

## *Chapter 2*

### **Implementing strong organisational procurement strategies in IMSS**

*This chapter identifies the recent results achieved by the procurement function of the Mexican Institute of Social Security (IMSS) as well as shortcomings in the development of its organisation-wide strategies. It also discusses how developing an organisational procurement plan would increase the strategic role and coherence of its procurement system.*

## Introduction

An organisational procurement strategy seeks to provide clear direction and a co-ordinated approach to achieve good practice in procurement and continually strive for value for money. It recognises an organisation's operating environment and the nature and type of its procurement activities to ascertain key issues and opportunities. It also outlines the objectives and desired outcomes of the procurement function, as well as the key attributes of its approach to achieving these outcomes. Good practice requires a procurement strategy to be aligned with the strategic objectives of an organisation's business plan, other organisational strategies and operating procedures.

In order to manage performance, organisations establish and measure their progress against specific metrics related to the objectives of the procurement strategy, as well as to the overall efficiency of the function. Areas of difficulty can be identified and ongoing improvements can be achieved through regular assessment of these metrics.

The OECD review found that the procurement function the Mexican Institute of Social Security (*Instituto Mexicano del Seguro Social* – IMSS) essentially fulfils its mandate and obligations. It however lacks an organisational vision articulated through a clear procurement strategy and performance targets. This prevents the various elements of the organisation from progressing in a clear, common and cohesive manner in order to achieve efficiencies and best value for money. Moreover, there are significant deficiencies in the gathering and analysis of organisation-wide procurement data, which limits the successful implementation of these strategic tools.

## Recent results of the procurement function

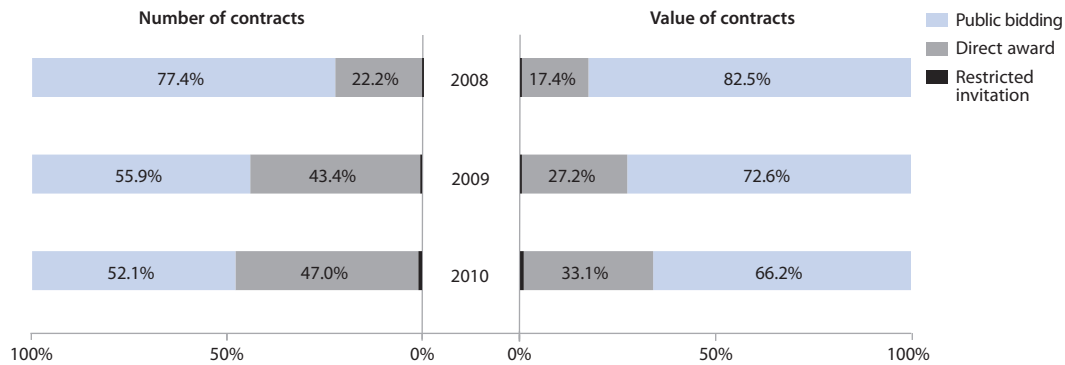
### ***IMSS' largest procurement value is carried out through public tendering, yet the use of uncompetitive procedures is increasing***

The two main Mexican procurement laws – the Law on Acquisitions, Leases and Services of the Public Sector (*Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público*) and the Law on Public Works and Related Services (*Ley de Obras Públicas y Servicios relacionados con las Mismas*) – establish the use of three distinct procurement procedures: *i*) public tendering (also known as “open tendering”); *ii*) invitation to at least three suppliers (also known as “restricted competition”); and *iii*) direct award. The preference for the first approach is set out in the Mexican Constitution in order to guarantee the best available conditions for price, quality, financing, opportunity and other relevant factors. However, various exceptions allow for the use of the two other approaches.

As can be seen in Figure 2.1, most of IMSS spending on goods and services have been done through public tendering over the years 2008 to 2010. However, a strong and gradual increase can be observed in the value of contracts awarded directly to suppliers. The same trend is observed in the number of contracts, with almost half having been awarded on a direct award basis in 2010.

This lack of competition potentially prevents IMSS from reaching optimal prices. The above figures may also indicate that significant administrative costs and efforts are allocated to the issuance and management of a large number of lower-value contracts. This diverts resources away from higher value activities such as strategic planning and the development of the best procurement strategies.

