

*This paper is one in a series of short papers on cost-containment strategies*

**Volume 2**  
Reference-based pricing

**Volume 3**  
Maximum allowable cost

**Volume 4**  
Restricted drug selection

## Volume 1

# Bulk Purchasing

### Purpose of this paper

- ▶ provide a brief overview of the political context that has focused attention on drug use, drug expenditures and the need for cost-containment strategies;
- ▶ define bulk purchasing including its purpose, effectiveness and associated risks;
- ▶ advocate for better medication management as a necessary adjunct to cost-focused strategies;
- ▶ recognise the important role of pharmacists in delivering services that will support more appropriate and effective drug utilisation.

### Summary

- ▶ Government expenditures on drugs are escalating at a faster rate than other areas of the health care sector and are expected to continue to rise. Drugs are now the second largest health-spending category after hospitals and are expected to account for 17% (\$22 billion) of total health expenditures in 2004, compared to 9% (\$1.1 billion) twenty years ago. In 2004, pharmacists filled 381 million retail prescriptions. The public sector paid for 37% of drug costs and the private sector 63% (through private insurance or direct pay).<sup>1</sup>
- ▶ Both provincial and federal governments are looking for ways to control spending on drugs.
- ▶ Bulk purchasing is one of several mechanisms that have been suggested to lower drug expenditures.
- ▶ Bulk purchasing uses the power of buying large volumes of drugs to negotiate lower unit prices. Some Canadian hospitals and individual pharmacies have pooled together to use bulk purchasing of drugs to save money. A recent review of large-scale bulk purchasing schemes operating in the USA at inter- and intra-state levels also reported substantial savings.
- ▶ There are risks associated with bulk purchasing, including reduced access to some drugs, reduced numbers of drug suppliers (resulting in decreased competition, increased risk of supply failure and fewer opportunities for substitution), and increased administrative overheads for governments and pharmacists.
- ▶ The two most significant cost drivers for rising drug expenditures are increases in the average number of drugs taken per person, and a shift towards the use of more expensive drugs.
- ▶ An effective strategy for better managing drug expenditures should aim to achieve both effective, appropriate and safe drug utilization as well as lower drug costs where possible. It should also focus on quality of care, including patient compliance, and value for money.
- ▶ Better medication management, particularly for patients with multiple medication regimens, is a vital adjunct to cost-focused strategies and will help to ensure patients take the right drugs at the right time.
- ▶ Medication reviews and other services provided by pharmacists can play an important role in ensuring that drugs are used more appropriately, safely and effectively.



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## Escalating drug use and drug expenditures

In 2002, the Commission on the Future of Health Care in Canada recognised the growing role of prescription drugs in the delivery of health care.<sup>2</sup> It predicted continued increases in both the supply of and demand for drugs, which would create significant challenges for governments trying to manage costs and ensure reasonable access to medically necessary drugs. In 2003 and 2004, First Ministers reaffirmed their commitment to promoting optimal drug use, best practices in drug prescription and better management of drug costs.<sup>3,4</sup>

In November 2004, the Office of the Auditor General released its fourth report on federal government spending, which included an assessment of drug expenditures in six federal health-related programs. The Auditor expressed significant concern at the sharp increase in drug expenditures (25% over two years), and identified considerable unnecessary overspending on prescription drugs, attributed in part to the under-utilization of cost-containment strategies such as bulk purchasing, reference-based pricing and lowest-cost alternatives.<sup>5</sup>

Rising drug expenditures are not unique to these federal health programs. Drug expenditures across Canada and other developed countries have been rising steeply over the past 10 years, both in absolute terms and as a percentage of GDP.<sup>6</sup> Several factors have been identified as drivers of drug costs, including:

- changes in the size and demography of the population;
- changes in the unit price of drugs;

- changes in the prescribing patterns of physicians;
- changes in the number of drugs dispensed per patient;
- changes in the number of drug options available for specific health conditions;
- trends towards using newer, more expensive and/or more effective drugs;
- trends towards using drug therapy instead of other medical treatments;
- emerging conditions and diseases requiring drug therapy.<sup>7</sup>

Recent Canadian research has shown that the two major cost drivers for rising drug expenditures are increases in the number of drugs taken per person and shifts towards using more expensive drugs.<sup>8</sup>

## Bulk purchasing

Bulk purchasing is one of several mechanisms that have been suggested as a means of lowering drug expenditures. Other mechanisms include generic substitution, preferred drug lists and reference-based pricing.

