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Position Paper

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Health Care Procurement Reform: The Distributor Perspective

Issue

Canada's health care procurement and supply chain environment is undergoing significant transformation, driven by lessons from the pandemic, rising health care costs, and a broader commitment to the Quintuple Aim. Centralization, value-based procurement, and category management are becoming standard, aiming to increase efficiency, transparency, and system-wide sustainability.

These changes have also created key challenges for medtech suppliers and distributors, who face growing financial and operational burdens exemplified by:

- Long, inflexible contracts,
- Requirements for increased inventory levels and delivery obligations without volume or business guarantees,
- Complex and mandatory rebate structures,
- Broad affiliation clauses that, when leveraged significantly beyond the initial contract, can distort cost-to-serve dynamics, and
- Redundancy and overlap in logistics due to expanded shared services and procurement agency roles.

These practices may reduce the viability of the Canadian marketplace for medtech suppliers. It's critical to ensure that Canada has a robust medtech supplier pool to ensure that health care systems across the country have a resilient supply chain i.e., the necessary technologies and supplies to ensure high quality and timely access to care for Canadians. Current practices may increase risk.

Distributors, with limited pricing control and high exposure to cost fluctuations, bear significant and disproportionate risk under current models. At the same time, distributors play a critical role in our health care system and are a much-needed component of our health care supply chain in Canada.

Understanding the Difference Between Original Equipment Manufacturers (OEMs) and Distributors

In Canada's health care system, health care providers and purchasing organization typically acquire medical technologies through two main models: direct supply from manufacturers or distribution through third parties.

Direct: In this model, a medical technology manufacturer (OEM) sells and delivers products directly to customers.

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The OEM manages logistics, supply chain, and sourcing in-house. This provides the manufacturer with control over pricing, data, and inventory, but it can be costly, administratively complex, and difficult to scale across large or diverse health care delivery systems.

Distribution: Alternatively, and sometimes additionally, many OEMs partner with specialized distributors who handle sales, customer service, pricing, compliance, inventory, warehousing, and logistics. This allows manufacturers to gain access to markets and fulfillment resources without assuming all operational responsibilities themselves.

The level of autonomy and accountability for contracting pricing and operations varies within specific OEM/distributor relationships. Depending on their specific structure and agreements with an OEM, a distributor may act as an intermediary between the manufacturer and health care procurement organizations in Canada. Distributor contracts often cover pricing, payment, delivery, logistics, and volume commitments. Fulfillment models vary within the contracts, from ordering "as needed" to maintaining "just-in-time" inventory.

Current Environment in Health Care Procurement and Supply Chain

Supply chain resiliency, health system sustainability and improved patient access to care are critical areas of focus for Canadian governments and public procurement organizations and they are frequently the subject of mainstream media coverage. Due to experiences of supply shortages during the COVID-19 pandemic, coupled with increasing overall expense per capita in health care, each jurisdiction in Canada is implementing changes in health care processes and governance. As a philosophical base, Canada, like many countries, has adopted the Quintuple Aim in Health Care: enhance patient experience, reduce cost per capita, improve population health, improve provider experience and ensure equity. Increasingly, there is also the integration of value-based metrics and initiatives in health care procurement to improve health outcomes and procurement approaches.

Common areas of change include, but arenot limited to, supply chain centralization and the integration of category management models in procurement. In Canada's publicly funded health care system where accountability to taxpayers is essential centralizing information and decision-making is intended to streamline communication, improve inventory management, and provide stronger analytics for ongoing performance improvement.

Within the centralized supply chain model, organizations often employ category management. Category management models can be very effective to identify innovation, to form product or service groupings, and to consolidate procurement, often contracting with large entities across ministries and care settings. Creating this consistency in supply is important to fairness and accountability. At times, however, the execution of these procurements lacks transparency. For suppliers, these contracts can be difficult and costly to manage.

Unique Challenges Facing Distributors in Canada

Over the past decade, procurement practices and contracting terms have increasingly shifted risk and liability from procurers and/or providers to suppliers. Many agreements now:

- Lock in delivered pricing for multiple years
- Require large inventory holdings without purchase guarantees
- Limit price adjustments despite rising costs and fluctuating market conditions
- Leverage complex rebate structures

These practices reduce the viability of the Canadian marketplace for medtech suppliers. It's critical to ensure that Canada has a robust medtech supplier pool to ensure that health care systems across the country have the necessary technologies and supplies to ensure high quality and timely access to care for Canadians. These practices also reduce competition, drive higher costs, and limit choice for health care providers, ultimately impacting system sustainability.