Figure 2.1. Value and number of IMSS contracts for goods and services by type of procedures used, 2008-10



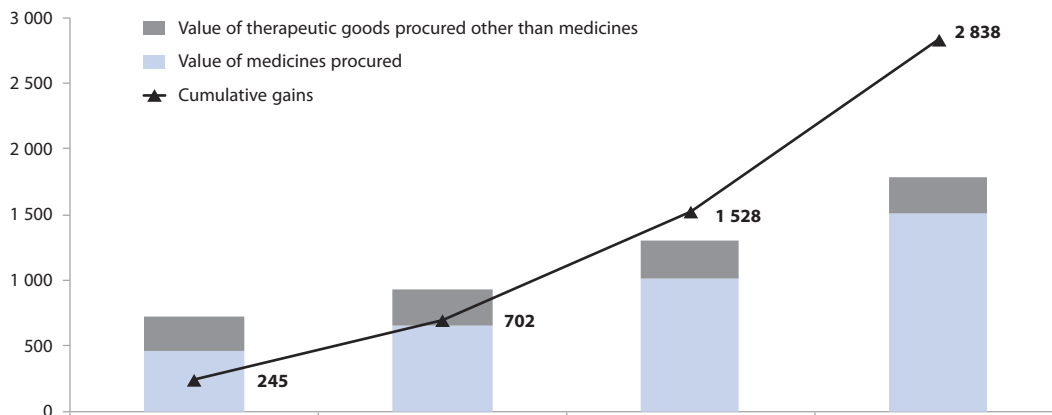
Source: Data provided by IMSS.

In line with the data deficiencies discussed in Chapter 7, IMSS was unable to provide the OECD review team with detailed data on the exceptions used to exclude these contracts from the public tendering process. IMSS could consider consolidating and assessing these data in order to identify opportunities to increase competition and increase efficiency and results of the procurement function, for example through consolidation and use of framework agreements.

***IMSS has achieved significant savings through various procurement strategic initiatives***

In order to achieve savings for its operations and provide better services in an increasingly difficult financial situation, IMSS has recently embarked on several initiatives, including streamlining procurement processes. As a result of these efforts, IMSS reports having achieved savings of USD 2 838 million between 2007 and 2010 (Figure 2.2).

Figure 2.2. Efficiency gains in the procurement of medication and therapeutic goods



Note: millions USD, base reference 2006

Source: IMSS (2011), *The Mexican Institute of Social Security: Evolution, Challenges and Perspectives*, IMSS, Mexico.

IMSS reports that these savings were a result of: *i*) centralising and consolidating the purchase of therapeutic goods; *ii*) establishing maximum reference pricing; and *iii*) enhancing the use of reverse auctions. Table 2.1 provides details on savings achieved by IMSS since 2009 through reverse auctions.

Table 2.1. **IMSS estimated savings from reverse auctions**  
(USD million)

Year	Category	Contract value	Estimated savings	% of estimated savings
2009	Medicines	605.6	64.9	10.7
2010	Medicines Health material	185.3	4.7	2.5
2010	Mammography	3.6	0.9	27.4
2010	Vehicles	4.4	0.2	3.2
2011	Medicines	41.9	2.4	5.8
<b>Total</b>		<b>840.7</b>	<b>73.0</b>	<b>8.8</b>

*Note:* The specific content of each category may change from one year to the other.

*Source:* Information provided by IMSS.

One of the most significant examples of consolidation has been the use of sole contracts (*contratos únicos*) since 2008 to centralise the purchase of medicine and maintain stocks. An underlying objective of that initiative was to lower the price of medicine as to remedy the situation that existed in 2005, when Mexico's pharmaceutical prices were the highest among a sample of 12 countries (OECD, 2011). It also intended to improve the overall efficiency of the system and increase the institutional response to health needs. IMSS' efforts have focused on reducing their prices

### Box 2.1. Centralisation of healthcare services in the United States

In the United States, the “Marketplace@Novation” purchasing alliance is one example of centralisation of healthcare services leading to increased procurement effectiveness through structural centralisation and economies of scale. This alliance includes over 2 500 healthcare organisations across the United States, with the combined purchasing power of USD 25 billion annually and has e-sourcing agreements with over 500 suppliers of medical, laboratory and safety equipment, capital equipment and services.

