

Danish Ministry of Health and Prevention

**Analysis of Hospital
Pharmaceuticals**

Country Report - Germany

March 2009

COWI



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1 Introduction

The German pharmaceutical market is split into the retail market, where the drug price is regulated by law, and the market for hospital pharmacies where the pricing is “free”. The drug prices are negotiated between the purchaser and the pharmaceutical industry.

The German system for purchase of hospital pharmaceuticals has a high degree of decentralisation. Either the individual hospital buys pharmaceuticals directly from the industry or through another hospital (in case a hospital lacks a pharmacy). A number of hospitals have formed purchasing groups to increase their bargaining power and to reduce the administrative cost of purchasing pharmaceuticals.

There is no official definition of hospital pharmaceuticals. In this report hospital pharmaceuticals are understood as "pharmaceuticals bought by the hospitals pharmacies for both in- and outpatients".

COWI has conducted interviews with:

- Chief pharmacist, Dr Torsten Hoppe-Tichy, PhD, Heidelberg University Hospital.
- Dr Anna-Maria Mattenklotz, Pharmaceutical pricing and reimbursement, German Federal Ministry of Health

2 Regulation and legislation

The procedures for market authorisation and drug dispensing are regulated by The Pharmaceutical Act (Arzneimittelgesetz 2007).

Limited regulation of pharmaceuticals for inpatients

In general the market for hospital pharmaceuticals for inpatients is not regulated by legislation or other regulation. As long as a pharmaceutical has been authorised by EMEA or the Federal Institute for Drugs and Medical Devices it may be traded freely at the German hospital market at prices negotiated between the pharmaceutical industry and the hospital pharmacies.

There is no official definition of hospital pharmaceuticals. However, hospital pharmaceuticals are generally understood as "pharmaceuticals purchased by the hospital pharmacies for both inpatients and for some ambulatory care¹".

Finance of hospital pharmaceuticals

Pharmaceuticals used for inpatients are covered by the Diagnose Related Groups (DRG) paid for by the sickness funds. The pharmaceuticals are an element in the basket of services covered by the DRG rate for the inpatients².

Mix of ownership of hospitals

Hospital services are delivered by a mix of public, private not for profit and private for profit hospitals (52,2%, 35,3% and 12,5% of 523.882 acute beds in 2005).

The ownership of hospitals varies widely:

Type of ownership	Owners	Examples
Public	Federal states	University Hospitals ³
Public	Cities and district	General hospitals
Private not for profit	Church or charity	
Private for profit	Enterprises	Hospital chains ⁴
Private for profit	Physicians and investors	Smaller hospitals

¹ Mainly in intravenously administrated pharmaceuticals e.g. cytotoxics or immunoglobulins except maintenance treatment with Humira and Enbrel under some circumstances

² The DRG system has been under implementation since 2004 and should have been implemented by end of 2008. However, the implementation has now been postponed by one year to the end of 2009.

³ Two university hospitals in Hessen has been sold to a private company

⁴ Examples: Rhoen Clinics, Asklepios and Helios

The investments for hospitals included in hospital plans are planned by the 16 state governments and financed by state and federal governments jointly. Sickness funds finance recurrent expenditures and maintenance costs.

No regulatory or legal measures for cost containment are in operation for the hospital pharmaceuticals for inpatients. The ex-factory prices of pharmaceuticals are not regulated at market entry.

Prices on hospital pharmaceuticals are set freely

The price of hospital pharmaceuticals is based on price negotiations between hospital pharmacies (or groups of hospital pharmacies) and the industry.

The hospital pharmacies are free to negotiate purchasing prices according to the hospital needs and competition between the suppliers is encouraged with regard to getting their products included in the hospital formularies.

There is no regulation requiring a hospital to run its own pharmacy⁵. A hospital may be serviced with pharmaceuticals in different ways:

Hospitals with or without pharmacy	Service provider	Numbers	Numbers
Hospitals with own pharmacy		460	
	Hospital pharmacy only supplying own hospital		133
	Hospital pharmacy also supplying other hospitals		327
Hospitals without hospital pharmacy		1.679	
	Supplied from other hospital pharmacy		1.030
	Supplied from retail pharmacies		649 (primarily with less than 300 beds)

It is estimated that 1.490 (70 %) of the German hospitals receive drugs delivery and pharmaceutical services from a hospital pharmacy.

The retail pharmacies may deliver to both hospitals and the consumers, however, according to different legislation and price mechanisms. Therefore, retail pharmacies must purchase the same drug at two different prices.

⁵ Germany has the lowest rate of hospital pharmacists per hospital bed in Europe.

3 Market place and purchasing

Hospital pharmaceuticals are either purchased by a hospital pharmacy or by a retail pharmacy supplying a hospital. In both cases the pharmaceuticals are bought directly from the industry.

DRG as an incentive to cost containment

The pharmaceuticals for inpatients have to be provided at the DRG rate. Consequently the DRG rate paid by the Sickness Insurance Funds to the hospitals gives the hospitals a cost containment incentive. In order not to impair access to very costly or innovative pharmaceuticals these are not financed by the DRG system but through specific additional payments by the Sickness Insurance Funds.

