Provincial tendering mechanisms in China: evaluating the impact on final procurement price across provinces

Introduction
In China, the maximum retail prices (MRP) of reimbursed medicines are controlled at the national level by the National Development and Reform Commission (NDRC) and, subsequently, at the provincial level by their respective counterparts, leading to differences in MRP between provinces for certain drugs. At the provincial level, centralised tendering processes are used to procure medicines, however, variation in processes and methodologies has reportedly resulted in a large degree of disparity resulting in a significantly lower final retail price than the maximum retail price set by either the National or Provincial Development and Reform Commissions (DRC).

Our findings from secondary and primary research were further analysed to identify opportunities and challenges for multinational companies (MNC) marketing drugs in China.

Methodology
We conducted secondary analysis of both national and provincial government websites to identify the different tendering mechanisms used across China. Tender results from fifteen provinces – selected as a representative mix of high, medium and low GDP per capita – were analysed to understand the final price variation. Analysis was carried out on 10 branded/originator oncology products with the highest sales in China; 3 of which were included on all provincial reimbursement drug lists. Primary research was conducted with payers in provinces with well-established tendering mechanisms - including Beijing, Guangdong, Shanghai and Shanxi - to validate findings and understand discount expectations. Our findings from secondary and primary research were further analysed to identify opportunities and challenges for multinational companies (MNC) marketing drugs in China.

Results
Since 2009, with the introduction of the Essential Drugs List (EDL), the Ministry of Health (MoH) has sought to standardise the tendering process for these drugs with the pilot and subsequent roll out of the ‘double envelope’ mechanism in Anhui province (see figure 1). Although over 20 provinces have since adopted this mechanism for centralised tendering of EDL drugs, approximately 35% of provinces have implemented their own tendering processes. In addition, there is a general lack of consistency even within provinces. Despite attempts to standardise the process across provinces, there remains a large degree of disparity for EDL tenders with different mechanisms existing on a continuum between price and quality focused.

1. Secondary research
2. Primary research
3. Synthesis of findings

EDL TENDERS
- The MoH mandates that all government-run hospitals above county level (predominantly tier 2 and 3), and in some cases at the county level, procure the majority of drugs through the centralised provincial tendering mechanism, regardless of reimbursement status.
  - Drugs to be procured via the centralised tendering mechanism are included in a provincial procurement list which must comprise at least 80% of drugs utilised by medical institutions in the previous year.
  - Tenderers are usually invited in one to two-year cycles, although this varies across provinces and in some cases may take up to four years between successive tenders.
  - For branded drugs excluded from the EDL and where there are no generic alternatives available, regardless of reimbursement status, the tendering process involves price negotiation and, in some cases, scoring with an expert panel.

NON-EDL TENDERS
- Recently in Shanghai, tendering responsibility has been shifted from MoH to the Ministry of Human Resources and Social Security, so payers will be responsible for both determining provincial RDLs and negotiating final tendering prices.
  - In other provinces, it is still the MoH’s responsibility, but this is expected to change, with Guangdong and Beijing currently piloting different mechanisms.
  - Similarly, payers in Beijing, Guangdong, Shanxi and Shanghai concur that prices in other provinces are referenced during the negotiations for branded/originator products.
  - Payers in Shanghai note that Beijing, Guangdong, Jiangsu, Zhejiang and Tianjin are frequently referenced.

Conclusions
- For multinational pharmaceutical companies launching new drugs in China, launch timing and sequencing across provinces is becoming an important factor commercialisation.
- The degree in variation between the length of tendering cycles in different provinces means that delays are inevitable, however, to what extent is difficult to predict since there is a general lack of consistency even within provinces.
- Furthermore, the advent of price referencing across provinces during the negotiation process for centralised tendering means that manufacturers will have to carefully consider sequencing to ensure the optimal price levels are achieved.

While our research does not consider population size and patient volume, price-volume trade-offs based on anticipated tendering prices will be necessary when determining launch sequence to ensure optimal return on investment.
- As the EDL is expanded to include more off-patent originator drugs, western products, which have historically enjoyed brand loyalty, will come under increasing price pressure through EDL tenders.
- However, quality focused tendering processes for EDL products may still offer a competitive opportunity for branded originator drugs; whereby, they will be able to compete on quality rather than solely on price, potentially maintaining a pricing premium.

Objectives
- To qualitatively evaluate the different tendering mechanisms and understand the process for procurement within each province.
- To quantitatively assess the impact of provincial tendering mechanisms on final retail prices for a group of oncology products both included and not included in the reimbursement drug list.
- To quantitatively assess price variation between provinces and analyse the implications for launch sequencing across China.

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