A study of 31 hospitals (Derek and Rowlinson, 2008) showed that each hospital saved USD 12 million annually by joining the alliance. Similarly, a 2008 study (Burns and Lee, 2008) found that purchasing alliances in the United States succeeded in reducing health care costs by lowering product prices, particularly for commodity and pharmaceutical items, as well as by lowering transaction costs through commonly negotiated contracts. Little evidence was found that such consolidations resulted in excluding new innovative firms from the marketplace or in restricted hospital access to desired products. However, there was evidence suggesting that alliances are less successful in providing other important services to hospitals and in mediating the purchase of expensive physician preference items.

*Sources:* Derek, O. Walker, H.T. and Rowlinson, S.M. (2008) “Procurement Systems: a cross-industry project management perspective”, Routledge Press; Burns, L. and J.A. Lee (2008), “Hospital Purchasing Alliances: Utilization, services and performance”, *Health Care Management Review*, July/September 2008, Vol. 33, pp. 203-215.

Similarly, all Mexican public health stakeholders now jointly purchase patent medicines. IMSS reports that this consolidation initiative has generated 86.4 million USD in savings in 2010 (IMSS, 2011). This is in line with the experience of other countries. The American experience described in Box 2.1 also illustrates that joint centralisation leads to cost savings, but with sacrificed customisation for user-areas.

***Strategies developed in isolation or without considering all available information result in adverse impacts***

Some specific strategic initiatives in procurement have been developed in isolation in certain parts of the organisation and consultations with other segments of the organisation do not take place often enough. Therefore, there is a general failure in identifying all pertinent information (including intelligence and lessons learned on risks, benefits, challenges, etc.) which is necessary for formulating a sound procurement strategy. This leads to various undesirable effects and conflicts with other priorities within IMSS.

For example, central consolidation strategies to pool the requirements for some types of goods and services organisation-wide have resulted in significant savings. However, weaknesses in the planning and development of solicitation strategies, for example, by neglecting to consider all the specificities of some decentralised units, often leave some units without sufficient coverage. This can be due to:

- The consolidation process: After needs are identified and centrally pooled, the coverage of each local entity (*delegacion*) delivered by the contract is co-ordinated centrally. This can leave some local entities short of full coverage. Although there seems to be significant needs analysis completed at the user-level, this analysis is reconsidered at a higher or more central level, often using insufficient evidence for any decisions made.
- Inability or delay in putting in place the consolidated contracts: situations occur where the central units are unable to put in place the consolidated contracts for some requirements, or when it experiences delays in doing so, leaving decentralised units without contractual coverage for a period of time. In such situations, special authorisation is provided to them to procure the impacted goods for a specific period of time. In some cases, further delays or difficulties putting in place these consolidated contracts result in a series of additional short-time authorisations upon short notice.

When procurement units receive inadequate coverage, they are required to search for internal stock transfers in order to meet their obligations or, alternatively, they must quickly issue contracts under unfavourable conditions (low quantity, short delivery timeframe, etc.), resulting in higher prices. The budget process used under consolidation further complicates the issue. Presently, budgets still initially rest with each local entity, even though decision making on procurement and authorisation has been centralised for various requirements. The regions then provide the centre with the portion of that budget associated with such centralised requirements. When the central unit is unable to set up the consolidated contracts in time, and authorisations for short-term acquisitions is provided to the decentralised units, the budget must be retransferred to the regions. Interviewees indicated that, in some cases, this activity would take considerable time, impacting the capacity for decentralised units to obtain the required goods in time.

Another identified adverse impact experienced under some consolidation contracts is poorer performance from suppliers, and even non-delivery. As an example, IMSS procurement officers reported that non-delivery by suppliers under current centralised medicine contracts would reach 30% in some remote regions, due to contracts prices and

penalties being too low to ensure full performance. This results in difficulties in meeting the obligations and providing the required services for the local entities and high specialty medical units (*Unidades Médicas de Alta Especialidad*).