Costly and innovative drugs

The size of the specific additional payments compared to the DRG rate varies substantially from hospital to hospital. The more specialised the treatment in need of expensive or innovative pharmaceuticals is, the higher specific additional payments. The specific additional payments to the DRG systems amount to approximately 5 % of the total expenditure of pharmaceuticals in a non-specialised hospital, whereas the figure is up to 75 % for a university hospital with highly specialised treatment.

Hospital purchasing groups

Some hospital pharmacies pool their purchases. More than 40 purchasing groups are reportedly in operation, for instance a group of 12 university hospitals.

The objectives for joining a purchasing group are issues like higher quality of deliveries and saving time. The experience from one purchasing group is that a higher quantity of pharmaceuticals obtained through joint purchases does not necessarily result in lower ex-factory prices. Some hospital pharmacies supply pharmaceuticals to hospitals without own pharmacy organisation. The main reason for hospitals (primarily smaller hospitals) not to have their own pharmacy is cost considerations. A hospital pharmacy may be part of a major purchasing group and at the same time supply pharmaceuticals to other (smaller) hospitals.

There is an informal exchange of price information between hospital pharmacies.

Wholesalers do not play a role on the German hospital pharmacy market.

Public tendering is not used by German hospitals

The public tendering procedures are not applied in the German hospital system.

Tendering procedures vary across hospital pharmacies. A commonly used procedure for the hospital pharmacy is to invite the industry to tender for pharmaceuticals decided by the hospitals drugs committee.

According to the university hospital pharmacy interviewed the reasons for avoiding the public tendering procedures are several:

- A need to make sure that only drugs allowed in Germany will be offered
- The public tendering procedures are costly compared to other purchase procedures - in particularly the legal costs
- As there are no competition on certain drugs the public tendering procedure is considered in-effective
- Due to small companies assumed lack of capacity for handling a major contract they are avoided as suppliers

Although some hospital pharmacies acknowledge that public tendering could lead to lower prices on generics one or more of the above reasons for not resolving to public tender will prevail.

Evidence Based Medicine

According to the interviewed hospital pharmacy the grouping of pharmaceuticals to encourage price competition among pharmaceuticals is done with great caution and with support of Evidence Based Medicine.

Elements of negotiations include both price and several forms of discounts (prioritised according to which outcome the hospital pharmacy prefers):

- Best price
- Volume related discounts for a specific drug
- Discounts if a drug gets on the hospital formulary
- Volume related discounts based on total purchase from a supplier

Hospitals are price takers

The decentralisation and fragmentation of the buyers on the hospital market versus the industry indicates that the hospitals are price takers. In general the prices on the hospital market are lower than on the retail market. According to the interviews the strategy of the pharmaceutical industry is to introduce drugs at lower prices to the hospitals assuming that the drugs also will be prescribed to the patient in the outpatient market where the price is higher.

This, however, means that retail pharmacies buying drugs at lower prices for supply to hospitals in some cases are re-directing the drugs bought for the hospital market to the retail market, making a profit equal to the differences in

prices in the two markets. The differences in prices between the two markets are, however, less for patented drugs than for generics⁶.

⁶ Amann and Tichy. Germany taken to court: A judgment against drug procurement practices. EJHP Practice 2007:(13):4

4 Professional management / clinics

Direct link between ordering and finance of drugs

According to the interviewed university hospital, cost containment incentives are applied through decentralisation of the responsibility for drug budgets to the wards and clinics also responsible for the pharmaceutical treatment.

In some cases strategic purchasing (long term planning of hospital pharmaceuticals) is used:

- To identify new and emerging drugs and to spot new interesting suppliers with whom it might be of interest to establish a relation. The decision to put a drug on the formulary should be taken in advance of the market implementation.
- To identify drugs becoming generics within the next two years and prepare for future purchases.

Drug committees

Drug committees (drugs and therapeutic committees, pharmaceutical and therapeutic committees (P&T) etc.) or commissions are established in many hospitals. The time between meetings in the drug commissions are varying from one monthly meeting to semi-annual meetings.

According to the pharmacy of the interviewed university hospital their drug committee is consisting of eight senior staff including the hospital's financial director (the latter without voting right). The committee have monthly meetings to decide on the hospital's formulary and make decisions on the composition of hospital formulary - in order of priority:

- Efficacy
- Safety including safety at work
- Pharmacoeconomic analysis (in most cases cost minimisation)

According to the interviewed university hospital the clinics and wards are only allowed to make their purchases through the hospital pharmacy also acting as guardians of the hospital's formulary⁷.

⁷ It has to be noted that such formularies are followed more strictly in hospitals served by their own hospital pharmacy.

5 Turnover and prices

On Federal level:

Tabel 1 Total expenditure for purchase of pharmaceuticals - Germany

	2003	2004	2005	2006	2007
Expenditure € (billion)	3,0	3,1	3,2	NA	NA

Source: Federation of Pharmacists' Organisations (ABDA). PPRI pharma profile Germany.

Tabel 2 Total expenditure for purchase of pharmaceuticals by Heidelberg University Hospital⁸

	2003	2004	2005	2006	2007
Expenditure €	25.527.750	26.380.600	30.490.850	35.444.350	41.787.025

Inclusive VAT, but not purchasing for other hospitals only Heidelberg

The increase is primarily due to new drugs and treatment of oncology.

⁸ Heidelberg University Hospital has approximately 2.200 beds

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