in Bordeaux has included, in its call for tender for infliximab, 60 points out of 100 to measure the value-added services, beyond the economic and therapeutic criteria

Application to pharmaceuticals (1/3)

Context	Hospital of Bordeaux VBP arrangement								
<ul style="list-style-type: none"> A tender for infliximab at the University Hospital of Bordeaux, France included both, the originator (Remicade) and a biosimilar (Remsima) The tender process comprised a points-based weighting system that addressed factors related to therapeutic and technical interest, economic factors and Value-added services (VAS) 	<ul style="list-style-type: none"> Criteria for Value-added services beyond price¹ for tendering for Infliximab were: <table border="0" style="margin-left: 20px;"> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> – Adaptation of the packaging to the use – Readability of the labeling – Health traceability support – Stability data </td> <td style="font-size: 3em; vertical-align: middle; padding: 0 10px;">}</td> <td style="vertical-align: middle;"> Product presentation Total score (points): 25 </td> <td style="vertical-align: middle; text-align: right;"> 5 5 5 </td> </tr> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> – Information from the prescriber on latest scientific data – Provision of information to patient re. the drug – Help in clinical follow-up of treatment, including measurement kits of infliximab concentration </td> <td style="font-size: 3em; vertical-align: middle; padding: 0 10px;">}</td> <td style="vertical-align: middle;"> Contribution to product good use Total score (points): 35 </td> <td style="vertical-align: middle; text-align: right;"> 10 10 15 </td> </tr> </table> 	<ul style="list-style-type: none"> – Adaptation of the packaging to the use – Readability of the labeling – Health traceability support – Stability data 	}	Product presentation Total score (points): 25	5 5 5	<ul style="list-style-type: none"> – Information from the prescriber on latest scientific data – Provision of information to patient re. the drug – Help in clinical follow-up of treatment, including measurement kits of infliximab concentration 	}	Contribution to product good use Total score (points): 35	10 10 15
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▪ **Value-added services** could play an important part in the **sustainability of biosimilars**, and better address patient needs where tendering predominates

Sources: *Tendering and Biosimilars: What role for value-added services 2019* by S. Simoens et al – Smart Pharma Consulting

¹ On a total of 100 points, services accounted for 60 points

Novartis has set up a VBP arrangement, based on the efficacy results of its innovative drug product, Entresto, indicated in severe chronic heart failure by developing associated measurement tools

Application to pharmaceuticals (2/3)

Context	Novartis VBP arrangement
<ul style="list-style-type: none"> ▪ Entresto (sacubitril/valsartan) is an innovative drug for treating severe chronic heart failure ▪ Novartis claims this is the first new drug that can demonstrably lower mortality rates when compared to other treatments 	<ul style="list-style-type: none"> ▪ In February 2016, Novartis signed VBP agreements with US-based health insurers, with payments depending on the reduction in proportion of patients admitted to hospital for heart failure ▪ Novartis developed metrics to measure “reduced hospitalization” <ul style="list-style-type: none"> – Incorporating “hospitalization” as a clinical endpoint ▪ Novartis developed a tracking tool to measure outcomes <ul style="list-style-type: none"> – Before the launch, they developed a remote monitoring device to overcome the lack of technology infrastructure
<ul style="list-style-type: none"> ▪ Launch sales were below the forecasted sales (USD 20 M) but according to analysts, global sales will reach USD 5 B in 2025 ▪ Getting VBP right is likely to be a crucial factor in the growth potential for this drug, which should ideally benefit all stakeholders 	

The Herlev-Gentofte hospital, in Denmark, has set up a VBP partnership, to implement patient treatment monitoring in renal carcinoma and optimize patient pathway

Application to pharmaceuticals (3/3)

