

Demystifying decision-making in tendering to optimize profit

Are you interested in determining how tender design parameters could affect your tender price?

Tenders are at the heart of procurement in European pharmaceutical markets. A steep rise in the tendering volume has been witnessed in the pharmaceutical sector, constituting 40% of overall drug purchases and almost all hospitals¹. A typical tender can be thought of as a “reverse auction” where different suppliers (“bidders”) are called to compete for market exclusivity by offering the lowest price. There is usually no price disclosure among bidders, and the lowest bid price wins the tender, allowing the bidder to be granted a supply contract for an agreed time frame in a “winner takes it all” fashion². Public healthcare providers widely use tenders to enhance competition and reduce drug purchase prices, threatening pharmaceutical companies' profitability. The intrinsic dynamics of tendering can lead to devastating price erosion, and potential losses are up to 90% of the price previously obtained by the branded originator³.

Tenders come with a high degree of complexity, with uncertainties stemming from each ingredient of the tendering equation. First and foremost, the secrecy of bid prices submitted. Second, the difficulty in predicting how many and which competitors will participate in the tender. Third, the limited knowledge of competitors' supply capacity and production costs. Finally, the heterogeneity in local market regulations makes the heavily structured and formalized tenders hard to simplify. Therefore, companies have a great deal of uncertainty in tenders, which might lead to losses.

Economic modeling can help us develop tendering strategies. LatticePoint has developed a tool to simplify decision-making based on the Bertrand competition model. In this model, manufacturers are assumed to produce homogeneous goods, bear similar costs, and submit their bids simultaneously to the procurement agency. The manufacturer offering the lowest price will win the exclusive right to serve the market. In real life, homogeneous drugs (i.e., biosimilars or even branded molecules from the same therapy class) might have different production costs, making competitors' price bids hard to forecast. Our tool has excellent potential to forecast

¹ IQVIA estimates, 2020

² Frank, R.H., and Cook, P.J., 1996

³ Antoñanzas et al., 2023, The European Journal of Health Economics





tendering bid outcomes and therefore maximize revenue with limited information. Thus, it constitutes a useful benchmark to evaluate participation in tenders and what price to set. Indeed, winning a tender is not a guarantee of success *per se*. Setting a low price represents a missed opportunity for higher revenues and can lead to losses in the worst-case scenario.

Do you want to be able to have quick predictions about tendering outcomes? Do you need help simplifying strategic decision-making?

Give our tender tool a try and let us know what you think:

<https://www.latticepointconsulting.com/tendering/>