Bulk purchasing is also referred to as consolidated purchasing, pooled purchasing and aggregate purchasing. It aims to bring together multiple drug purchasers (and the volumes of drugs they buy) in order to secure the lowest possible drug prices, usually directly from manufacturers.<sup>9</sup> As such, overall savings tend to increase as volumes increase.

A recent review of pooled purchasing programs in the USA found a number of schemes operating at inter- and intra-state levels. In most cases, participating organisations reported substantial savings.<sup>10</sup> In Canada,

where the health system is structured quite differently, various hospitals and individual pharmacies have participated in bulk purchasing programs through 'local buying groups'. However, other pricing-control mechanisms have tended to be used by governments to try to control drug costs more broadly. It has been suggested that provincial drug plans, which finance 42% of national prescription drug expenditures, could make greater use of bulk purchasing.<sup>11</sup> It follows, similarly, that national drug programs might also benefit by increased use of this mechanism. Non-patented drugs, which have been shown to be relatively expensive in Canada,<sup>12</sup> could be a possible priority area.

There are, however, risks associated with bulk purchasing that must be considered. For example:

- Bulk purchasing of some drugs at more competitive prices can reduce the availability of other therapeutically-necessary and effective drugs.
- Bulk-purchasing contracts can result in monopolies or limited pools of drug suppliers. Reduced competition can lead to some manufacturers leaving the market, thereby further restricting opportunities for substitution. (The recent shortage of flu vaccine in the USA illustrates the consequences of supply problems when no substitute suppliers are readily available.)
- Bulk purchasing at a provincial, territorial or national level requires processes for evaluating and agreeing on which drugs to include in bulk purchasing contracts. Such processes can add significant direct and indirect administrative costs, counteracting some of the forecasted savings.



▶ Currently, the supply of drugs to pharmacies from multiple manufacturers is managed through drug wholesalers. Bulk purchasing of drugs by governments directly from manufacturers could potentially result in pharmacists having to access one supply system for NIHB clients, another for the provincial drug plan, and a third for patients covered by private drug plans. Clearly such a system is not sustainable. The implementation of bulk purchasing would therefore need to be supported by new and well-coordinated supply channels.

## Getting better value from drug expenditures

Rising drug expenditures have provoked greater scrutiny of drug prices and have encouraged the search for mechanisms to purchase drugs at the lowest possible price. RBP could be one of several mechanisms used, although there are risks associated with its implementation.

As mentioned above, the two major cost drivers for rising drug expenditures are, in order of priority, increases in the number of drugs used per patient, and shifts towards using newer, more expensive drugs.<sup>17</sup> Increasing volumes of drugs used per patient may be necessary in order to achieve better health outcomes, particularly for people with chronic diseases. Many drugs are not prescribed or used appropriately, and there is clear evidence that many people are not receiving drugs that could be of benefit to their health.<sup>18-22</sup> A strategy for better managing drug expenditures must promote effective, appropriate and safe drug utilization as well as lower drug costs where that is possible. It should also focus on quality of care, including patient compliance, and value for money.

Better medication management, particularly for people using multiple prescription drugs, is a necessary adjunct to cost-focused strategies and will help to ensure that patients are taking the right drugs, the right number of drugs, at the right time. Optimal drug therapy can also prevent illness, repeat doctor visits,

repeat emergency room visits, and hospitalisation, producing cost savings that, at least to some extent, offset drug costs. Medication reviews by pharmacists, which have been implemented in several countries (including the UK, the Netherlands, Australia and New Zealand), are seen as a key strategy for improving patient compliance, enhancing quality of care and patient outcomes, reducing waste and making substantial savings.<sup>18</sup> The Commission on the Future of Health Care in Canada also noted that pharmacists can play an important role in ensuring that drugs are used appropriately and in providing patients and physicians with information they need about the effectiveness and appropriateness of drugs. The development of a new National Pharmaceutical Strategy provides a timely opportunity for investing in services that will ensure more optimal drug use.

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### Papers

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Naylor Submission (2003)  
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### Publications

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*Compendium of Pharmaceuticals and Specialties (CPS)*  
*Compendium of Self-Care Products*  
*Emergency Contraception — Guide for Workshop Facilitators*  
*Guide to Drugs in Canada*  
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