

Kenya Medical Supplies Authority (KEMSA)

A case study of the ongoing transition from an ungainly bureaucracy to a competitive and customer focused medical logistics organization

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1. BACKGROUND

The Kenya Medical Supplies Authority (KEMSA) is a state-owned health logistics service company with the core mandate to procure, warehouse and distribute healthcare commodities to public sector health facilities and other public sector customers. Since the inception of KEMSA in 2000 there have been multiple projects and initiatives to improve the performance of KEMSA. However, despite these efforts, and until recently KEMSA had struggled to effectively demonstrate any sustained improvements in performance. In the last 3-4 years, KEMSA under its new leadership has shown sustained improvements in performance, accountability and transparency. In the last year, the Government of Kenya has embarked on the devolution of health financing to the counties to ensure that services are delivered effectively and efficiently to communities. The devolution has resulted in a significant change in the way KEMSA receives monies for carrying out its activities. Of particular relevance is that the devolution has led to ordering and payment for drugs and health commodities by counties. This required KEMSA to reconfigure its business model to serve the 47 counties in Kenya as its customers. The World Bank, through its Health Sector Support Project (HSSP), capitalized KEMSA in order to meet working capital needs that would arise under the new devolved system of financing.

Competitive pressures arising from devolution and the new business model, a new management structure with strong leadership and governance, technical support from development partners such as the World Bank and United States Agency for International Development (USAID), and greater flexibilities arising from KEMSA's change of status to a public authority together are converging to create a "new" KEMSA. It is an opportune time to study the state of reforms at KEMSA, highlight the successes, and develop ideas for meeting the challenges ahead. The ongoing transformation of KEMSA from a bureaucratic state-run medicines supply agency to a more independent and competitive medical logistics authority is an important milestone and it presents opportunities for other countries to learn from the successes and failures at KEMSA.

2. OBJECTIVES OF THE STUDY

The aims of this study are to:

- 1) Understand and document key success factors in the transformation at KEMSA.
- 2) Assess KEMSA's preparedness for the new devolved structure, which would place fresh demands on KEMSA
- 3) Develop recommendations that would enable KEMSA to achieve higher customer service, which will become a prerequisite for operating in the new competitive market
- 4) Develop recommendations that would enable KEMSA to achieve sustainability and higher performance while maintaining equity in the distribution of health commodities

3. METHODOLOGY

This study was carried out using the following approach:

- 1) Review of existing literature and technical reports on KEMSA

- 2) Interviews with KEMSA management
- 3) Verification of data on key indicators and visit to KEMSA warehouses
- 4) Study of literature on other public sector organizations with a logistics service delivery mandate

4. Background on KEMSA

The Kenya Medical Supplies Authority (KEMSA) is a state owned medical logistics service provider (Central Medical Store) with the core mandate to procure, warehouse and distribute medical commodities to the public sector. With the implementation of the KEMSA Act in 2013, KEMSA transitioned from a Public Agency to a Public Authority which provided it greater autonomy.

KEMSA procures health commodities based on budget it receives from the Ministry of Health (pre devolution). It then manages the receipt of these commodities from national and international suppliers to its warehouses in Nairobi (primarily at Embakasi although some products are stored at Commercial Street). The health commodities are then stored at KEMSA's warehouses and later distributed to over 4000 health facilities, some of which are at considerable distances from the main warehouse in Nairobi (See Figure 1). The distribution to health facilities occurs on a quarterly basis based on quantities requisitioned by the health facilities. The frequency of distribution to rural health facilities (RHF) is quarterly, while hospitals and larger urban health facilities receive more frequent deliveries. Transport from the KEMSA warehouse to the health facilities is carried out by private transporters that are contracted on a long term basis. The transporters use a combination of ten-ton trucks and smaller vehicles to make the deliveries to the health centers. The transporters collect a Proof of Delivery (POD) to verify successful and timely delivery. PODs are used to trigger payments to the transporters.