1. Guaranteed Inventory Requirements for Distributors

Distributors are often required to carry a minimum of 90 days of stock without accurate or consistent product requirement forecasts. Poor communication and weak demand planning exposes distributors to excess inventory, shortages, and financial loss. They often absorb additional expenses for freight, duties, taxes, warehousing, and inventory management.

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Recommendation:

This challenge could be addressed through contracts that consider sharing risk, link inventory requirements to reasonable or minimum purchase guarantees, and allow price adjustments when input costs change. Better demand planning is essential, with procurers providing SKU-level forecasts, timely updates on demand changes, and clear communication on product usage. Collaborative forecasting, data transparency, and flexible inventory models could reduce both shortages and surpluses. A key factor will be open and ethical industry engagement with procurement bodies to further promote fair standards that could balance cost control with supply chain stability.

2. Long Contract Terms with No Flexibility for Adjustments

Long inflexible contract terms (5–7 years plus extensions) limit the ability to adjust for market changes such as currency shifts, tariffs, or freight increases. For distributors, with less control over upstream costs, this presents a significant financial strain.

Recommendation:

Shorter contract cycles with periodic reviews, combined with better collaboration among OEMs, distributors, and procurement bodies, will help to reduce administrative complexity and ensure fair, sustainable supply chain practices.

3. Rebates vs Invoice Pricing

Procurement groups often use rebates instead of simple invoice pricing. There are two aspects which directly affect distributors: the complexity of the customer base and the mandatory nature of the rebate.

A. **Complexity of the customer base:** As category management generates more health care contracts that span the care continuum and/or different ministries, there may be different rebate tiers applied for volume or different sectors (e.g. acute versus community or health versus education). This can create challenges for distributors managing multiple contracts, as systems may only support one price per item while buyers expect specific pricing by site type or volume reconciliations.

Recommendation:

These challenges could be mitigated through simplified, standardized pricing models and clear rules for rebate eligibility. Procurement groups and suppliers should align contract structures with system and data capabilities, avoid conflicting pricing and rebate requirements.

B. **Mandatory rebates:** Many procurement organizations require suppliers, including both OEMs and distributors, to provide minimum or "open offer" rebates as part of an overall proposal to secure a contract. The rebates are in addition to competitive pricing, other value-added services and performance guarantees.

Mandatory or minimum rebates to purchasing organizations are generally not very effective for long-term supply chain health, nor do they align to the quintuple aim. Issues with mandatory rebates include:

- **Higher overall product costs and reduced transparency:** While they may generate short-term revenue for purchasers and often subsidize the operations of procurement organizations, they often increase overall product costs and reduce transparency. This strains supplier margins, especially for distributors who have limited control over upstream costs.
- **Increased administration:** It creates administrative complexity and a further lack of transparency, particularly when rebate terms vary, require reconciliation and are not directly linked or flow through to the end user.
- **Potential for double rebates:** Additional pressure is placed on industry when both an OEM and the distributor are providing rebates.

Recommendation: In the past, rebates worked more effectively and collaboratively. They can be an effective tool if tied to measurable shared efficiencies or outcomes (e.g. consolidated shipments) and if both parties share the savings. In the interest of fairness and accountability to payers and the Canadian public, it's also important that rebates be transparent, voluntary, and factored into competitive bidding without hidden impacts on overall pricing.

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Examples of shared efficiencies that could justify rebates, especially for distributors, include:

- Consolidated ordering and shipping – fewer, larger shipments that reduce freight and handling costs.
- Centralized warehousing – delivery in bulk to one location rather than multiple sites.
- Standardized product usage – reducing SKU variety to streamline inventory management while still maintaining clinical requirements and options.
- More automated ordering and invoicing – lowering administrative costs for both suppliers and buyers.
- Predictable demand planning – stable forecasts that allow OEMs to optimize production and for distributors to optimize inventory and fulfillment.

In conclusion, the rebate should reflect actual cost savings created by joint operational improvements, not just be a financial requirement that increases prices to the health system.