When establishing the organisational consolidation strategies, IMSS could ensure that all appropriate information is considered in depth. Such information includes available data, known risks and mitigation actions, as well as market and delivery conditions significantly impacting performance. This can be achieved through communication with the units, by acquiring the goods and services, and by ensuring a careful balancing of impacts on the different organisational objectives.

## Comprehensive organisational procurement strategy

### ***IMSS lacks a well-documented procurement strategy that is communicated throughout the organisation, resulting in conflicting priorities and decisions***

Despite its various efforts to reform procurement in the last two years, the IMSS procurement function is generally not recognised as a strategic instrument contributing to the organisation's key objectives. Rather, it is perceived as an administrative task to the service of other internal areas. Furthermore, compliance with the law is the main driver for procurement decisions, rather than performance. Little emphasis or attention is given to strategic activities, potentially preventing greater benefits for the organisation. This results in a limited understanding of the importance of the procurement function, as well as insufficient capacity within the organisation.

This context is partly attributable to the absence of an explicit and comprehensive procurement strategy clearly articulating to all IMSS stakeholders the vision of the organisation, its objectives and desired outcomes. IMSS' overall strategic vision is established in the Work Plan 2009-2012. One of the 11 working fronts of that strategy is specific to spending efficiency and transparency. While the Administration and Evaluation of Local Entities Directorate (*Dirección de Administración y Evaluación de Delegaciones – DAED*) is responsible for IMSS procurement function, it has not yet developed and communicated a comprehensive procurement strategy for that function. As such, its goals are under-defined and not clearly understood throughout IMSS. Significantly, none of IMSS employees or stakeholders interviewed were able to clearly specify their organisational goals.

The absence of that key document impedes the progress and coherence of IMSS' geographically-decentralised procurement units. This leads to conflicting priorities within the organisation and reduces efficiency of existing processes. An example is the current effort to achieve savings and improve administrative efficiency through consolidated contracts at the central level, as discussed in Chapter 1. The requirement planning process of IMSS follows a bottom-up approach. Each end-user identifies the nature and quantity of goods and services required. These needs are reviewed by unit level management and, if acceptable, are sent to a central co-ordination body for nation-wide consolidation into an organisational annual procurement plan. Based on that information, this body decides whether or not to consolidate a specific requirement at the central level. However, this process may result in two different units (or the same unit) requesting different products which basically meet the same need. The resulting demand for each of these products is potentially insufficient for making it a valid candidate for consolidation.

Efforts to improve efficiency and reduce costs through standardisation of goods are also underway in IMSS. Under this top-down approach, the organisation limits the number of similar products and services that can be acquired. The detriment to specific users

of having access to a reduced number of solutions is outweighed by the organisational benefits in terms of price, quality, administrative efficiencies, etc.

While sharing similar objectives, these two strategies do not appear to be fully co-ordinated within IMSS. Under a cohesive organisational procurement strategy, the groups of goods and services considered for centralised contracts should first be identified through detailed analysis of procurement data. A top-down activity of standardisation could then be implemented to reduce the number of products and services available within these groups, while ensuring that the organisation is still in position to meet its needs and obligations. As user areas will be restricted to identify their annual requirements based on that reduced list under the current bottom-up approach, the aggregated level of demand for the remaining products will be higher. This will increase the importance of consolidating their procurement through centralised contracts. By consolidating the planning and implementation of these two initiatives under a common procurement strategy, IMSS could significantly increase their efficiency and results. However, as further discussed in Chapter 9, such an organisational strategy should carefully consider and balance all relevant risks and priorities and avoid unforeseen undesirable effects.

Similarly, it is evident that there are diverging priorities between IMSS headquarters and its decentralised units. At the moment, the central areas seem to be more focussed on price. The regional areas, for their part, are more concerned with procuring highly specified goods, generally in short time-frames (which, as discussed below, is partly due to issues with consolidated contracts). By setting restrictions on prices, particularly through the reference prices (discussed in Chapter 9), urgent procurement processes can be undermined due to delivery conditions (quantity, required lead-time, delivery location, etc.). This is especially true for goods subject to high price differentials. Although it was reported that buying areas generally prefer open tenders to provide for better transparency and value for money, user areas seem to prefer timeliness and product specificity, which generally means more direct sourcing methodologies.

