

Procurement

Using an aggregated purchasing model to reduce costs and ensure quality

Without a well-planned procurement process, HIV/AIDS programs in developing countries risk stockouts, costly emergency purchases and overpurchasing. To leverage economies of scale in procurement, the Supply Chain Management System (SCMS) provides a consolidated procurement mechanism. The results are lower prices, increased coordination between suppliers and recipients, and improved product quality.

The Challenge

Relationships between clients and suppliers are often short-term and transactional, with little accommodation for unique program needs such as language, labeling or packaging requirements. Clients and suppliers may also miss opportunities to understand each others' problems and to work together to solve supply challenges.

When HIV/AIDS health care programs in developing countries experience product stockouts, procurement officers may need to make emergency purchases. The hazards of an emergency purchase are many, from being forced to procure from a lower-quality supplier at an inflated price or to accept products with short shelf lives, to purchasing too much of a given product. Over-purchasing can tie up precious financial resources and warehouse space with excess inventory and may pose the risk of waste and diversion.

Meeting the Need

The SCMS approach to procurement is based on aggregated purchasing on behalf of HIV/AIDS prevention, care and treatment programs. The goal is to create economies of scale, thereby ensuring that the right commodities are available when needed to support the

best patient care. Cornerstones of our approach include partner collaboration and long-term relationships with vendors.

Collaborate with partners. To learn what is working well and how to best work together, SCMS collaborates with organizations that have existing procurement mechanisms. We support and strengthen—rather than duplicate or supplant—their efforts. At the same time, we make every effort to negotiate supply contracts that enable collaborating partners such as ministries of health and drug service organizations to procure through SCMS agreements or to route products through our regional distribution centers.

Professional, planned procurement enables clients to focus on their core missions—managing health care programs and treating patients—rather than spending precious time pursuing the products they need.

As part of the procurement process, SCMS works closely with clients and recipients to as we

- Define product needs based on recipients' care and treatment goals.

- Use state-of-the-art quantification tools to accurately estimate the amount of products needed based on anticipated number of patients, standard treatment guidelines, past consumption and other factors.
- Develop long-term supply plans that we can share with funding agencies and manufacturers.
- Calculate the cost and determine funding options.
- Validate specifications to ensure the appropriate products are procured.
- Prepare fulfillment plans to determine whether the product is already in our inventory and therefore available for rapid delivery, whether it must be procured or whether an appropriate donated product can be obtained.
- Verify vendor quality.
- Facilitate payment and monitor funding flows.
- Provide short- or long-term technical assistance in procuring HIV commodities, including helping donors and organizations to purchase products with their own funds.

Build long-term relationships with vendors. A central strategy of the SCMS procurement solution is to develop long-term relationships with vendors of key products through Indefinite Quantity Contracts (IQCs). IQCs are negotiated to meet the aggregated demand of all programs. They generally cover a timeframe of 12 to 36 months. IQCs are negotiated for all antiretrovirals, test kits and drugs for the main opportunistic infections and sexually transmitted infections, as well as for commonly used laboratory consumables and medical supplies.

The SCMS IQCs follow an open, competitive process in accordance with the US government's Federal Acquisition Regulations. To save money, we purchase generic pharmaceuticals whenever possible. We obtain all pharmaceutical products from manufacturers whose facilities comply with the World Health Organization's Good Manufacturing Practices. All purchased antiretrovirals are either approved or tentatively approved by the US Food and Drug Administration and are registered for use in the destination country. Our policy is to procure from the most appropriate source that ensures quality and value.

SCMS collaborates closely with vendors, sharing longer-term demand forecasts, which combine national-level

forecasts. With those projections, vendors can optimize production schedules and materials sourcing to cost-effectively meet SCMS product requirements and to ensure that sufficient product is in stock when needed.

IQCs streamline procurement by establishing fixed prices for products, service levels, capacity commitments, after-sales service and equipment replacement processes, as well as payment terms. The contracts further define the required quality standards, the detailed product specifications, the level at which manufacturers will test them and the required expiration dates.

An e-catalog on the SCMS website lists all of the products currently procured through the project. New products are added as clients need them. Prices are provided for products that have established IQCs.

Sustained Benefits

The SCMS procurement process offers clients certainty of price, quality standards and delivery dates. With our aggregated purchasing model, we reduce transaction costs and streamline procurement by consolidating demand. Through vendor and product prequalification, as well as a robust quality assurance system, we ensure that clients can be confident in the quality of their products.

Leveraging established relationships with suppliers can benefit even the smallest health care provider. Enhanced service and responsiveness extend to all SCMS clients, thereby enabling programs to fulfill their unique product and delivery requirements.

IQCs also help programs scale up. Stocks of the most vital products are stored in our regional distribution centers for delivery to clients as needed, thus shortening delivery time to within one month. Effective procurement leads to increased efficiency and to our ultimate goal: providing more people with HIV/AIDS care and treatment.

ABOUT SCMS

The Supply Chain Management System (SCMS) was established to collaborate with in-country and global partners to ensure a reliable, cost-effective and secure supply of high-quality medicines and health products for HIV/AIDS prevention, care and treatment. SCMS is funded as part of the US President's Emergency Plan for AIDS Relief through the US Agency for International Development. www.scms.pfscm.org