

COMPETITIVE PROBLEMS IN THE DRUG INDUSTRY 10597

In commenting on this report, OMB stated that it generally agreed that significant improvements could be made and economies could be achieved in procuring, inspecting, storing, and supplying drugs. However, OMB questioned whether mere consolidation of DOD and VA drug requirements and joint procurement would insure economies. Further, both OMB and VA pointed out that the total economic costs of procuring, storing, and issuing drugs under central procurement and local procurement systems and their relative cost effectiveness should be determined and considered before arriving at a decision to centrally buy and stock drug items. OMB also pointed out that quantity was only one of the factors which influenced drug prices.

We agree with the concept of relative cost effectiveness based on total economic costs, but " * * the Government has failed to develop the data and techniques needed to measure the 'total economic cost' of fulfilling a Government need."¹ Further, it appears that substantial time may elapse before such management data for selecting the most cost-effective supply system for drugs will become available. We also agree with the Commission on Government Procurement's view that local procurement should be used whenever it is found to be economically feasible.

Since total economic cost data is not expected to be available in the near future, we believe the Government should use those opportunities which, with current management data and methods of operating, seem to indicate economies and improvements.

We are advocating the joint procurement of consolidated requirements, which does not necessarily include central storage and reissue. The decision whether or not to centrally stock drug items should be made on an item-by-item basis after considering all cost factors. Deliveries could be made direct to users, as is often done under centrally procured requirements-type contracts, thus obviating storage and related costs.

¹"Report of the Commission on Government Procurement," vol. 3 (Dec. 1972), p. 65.