

# The supply side to procurement in a health market: competition and innovation in hip implants

Authors: Charlotte Davies

**KEYWORDS:** Procurement, competition, hip implants, innovation

## BACKGROUND

- The NHS is a near monopsony with significant buyer power. However, recent literature has shown that purchasing tends to take place at a more micro level, i.e. at the individual hospital, and this may have constrained the ability of the NHS to exploit its potentially dominant buying share. Literature and policy focus over the past 10 years has highlighted considerable uncertainty surrounding the prices of prostheses with unwarranted variations in prices paid across resource areas.
- Although the academic and policy literatures on NHS procurement are extensive, very little research or policy has focussed on the supply side of procurement. More specifically, there is a gap in the literature on competition between the firms supplying hip implants and how they interact with the NHS, yet their behaviour is equally important if efficient market outcomes (for the consumer) are to be secured. If competition pressures are sufficiently strong, this will compel suppliers to offer high quality and low price. But, on the contrary, if they have market seller power, this might offset the potential buyer power of the NHS.

## METHODOLOGY

- The initial representation of the extent of competition in the market follows the approach used by CAs (competition authorities). In the UK, this is clearly set out in the Merger Assessment Guidelines[10] section 5.
- To further assess the underlying dynamics in the market, the author considers the evidence on new entry and the extent of churn in market shares. The former will always be important in any competition authority investigation, but the latter is often overlooked.
- To capture the extent of churn, the author then goes further than the typical competition authority by introducing a quantitative approach which is novel in this area. This employs the stability of market shares amongst incumbent suppliers as a measure of the turbulence of competition.
- Finally, they examine the number of new models (or ‘brands’) introduced on to the market and their success in penetrating the market.

## KEY FINDINGS

- There is a highly concentrated duopolistic market structure, in which there has been no significant entry or exit, except a merger between the much smaller 3<sup>rd</sup> and 4<sup>th</sup> largest suppliers.
- There is an important difference between the two sectors of the market: in traditional cemented prostheses, there is little evidence of any share mobility amongst firms. The dominant firm, has steadily further increased its market share over time. The newer uncemented sector has exhibited much more share mobility.

**W:** [www.competitionpolicy.ac.uk](http://www.competitionpolicy.ac.uk)

**T:** +44 (0)1603 593715

**A:** UEA, Norwich, NR4 7TJ

- An international comparison of market structure identifies that the main manufacturer of hip prostheses in the UK has a larger market share than in any other European country.
- There is limited evidence of the emergence of new brands of implants - the smaller suppliers have had little success in introducing new brands, and the two main suppliers appear to have concentrated on updating their existing brands. There is also little evidence of competition from generic brands.

#### POLICY ISSUES

- The need for the research highlighted in this paper, is heightened by the fact that contemporary policy advice increasingly advocates that cemented prostheses should be preferred, especially for older patients. This may further strengthen the position of the leading firm in this segment where competition is potentially weaker.

#### ABOUT THE AUTHOR(s)

- Charlotte Davies is a Senior Research Associate in the Norwich Medical School and member of the Centre for Competition Policy at the University of East Anglia

#### SUGGESTED CITATION

Charlotte Davies, 2020. 'The supply side to procurement in a health market: competition and innovation in hip implants', Centre for Competition Policy Working Paper 20-1.

Available at <http://competitionpolicy.ac.uk/publications/working-papers>

---

#### THE CCP

The Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

#### FOR MORE INFORMATION

More information about CCP and its research is available from our website:  
[www.competitionpolicy.ac.uk](http://www.competitionpolicy.ac.uk)

IF YOU WOULD LIKE TO DISCUSS THIS POLICY BRIEF, PLEASE EMAIL: [ccp@uea.ac.uk](mailto:ccp@uea.ac.uk)

W: [www.competitionpolicy.ac.uk](http://www.competitionpolicy.ac.uk)  
T: +44 (0)1603 593715  
A: UEA, Norwich, NR4 7TJ