

Guide to Competition Law and Collective Procurement

Contents

Background	2
The key considerations in assessing the risk	2
Identifying the market.....	2
How competitive is the market?	3
Identifying the health service’s market power.....	3
Identifying the effect on competition in the market	4
Managing the risk – risk mitigation strategies	4
Market Assessment	5
Identifying the market.....	5
Competitiveness of the market.....	6
Market power	7
Recommendation	8
More information.....	8
Disclaimer	8

Background

HealthShare Victoria (HSV) identifies collective procurement opportunities and manages the sourcing projects to achieve savings and benefits for mandated health services across Victoria.

There may be further opportunities at a local or regional level for health services to combine to conduct their own collective procurement to take advantage of savings and efficiencies that would result from combining spend and resources.

When such opportunities arise health services are required to comply with the competition laws, including the *Competition and Consumer Act 2010* (Cth) (the Competition Act). Under the Competition Act it is unlawful for a health service(s) to enter into a contract or arrive at an understanding with another party which has the purpose or effect of substantially lessening competition in a market. There is potential for health service(s) collective procurement activities to have this unintended effect because the purchasers are able to aggregate their buying power, which could have an anti-competitive effect.

The Competition Act will also prohibit a health service(s) that has a substantial degree of power in a market of substantially lessening competition in the market.

Note that a distinction needs to be made between collective procurement and collaborative procurement as follows:

- collaborative procurement involves jointly planning procurement activities and sharing resources and information amongst health services in relation to procurement activities; and
- collective procurement involves health services approaching the market as a group, negotiating with the preferred supplier as a group and entering into a single agreement to govern the provision of goods and services.

Only collective procurement practices (in terms of aggregating buying power) pose a risk of the participating health services contravening the Competition Act.

Health services should assess the risks involved in undertaking collective procurement activities and take steps to manage the risks. This may include obtaining independent legal advice.

Health services concerned about the potential risk of breaching the Competition Act may contact HSV through their Customer Relationship Manager (CRM), to discuss the potential for HSV to assist.

The key considerations in assessing the risk

Identifying the market

Description	Comments
Health services should consider the market in which they are procuring or services. The Competition Act defines market to include for goods and services that are substitutable for, or competitive with, the goods or services.	Health services should identify the number of supplier and purchases in the relevant market. The relevant market may be defined by reference to the following elements: <ul style="list-style-type: none">• the type of goods or services which are being procured;• period of time for which the health service will be bound by the contract to purchase the goods or services;• the level (for example: manufacturing, wholesale, retail); and

Description	Comments
	<ul style="list-style-type: none"> the area in which the goods or services are being supplied.

How competitive if the market?

Description	Comments
<p>Once health services have identified the market, they should consider the extent to which the market is competitive.</p> <p>Conversely, market power is concentrated, and the market may not be competitive if those conditions do not exist.</p>	<p>Although competition in a market is a relative concept, a market is 'perfectly competitive' will generally have the following features:</p> <ul style="list-style-type: none"> there will be a large number of suppliers and purchasers; the market share of each participant will be small; each market participant has access to all the relevant information about the market; the product offered by each supplier is functionally the same; and there are low barriers to entry and exit.

Identifying the health service's market power

Description	Comments
<p>Market power may be concentrated in a purchaser if there are many suppliers relative to few purchasers. In order to determine whether the health service has substantial power in the market the health service should consider whether its conduct is constrained by its suppliers.</p>	<p>Health services should consider:</p> <ul style="list-style-type: none"> Can the health services impose its terms of trade on the supplier(s)? If the health services didn't purchase from a supplier, could the supplier find another buyer for its goods or services? How reliant is the supplier on the health services buying from it (how much of the supplier's business comes from the health services)? If the health services can impose its terms of trade on the supplier, it is more likely that the health services have substantial power in the market. If the supplier could find another buyer for the goods or services, it is less likely that the health services have substantial power in the market. If the health services are a very large customer relative to the suppliers other customers, it is more likely that the health services have substantial power in the market.

Identifying the effect on competition in the market

Criteria	Comments
<p>It is unlawful for a health service to:</p> <ul style="list-style-type: none">engage in conduct (on its own or together with other health services) which has the purpose of effect of substantially lessening competition in a market;enter into an arrangement with another entity to collectively procure the goods and services if this arrangement will have the purpose or effect of substantial lessening competition in a market.	<p>Health services need to consider the competition in the market with and without the collective procurement initiative. In some situations, the market power of the health services may be aggregated to 'neutralise' the market power of suppliers. This can make the market more competitive and could lead to suppliers lowering their price or offering better service levels.</p> <p>It is also possible for collective procurement activities to lessen competition in a market by making the market power of purchasers more concentrated. Further, such an arrangement could force a supplier to exit the market which would make the market less competitive over the long term. If health services are concerned about these effects it should take steps to manage the risk. Refer to "Managing the risk – risk mitigation strategies".</p>

Managing the risk – risk mitigation strategies

Risk minimisation
<p>If health services have concerns about its conduct contravening the Competition Act, there are measures which may be implemented to minimise the risk, These measures may include:</p> <ul style="list-style-type: none">conducting an open tender for the goods and services;considering whether a single or multiple suppliers should be appointed;considering whether the supplier will have the exclusive right to supply the goods or services to the health service(s);considering the appropriate term of the agreement;requesting assistance from HSV in managing the tender process and contracting with supplier; and(if relevant) obtaining authorisation from the ACCC.

