

# THE MANAGER

CASE STUDY FOR TRAINING AND GROUP DISCUSSION

## Springbok City's Hospitals Collaborate to Improve TB Drug Supplies

### Scenario

SPRINGBOK CITY, a municipality that encompasses three urban areas and has a population of 2.1 million, is served by three large public hospitals. All three hospitals offer TB diagnosis and treatment programs in their main facilities and through networks of outpatient clinics. A year ago, as required by the provincial health department, the hospitals began to implement DOTS, the tuberculosis control strategy recommended by the World Health Organization (WHO). As a result of better detection, the number of TB cases has increased dramatically in all three hospital networks. Their supply systems were not prepared to handle a rapid increase in the number of TB cases, and the threat of interruptions in supplies is a cause for alarm. The three hospitals have traditionally had a friendly—and sometimes not so friendly—rivalry. Realizing that they face similar problems, the managers of the TB programs of the three hospitals decided to work together to determine how to avoid supply interruptions and make better use of their limited funding for TB drugs.

The managers met in a small conference room in a hotel in Springbok City's largest downtown area. Once coffee was served, the three managers got down to business. Mark Williams, TB Program Manager at Kings Town Hospital spoke first. "We have been very pleased with the results of implementing DOTS," he

began. "Our laboratory capacity and capability have increased, and we have a noticeable increase in the numbers of people coming in for diagnosis and treatment, and who stick to their treatment regimen. Unfortunately, funding levels for drugs have not increased, and procurement is not keeping pace with demand."

"I am seeing similar results," said Miriam Makiwane of West Manchester Hospital. "In the last six months alone, our laboratory has diagnosed 20 percent more TB cases than the previous six months. I can't keep adequate supplies of TB drugs in stock, and prices seem to increase every time I order. We face serious interruptions in supplies in the coming months."

"These are my problems, too, and I am relieved that we are collaborating," said Ncedo Richards, of Port's Gate Hospital. "None of us wants to see an increase in patients returning as resistant cases if their treatment regime is interrupted. That would bring us greater and more complex funding and procurement challenges than we face now—and increase the suffering among our population from this disease." Mark and Miriam nodded agreement.

"I looked up international drug prices on the Internet, in the *Drug Price Indicator Guide*. Here's a printout of TB drug prices," he continued, handing out photocopies of the Web page. "These prices are lower than what I have been paying for TB drugs. Is this true for you, also?"

“Yes! If I could get these prices, my funding shortfalls would be greatly reduced, or might disappear,” said Miriam, with enthusiasm. “What can we do to get prices like these?”

“Perhaps we could pool our orders, to increase the volume of each order,” suggested Mark. “Would that help to reduce prices?”

“You would think so, but often just the opposite happens,” said Ncedo with a weary smile. “We all have a history of late payments, due to delays in funding when the provincial health authorities couldn’t agree on a budget. From the supplier’s perspective, the question is, are we able to pay him in a timely way? If not, then increasing the volume of the order only increases the supplier’s risk. He will charge us more, not less.”

“So that’s why my supplier has raised his prices!” said Miriam. “It sounds as if we need to improve the timeliness of our payments as well as pool our orders. How can we do a better job of paying our suppliers on time?”

“For me, the first problem is the timing of the funding disbursements we receive from the government,” explained Ncedo. “We receive funds on a monthly basis, often with delays, while the supplier wants to ship and be paid on a quarterly or bi-annual basis. We keep falling behind, and it becomes a nightmare to try to reconcile order fulfillment, payments, and outstanding invoices.” The other managers nodded wearily in agreement.

“The good news is that we have options,” said Ncedo. “One is to guarantee payment on specified dates by arranging with a bank for a letter of credit. The bank pays the supplier in the agreed-upon increments, while the government reimburses the bank according to its regularly scheduled disbursements. A second option is to ask the government to disburse its drug funds directly to us once or twice a year, instead of monthly. Then we could be more reliable in paying the supplier on schedule.”

“Let me see if I understand what you are saying,” said Mark. “If the supplier is certain that he will receive payment in a timely way, either from a bank or from us, then his risk will be reduced, and he will probably lower his prices.”

“Exactly!” said Ncedo as he warmed to his subject. “And those aren’t our only options. We could also bring prices down by using competitive procurement.”

“I was disappointed when I used competitive procurement in the past. We ended up with drugs of inferior quality because we went simply for the cheapest drugs. It was a serious problem in my facilities,” said Miriam, with a frown. “Furthermore, the competitive bidding process takes time. It involves writing instructions to bidders, testing drug quality, determining supplier qualifications, and doing a supplier pre-selection process. We are facing shortages in drug funding and supplies right now!”