Context	Herlev-Gentofte VBP arrangement
<ul style="list-style-type: none"> Non-clear-cell renal carcinoma care led to clinical problems such as patients with relatively bad prognosis, treatment complications and side effects and treatment insufficiently patient-centric Economic problems also occurred with a focus on direct treatment costs only 	<ul style="list-style-type: none"> In 2018, Herlev-Gentofte hospital signed a partnership agreement with Roche, the selected vendor, and additional agreements on home-monitoring devices and monitoring software Outcomes: increased PFS¹ and O/S², reduced treatment complication, reduced hospitalizations and visits VBP criteria focus on total cost of care cycle: diagnosing, patient monitoring, treatment, medication, hospitalization, hospital visits
<ul style="list-style-type: none"> As a result, patients benefited from a prolongation of life expectancy and an improved quality of life Regarding the hospital, it had access to a wider range of treatment options, improved RWE data and insights into patient home condition and medical teams can compare the holistic value of treatments, and thus select the best option 	

Cost containment policies tend to make hospital prescribers increasingly concerned about the costs induced by their prescriptions either for in- or out-patients

Cost of hospital-prescribed drugs

Drugs dispensed at hospitals

- Since 2004, hospital expenditures are covered by the National Health Insurance Fund according to their **activity level**, based on a fixed fee-for-service model, called **T2A¹**
- Thus, hospitals have a **strong incentive to pay the lowest price**, for drugs to achieve a balanced budget
- For drugs on “top of T2A” and/or on the retroceded list, hospitals are reimbursed by the National Health Insurance Fund, at the reference price set by the CEPS²
- However, hospitals may buy at a lower price, and in such a case, **the savings will be equitably distributed** between hospitals and the National Health Insurance Fund

Drugs dispensed at retail pharmacies

- In 2010, the Social Security Act introduced a measure to **contain the cost of drugs** dispensed in retail pharmacies, but **prescribed by hospital physicians**, as this cost was increasing faster than the primary care prescriptions costs
- This measure sets an **annual maximum growth rate** of drug expenditure related to hospital prescriptions that are delivered at retail pharmacies
- If exceeded, the **ARS⁴** may place the offending hospital under its supervision to compel it to **improve prescribing practices**, and may possibly demand **financial penalties**

Lower cost drugs (i.e., biosimilars, generics) may contribute to **reduce hospitals costs**, but in a limited proportion, knowing that drugs account for ~2% of total hospital budget³

Prescription of biosimilars may help **better control** the cost evolution of **drugs prescribed by hospital physicians and delivered in retail pharmacies**

Tenders are generalized in public hospitals and non-for-profit private hospitals¹ when products are not in a monopolistic position, in other cases negotiations take place on a one-to-one basis

Hospital drug purchasing

Tender procedures²

- Invitations to tender are published in the Gazette
- Tender procedures are **mandatory** in the **public sector**²
- The supplier is selected in view of the **best price and service offer** (e.g., training, medical information, etc.)
- Tenders can be broken when there is a major change in the market (e.g., entry of generics, biosimilars, major innovation)
- **4 selection criteria** are used with different weights³:
 1. The technical and therapeutic value of the product (therapeutic indications, safety profile, dosage forms, etc.) [**~50%**]
 2. The economic aspects (price, commercial conditions) [**~30%**]
 3. The manufacturer performance (e.g., logistic, reliability of supply) [**~18%**]
 4. The manufacturer CSR⁴ initiatives [**~2%**]

The price reduction offered through invitations to tender can reach: **40% or more with the original brands; 80% for biosimilars and 99% for generics** depending on competition and original brand's alignment strategy

One-to-one negotiations

- One-to-one negotiations **quasi-exclusively concern private hospitals** and are usually done through central purchasing offices
- Needed volumes are sent to the company that the hospital wants to work with
- These negotiations usually happen for drugs in a **monopoly**, most often in the private sector
- Negotiations are based on **prices and services provided** to the hospital
- In the public sector, one-to-one negotiations are mandatory for orders superior or equal to € 40,000 (excl. taxes) and inferior to € 214,000 (excl. taxes)

The price cut, through one-to-one negotiations, can reach **40% with the original brands**

Sources: Smart Pharma Consulting analyses after interviews with hospital pharmacists (public and private sectors) and an expert of the French Hospital market in January 2020

¹ ESPIC – ² Mandatory for orders superior or equal to € 214,000 (excl. taxes) – ³ The weight is indicated in percentage in brackets – ⁴ Corporate Social Responsibility