Market Assessment

The following tables may be used to determine the competitiveness of the market and whether the collective procurement should proceed. It is based on the HSV [Market Analysis Tool](#) which is located on the HSV website. The tool is designed to assist with identifying the impact of a collective agreement on the competitiveness of the market.

The Market Assessment should be completed as part of step 3, Analysis, in the HSV Procurement Model.

Identifying the market

Health services should consider the market in which they are procuring goods or services. The Competition Law defines market to include the market for goods or services that are substitutable for or competitive with the goods or services.

Defining the market in broader geographic and category terms may increase the number of potential suppliers and therefore competition. Consideration of new entrants and product substitution may assist in defining a broader category.

Description	Considerations	Suggested Evidence	Comments
Possibility of New Entrants			
Power is also affected by the ability of new entrants to enter the market. In the context of a collective agreement, if it costs little in time or money to enter the market and compete effectively, and if there are few economies of scale in place, then new competitors can quickly enter the market resulting in a more competitive market.	<p>The barriers to entry such as time and cost. Number and size of incumbents which may make it difficult for new business.</p> <p>Economies of scale. If high volumes are required to be cost competitive then significant capital investing may be required.</p> <p>Cost advantages of incumbents. Such as capital equipment having been fully depreciated.</p> <p>Technology/IP protective in place limiting new entrants.</p>	<p>Relatively new industry therefore there are new businesses being attracted.</p> <p>Profitable industry attracting new entrants.</p> <p>Existing and proven technology in place.</p> <p>No IP required to enter market.</p>	
Possibility of Substitution			
Substitution refers to alternatives to the good or service that have the same functions as the supplier's offering. If substitution is easy and substitution is viable then the more competitive the market.	Availability of substitutes which could expand the category definition therefore creating a larger market and competition.	Products and services are generic in nature. Differentiation between suppliers in mostly around cost and performance.	

Competitiveness of the market

Once health services have identified the market, they should consider the extent to which the market is competitive, although competition in a market is a relative concept.

Description	Considerations	Suggested Evidence	Comments
How competitive is the market?			
Greater number of suppliers implies greater competition reducing the anti-competitive effect of collective procurement.	<p>Number of suppliers in the market and the end to end supply chain.</p> <p>Uniqueness of the service or products.</p> <p>The geographical area defined in the category plan.</p> <p>Market share of each supplier.</p> <p>The fewer supplier choices your suppliers have, and the more they need their suppliers' help, the more powerful their suppliers are, and the less control they have over their prices.</p> <p>Consider uniqueness of products and services that are being purchased, strength and control, switching costs etc.</p>	<p>A large number of suppliers.</p> <p>The supply chain has many inputs and many suppliers providing the inputs.</p> <p>Inputs for suppliers are easily substitutable.</p> <p>A large market area would increase the chances of including more suppliers, therefore increasing competition.</p> <p>How easy is it for suppliers to hold or drive-up prices? Supplier's prices may be driven by volume of key inputs for manufacturers, raw materials etc.</p>	

Market power

In order to determine whether the health service has substantial power in the market the health services should consider whether its conduct is constrained by its suppliers. In some situations, the market power of health services may be aggregated to 'neutralise' the market power of suppliers.

Description	Considerations	Suggested Evidence	Comments
Identifying the health service's market power			
<p>The resulting market power in the collective agreement may drive prices down. This may be driven by the number of health services in the market and the importance of the collective agreement to the supplier. The collective agreement may result in ability to dictate terms to suppliers.</p>	<p>More buyers in the market the less chance of domination by a collective agreement. Proportion of the market represented by the collective agreement. Would the collective agreement result in the health services' own terms of trade being imposed.</p> <p>How easy is it to drive prices down via the collective agreement? This is driven by the number of customers in the market, the importance of the collective agreement to the supplier, the cost of the switching from one supplier's products and services to another's.</p>	<p>Few customers in the market resulting in the supplier nor being able to easily move to new customers.</p> <p>Proportion of supplier's business from collective agreement would have significant impact if there were a change of suppliers.</p> <p>If the collective agreement is a significant proportion of the supplier's business, does it represent excessive power?</p>	
Competition Among Existing Suppliers			
<p>Where there are many competitors, and they offer equally attractive products and services, then the more competitive the market. Also if no one else can provide the same product/service, then there will be limited strength in the negotiation of the collective agreement.</p>	<p>Large number of competitors with not one dominating.</p> <p>Quality difference amongst suppliers creates competition.</p> <p>Other factors to different between suppliers.</p> <p>Low switching costs; more likely to change supplier.</p> <p>No customer loyalty.</p>	<p>Suppliers have been in the market for a very long time.</p> <p>It is a mature industry.</p> <p>It is difficult to obtain cost reductions through further improvements in processes.</p>	

Recommendation

Recommendation:

Suggested content:

- Brief overview of category and list of health services participating in the collective sourcing project.
- Summary of the analysis above and overview of the market possible focussing on
 - possibility of new entrants and the impact on the procurement project
 - number of potential suppliers and what the impact is on the competitiveness of the market
 - the size of the category compared to the size of the market and what power the combined health services have on the market
 - the risks and how they will be managed and mitigated
- Recommendation on whether to proceed or not and why.

More information

Related documents and templates are available on the HSV website.

Disclaimer

The information presented in this document is general in nature and based on HealthShare Victoria's interpretation of the *Health Services Act 1988 (Vic)* and any ancillary legislation and regulations in effect at the time and should not be relied upon as legal advice. Please consider seeking professional and independent advice from your legal representative as to the applicability and suitability of this information and the legislation to your own business needs or circumstances.