4. Affiliation Clauses

Most procurement contracts now cite an Affiliation clause as a mandatory requirement, which allows any health care organization or provider to join a contract post-award. This has the potential to create significant cost-to-serve challenges for all medtech suppliers, especially for distributors managing logistics across varied geographies. Harmonized pricing across wide regions, which is often an implication of the post award participation, can undermine the original RFP economics. If suppliers must anticipate any potential future increase in cost-to-serve, it may force increased pricing to urban centres to subsidize remote clinical support or deliveries.

Recommendation:

Shared and negotiated exceptions could address this. For example, the procurer and distributor could use a tiered or regional pricing model with pre-set zones, volume-based rebates, and pricing reviews when new members join, ensuring value for all customers while reflecting real delivery costs. This way, the procurer still delivers value to all potential customers, but the contract recognizes real cost differences and keeps supply relationships sustainable for industry.

Ways to manage it:

- Define geographic service zones with freight and support costs factored into each zone's pricing.
- Use volume-based rebates or incentives so all members benefit from collective purchasing, without forcing uniform pricing that distorts cost-to-serve.
- Allow pre-approved or negotiated pricing adjustments when new members join from higher-cost service areas, keeping economics fair for all.
- Maintain transparent communication with suppliers before adding new delivery locations to assess cost impacts.

5. Duplication and Redundancy in Logistics Operations

Over the last 10+ years, many procurement organizations have expanded their operations beyond procurement and contracting into warehousing and distribution. While this has improved supply management in several provinces and territories, it has also added cost and complexity for distributors, while creating redundancies.

Recommendation:

Collaborative discussion, mutual understanding of objectives and leveraging expertise on both sides of the distributor/buyer equation could optimize operations and reduce overall costs to the system.

6. Lack of Clarity and Partnership in Approach

Health care supply chains are complex and involve multiple stakeholders, i.e., OEMs, distributors, procurement, health care providers and patients. Increased clarity and partnership in the initial supply relationships, i.e., between OEMs and distributors and procurers in the contracting and fulfillment processes, could support providers and patients more effectively. Each party has different requirements, and the difference comes down to the level of **risk and control** in the supply chain interactions.

Distributors face significant financial exposure from holding inventory, absorbing logistics costs, and managing demand uncertainty without direct control over production or pricing flexibility. OEMs, while still acutely affected by cost pressures and market shifts,

retain more control over manufacturing, allocation, and pricing, allowing them to manage risks in ways that are not available to distributors. The health care procurer, as the customer, ultimately has low control over supply chain sustainability, particularly as market conditions change and this presents significant risk to patients, health care providers and the health system along the entire care continuum.

Recommendation:

Each party to a health care contract places value on different elements of the interactions and increased communication, collaboration and contracting considerations could ease current challenges. Some key contracting considerations and alignment options to improve supply chain resiliency and balance the risk burden could include:

OEMs: Align production capacity with your distributor's obligations to the customer; provide reasonable cost and supply transparency; define and share shortage allocation policies; share historical demand data; collaborate on joint inventory risk-sharing.

Distributors: Work with the procurer to tie inventory requirements to purchase guarantees or buy-backs; include cost pass-through or review clauses; require SKU-level forecasts; adjust pricing for delivery geography; maintain clear communication with OEM partner on product changes.

Procurers: Identify and resolve conflicting pricing/rebate structures; provide accurate SKU-level forecasts and updates; allow market adjustment clauses; account for variable delivery costs; share inventory and pricing risk fairly across parties.

The Path Forward: Collaborative Reform

A more resilient, sustainable, and fair health care supply chain can be achieved through balanced risk-sharing, data-driven demand planning, and transparent partnerships. Key contracting improvements could include:

- **Inventory tied to minimum purchase guarantees** or shared risk models,
- **Shorter contract cycles** with review mechanisms,
- **Transparent and value-based rebate systems** that reflect actual operational savings,
- **Tiered or regional pricing models** that reflect real cost-to-serve,
- **Improved OEM-distributor alignment** and communication with procurers on product availability, demand, and service expectations.

Ultimately, success depends on a **more collaborative, transparent, and flexible procurement environment,** where all stakeholders—governments, health systems, OEMs, and distributors—can work together to maintain access, ensure quality, and control costs without undermining the sustainability of the supply chain.

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ABOUT MEDTECH CANADA

Medtech Canada is the national association representing Canada's medical technology companies. The association advocates for achieving patient access to leading edge, innovative technology solutions that provide valuable outcomes. Medtech Canada members are committed to providing safe and innovative medical technologies that enhance the quality of patient care, improve patient access to health care and help enable the sustainability of our health care systems.