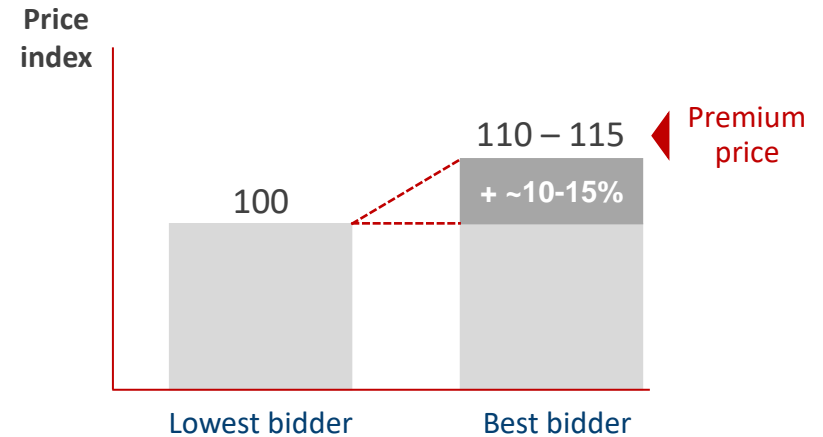
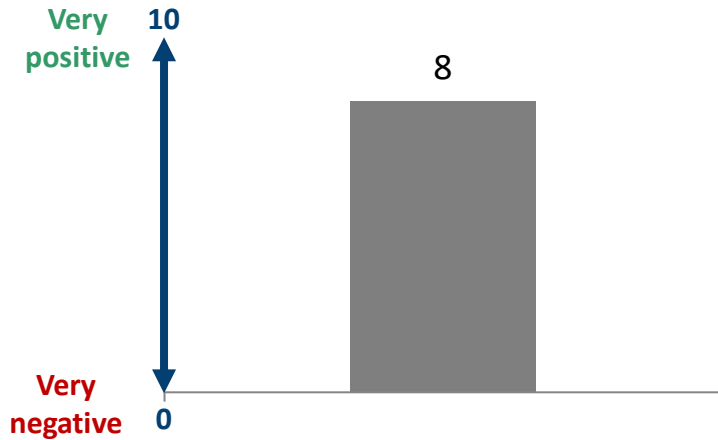
If hospital buyers are positive regarding VBP applied to hospital drugs, the number of cases on which best bidders have won over lowest bidders are not frequent

VBP & premium price for hospital drugs

What is your opinion regarding VBP applied to hospital drugs?

Are you ready to pay a premium price for associated services?

Hospital buyers



- “It is yet the case for SC¹ and IV² forms for the same product”
- “I am opposed to buy a product on the sole economic criteria”
- “The valuation is limited to the hospital boundaries”
- “It is difficult to objectify and thus compare the value of services”
- “For biosimilars or generics we compare other criteria than molecules, which are identical”

- “I wish I could carry out full cost analyses, including pharmacoeconomic studies, with real world data, at hospital level”
- “Services are used to differentiate competitors with similar prices”
- “The service proposed, for a higher drug price, should be useful for all or most of the hospitals subscribing to the buying group”
- “Legal aspects must be checked. We don’t want to be sued for discriminating requirement specifications”

Sources: Interviews of 8 hospital buyers – Smart Pharma Consulting analysis

¹ Subcutaneous – ² Intra Venous

Services related to drug procurement are routinely assessed by hospital buyers, reconstitution aspects may differentiate certain drugs and sustainable development is becoming important

Services directly impacting hospital pharmacists

Procurement¹

- The components of procurement are evaluated on a routine basis by buyers
- They are a prerequisite to be fulfilled to avoid disqualification
- Payment terms (e.g., cash discounts, end-year rebates, compensable drug gaps³) may create a difference

Reconstitution²

- Ready-to-use formulations vs. lyophilizates can win bids with a premium price of up to 20%, but it is not guaranteed
- Preservation at room temperature and longer stability are valued while selecting drugs
- However, amongst generics or biosimilars there is no much differences