“You have a point,” said Ncedo. “I recommend that we consider this approach for the long term. We may even want to establish a buying group for our hospitals and contract the tendering process out to someone knowledgeable in this area. For now, let’s focus on steps we can take to improve prices and supplies right away.”

### Discussion Questions

1. Why are these three hospitals facing interruptions in TB drug supplies?
2. What ideas do the managers discuss for lowering TB drug prices and increasing drug availability? Referring to the issue of *The Manager*, what other ideas could they consider for the long term?
3. How can these hospitals improve their relationships with their TB drug suppliers?

### QUESTION 1 Why are these three hospitals facing interruptions in TB drug supplies?

Each of these three hospitals is facing a similar dilemma. They have successfully instituted DOTS, as required by the provincial health department, yet their very success means that funding for and supplies of TB drugs are not keeping pace with the increase in demand. Their numbers of TB patients have increased, yet their funding levels for TB drugs have not yet adjusted to the increases. At the same time they are finding that the drugs are more expensive. Procurement is falling behind demand and could result in supply interruptions if steps are not taken to use existing funding more efficiently.

### QUESTION 2 What ideas do the managers discuss for lowering TB drug prices and increasing drug availability? Referring to the issue of *The Manager*, what other ideas could they consider?

A first idea they discuss is to gather information on TB drug prices on the international market. One of them has looked up TB drug prices in the *International Drug Price Indicator Guide* at <http://erc.msh.org> and learned that they are paying higher than international prices for the drugs they have been procuring. While in and of itself, this information will not help them get lower prices, they can use this knowledge to develop procurement plans, negotiate with suppliers, and initiate competitive procurement.

An idea that they bring up near the end of the scenario is to use competitive procurement to influence prices. Competitive procurement can bring drug prices down and provide an opportunity to set high standards for drug quality and delivery. In some countries, however, national policies may support local commercial production of drugs and result in a double stan-

dard that could lead to lower quality of the procured drugs. Likewise, some countries do not have the resources to verify the quality of international suppliers. Managers in these countries will need to explore competitive procurement thoughtfully, as it may not be a useful strategy for the short term.

A possible long-term strategy for keeping down drug costs and improving supply is to apply for assistance from the Global TB Drug Facility (GDF), an initiative of WHO and the Stop TB Partnership. Countries in need that meet specific requirements may be eligible to receive free TB drugs from GDF. The criteria require that a country use effective treatment protocols, such as DOTS, agree to redirect funds to other TB program needs now being spent on drugs, and implement a program to expand DOTS throughout the country.

### QUESTION 3 How can these hospitals improve their relationships with their TB drug suppliers?

Developing good relationships with suppliers, for example by establishing a clear and open prequalification process, can help to ensure consistent supplies of quality TB drugs. One common stumbling block in relations between a program and its suppliers is the timeliness of payments to suppliers. Late payment to suppliers is an important factor in the TB drug supply interruptions faced by the three hospitals in the case study.

When clients do not pay on time (or do not pay at all), suppliers consider them an increased risk and raise their prices in relation to the perceived risk. The three hospitals are already facing funding shortfalls due to a growing demand for TB drugs. The growing demand means that the three hospitals must increase the volume of their orders, either individually or as a group. At the same time, an increase in the volume of the hospitals' orders means that the supplier risk due to non-payment or late payment is greater than before, and the

supplier will charge higher prices. Higher prices would increase funding shortfalls and the threat of interrupted supplies.

The managers discuss ways to improve their relationships with suppliers, which would lower the suppliers' risk and probably lower drug prices. They discuss two strategies for improving provider-supplier relations:

- increase the volume of drug orders by pooling them;
- guarantee timely payment, either by arranging with a bank for a letter of credit or by asking the government to disburse drug funds once or twice a year instead of monthly.

It is not clear from the scenario whether these suggested strategies are feasible in the local context. The hospital managers would need to explore certain questions before making decisions about whether the sug-

gested strategies for paying suppliers more reliably are feasible. For example:

- Can the three hospitals make the decision themselves to pool their orders, or do they need to get approval from district, regional, or national authorities? If they need approval from higher levels, who would they approach and how?
- Would the government be willing and able to change current drug disbursement policies and disburse drug funds once or twice a year instead of monthly? If so, who would make that decision, and how soon could it be implemented?
- Would any banks in the city be interested in providing a letter of credit to the hospitals, either individually or as a group? If so, what would be the cost implications of this option?

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