It is clear that, due to differing priorities, some inherent conflicts and inefficiencies in planning and strategy still exist within various units of IMSS. Ideally, there should be a single procurement strategy which is clear and common to all areas, which should translate directly into unified procurement planning strategies.

***IMSS could consider including various elements in the development of its organisational procurement strategy, such as potential collaboration with other entities***

In order to improve the cohesion of activities and initiatives within its procurement function, IMSS could consider developing a cohesive organisational strategy. To maximise the relevance and benefits of such a strategy, it should be based on the following elements:

- establishing a long-term vision for the procurement function that is aligned and consistent with the overall organisational vision and strategic objectives;
- assessing the current context of its procurement function, identifying divergences between the various units and opportunities for improvements;
- taking into account existing constraints and identifying clear priorities, which should then be further disaggregated into clear objectives against which time-defined targets are established; and
- developing and implementing initiatives while considering potential collaboration with other Mexican entities that have similar priorities and objectives.

The organisational procurement strategy should be developed at a strategic level following significant consultations with a large range of stakeholders (procurement function, internal control units, users, senior management, etc.). The strategy, as well as the progress against identified goals, should be clearly communicated through the organisation (and potentially to suppliers) to ensure a common understanding and approach. As such, all strategies being implemented in the organisation should align with the priorities identified under it and their progress should be continuously monitored through appropriate performance indicators. Finally, the organisational procurement strategy and its initiatives should be regularly adjusted to reflect evolving constraints, challenges, circumstances and priorities of the organisation.

When developing the procurement strategy, IMSS could also consider initiating a dialogue with other Mexican entities in order to identify areas of similar priorities and objectives, and investigate the possibility of collaboration in achieving them. Several examples of common priorities and objectives could be given, such as:

- Entities aiming to achieve savings on similar products could consider joint procurements, such as the joint purchase of patents medicines with other entities of the Mexican health sector. The OECD review team has also been informed of recent IMSS initiatives to consolidate need with other entities, such as the Ministry of National Defence.
- Entities attempting to fight bid collusion could agree on a common set of data and indicators to allow for compatibility and the possibility to assess them globally (with the potential participation of the Federal Competition Commission (*Comisión Federal de Competencia*)).
- Entities of the health sector could collaborate on the development of common procurement performance indicators (see Chapter 7 for an example in Canada).

### Proposals for action

In order to increase the coherence, efficiency and results of its procurement function, IMSS could consider the following proposals:

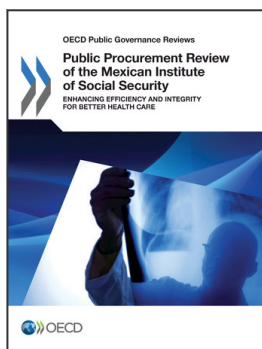
1. Improving the availability of procurement data at the organisational level in order to assess the adequacy of the use of exceptions to public tendering, and to identify opportunities to reduce the number of small-value contracts through consolidation, standardisation, or development of framework contracts.
2. When developing consolidation strategies at the central level, ensuring that all appropriate information is considered in depth (such as data, known risks and mitigation actions, market and delivery conditions significantly impacting performance, etc.) in order to guarantee a careful balancing of impacts on the different organisational objectives and units.
3. Developing a clear and cohesive organisational procurement strategy based on ongoing improvements which establishes the long-term vision for that function, the priorities and initiatives to achieve them, as well as clear targets for implementation. Preferably, such strategy should:
  - a. be established at a senior level following consultations with all relevant stakeholders;
  - b. align with IMSS overall strategies and priorities;
  - c. consider potential collaboration with other Mexican entities with similar priorities and objectives; and
  - d. be communicated throughout the organisation, and potentially to suppliers.



4. Ensuring that implemented initiatives are aligned with the organisational procurement strategy and continuously monitor their progress through appropriate performance indicators.
5. Regularly adjusting the procurement strategy and its initiatives to reflect evolving constraints, challenges, circumstances and priorities of the organisation.

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