Sustainable development

- Not yet significantly discriminatory...
- ... but the pressure from politics is increasing
- Manufacturing location, quantities of cardboard, recycled materials, etc. are increasingly valued and could weigh 3 to 5 points⁴

Sources: Interviews of 8 hospital buyers – Smart Pharma Consulting analysis

¹ Ordering, delivery, storage, returns, payment terms – ² Of drugs such as anticancer drugs
 – ³ Ecart Médicament Indemnisable (EMI) – ⁴ Out of 100

Services related to drug dispensing, time saving, and patient care optimization do not enable to differentiate similar drugs¹; while those impacting patients are not considered to select drugs

Services directly impacting nurses – physicians – patients

Nurses

- When there are different formulations (e.g., SC and IV) for the same product in general, they are bought separately
- Time savers like unitized packaging, SC vs. IV, ready-to-use formulations are a plus to win a bid, but not necessary at a better price
- A non-proven benefit will not be considered

Physicians

- The potential benefit of a given product on patient care must be demonstrated
- Comparative studies should be carried out
- As per current public call for tender regulations, it is difficult to associate such a benefit in the evaluation of drugs

Patients

- | | |
|--|--|
| <ul style="list-style-type: none"> ▪ Little importance is given to patient opinion in hospital care ▪ In rare cases, convenience of a drug vs. another | <ul style="list-style-type: none"> one can be considered, but mainly for day care ▪ Different devices will play a possible role for drugs used in ambulatory care for chronic diseases |
|--|--|

Sources: Interviews of 8 hospital buyers – Smart Pharma Consulting analysis

¹ Such as certain me-too products or products facing generics or biosimilars competition

The Value-based Procurement applied to drugs will contribute to improve the efficiency of the healthcare system, provided sellers and buyers collaborate fulfill four well-identified prerequisites

Vision & Recommendations

- It should take 5 years or more of joint collaboration between health authorities, hospital buying groups and suppliers, to define the rules to extend the Value-based Procurement approach beyond procurement and use criteria
- The implementation of the Value-based Procurement approach to patient journey, hospital and healthcare systems will require to:
 1. Change the performance indicators of hospital buyers which are currently mainly based on reduction in purchasing costs
 2. Evaluate the value of purchases over a 3- or 4-year period
 3. Develop a reliable and accepted set of measurement tools to objectify the benefits created by the purchased drugs and their possible associated services
 4. Demonstrate a mutual and balanced benefit for the seller and the buyer
- The Value-based Procurement approach, unlike the cost-based approach, represents a serious option to contribute to improve the global healthcare system, in the interest of citizens

Consulting firm dedicated to the pharmaceutical sector operating
in the complementary domains of strategy, management and organization

Market Insights Series

- The Market Insights Series has in common to:
 - Be well-documented with recent facts and figures
 - Highlight key points to better understand the situations
 - Determine implications for key stakeholders
- Each issue is designed to be read in 15 to 20 minutes and not to exceed 25 pages

Hospital Value-based Procurement

Application to Pharmaceuticals in France

This paper which review the current and future importance of services associated with pharmaceuticals to win hospital calls for tenders is structured as follows:

- Definition of Value-based Procurement
- Application to pharmaceuticals (International case studies)
- Views of French stakeholders re. Value-based Procurement for hospital drugs
- Vision and recommendations

Smart Pharma Consulting Editions



- Besides our consulting activities which take 85% of our time, we are strongly engaged in sharing our knowledge and thoughts through:
 - Our teaching activities in advanced masters (ESSEC B-school, Paris Faculty of Pharmacy)
 - Training activities for pharma executives
 - The publication of articles, booklets, books and expert reports
- Our publications can be downloaded from our website:
 - 41 articles
 - 36 position papers grouped by subject as follows:
 1. Market Insights
 2. Strategy
 3. Market Access
 4. Medical Affairs
 5. Marketing
 6. Sales Force Effectiveness
 7. Management
- Our research activities in pharma business management and our consulting activities have shown to be highly synergistic
- We remain at your disposal to carry out consulting projects or training seminars to help you improve your operations

Best regards

Jean-Michel Peny