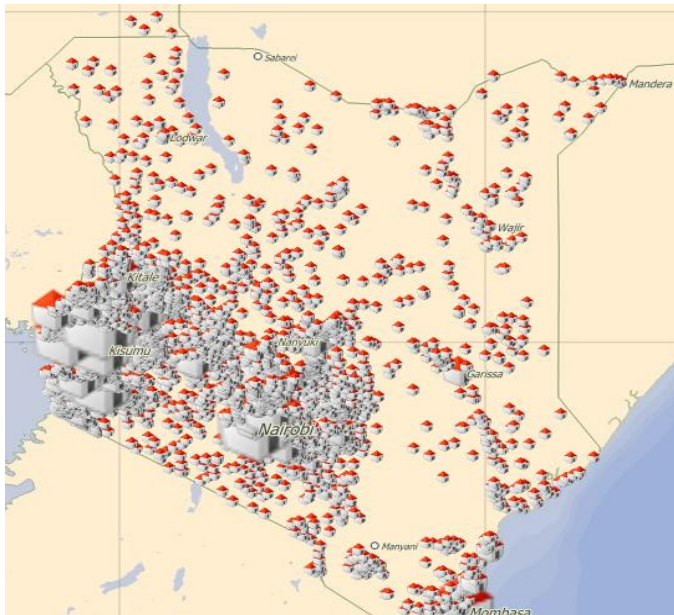


Figure 1: Map of Facilities to which KEMSA distributes (Source: KEMSA)

KEMSA also has eight regional depots (Eldoret, Garisa, Kakamega, Kisumu, Meru, Mombasa, Nakuru, and Nyeri). These depots are used mainly as storage depots for overflow commodities when the warehouse in Embakasi is full or in cases when health facilities do not have sufficient storage space.

5. KEMSA Pre-2008: The struggling years

The Kenya Medical Supplies Agency (KEMSA) was established as a state corporation through the Kenya Medical Supplies Agency Order 2000. When it was created, it was considered as a radical organizational improvement over its predecessor, the Medical Supplies Coordinating Unit. However, since its inception, KEMSA has gone through multiple ups and downs and in most of the period from 2001-2008, it was viewed as an ungainly and bureaucratic agency unable to fully deliver on its mandate. KEMSA's ability to fulfill its mandate was challenging due to inadequate funding, lack of timely disbursement of procurement and operational budgets, and an overall lack of confidence in transparency, accountability and performance at KEMSA. The shortfalls in performance were a combination of real (and in some cases perceived) deficiencies in service delivery.

Substantial efforts were made between 2003 and 2008 by the Government of Kenya and its development partners to enable KEMSA to become more effective. While these initiatives led to some level of performance improvement, the gains were either short-lived or not significant enough (to create greater confidence about KEMSA amongst the population, the government of Kenya, or its development partners. KEMSA's "piecemeal" improvement projects failed to generate confidence for sustained investments in KEMSA. Multiple studies conducted during that period highlighted a range of shortcomings as listed below:

- Weak legal framework and political interference
- Erratic flow of funds for procurement and operations
- Excessively fragmented supply system (Spaghetti of flows) (Aronovich and Kinzett 2001)
- Poor visibility of stock both at the central warehouse and at the health facilities
- Lack of infrastructure and capacity for Information and Communication Technology (ICT)

At the core of these shortcomings was the lack of leadership and governance structure at KEMSA.

Some notable changes were put in place starting in 2006. In 2007, KEMSA started doing monthly direct deliveries to all 141 hospitals in Kenya using a "pull system". It also outsourced the transport function to commercial transporters. New methods for warehouse management were also put in place. Direct delivery and outsourced transport were extended to include all health facilities in Kenya.

However, KEMSA's management remained overwhelmed with managing the day-to-day challenges and could not focus on creating a vision for change. This further exacerbated the lack of confidence in KEMSA, leading to lower investments in KEMSA, greater fragmentation of authority, and an overall cycle of decline. KEMSA remained stuck in a "low performance trap".

The pre-2008 reforms were well intended but in most cases fell short and covered only surface issues without trying to correct the underlying root causes. There was a lack of political appetite for a more integrated approach to reform at KEMSA and hence ad-hoc projects were designed to fix the immediate issues.

6. KEMSA's Transformation (2008 to present)

The government of Kenya and its development partners started realizing the need for broader, deeper, and integrated reform at KEMSA. These reforms started in 2008 and have been ongoing till 2014.

The guiding principles of these reforms were that KEMSA's institutional capabilities can be improved by creating appropriate organizational structures, attracting the right talent to leadership and management roles, creating a performance management plan, and streamlining operational processes. This period of KEMSA's transformation also included extensive support from development partners. In 2011, USAID created the Kenya Medical Supplies Agency (KEMSA) Support Program and the World Bank supported multiple capital investments in KEMSA during this period, including the capitalization of KEMSA from the Health Sector Support Program (HSSP). The key aspects of the reform and transformation process are outlined below:

6.1 Recruiting Leadership Talent

Since its inception, KEMSA has faced an internal talent deficit, most notably at the leadership and senior management level. The deficiencies for talent in technical roles have been fulfilled in the past through short term consultancy and technical assistance projects, but the absence of managerial talent remained a key shortcoming for KEMSA's success. In order for KEMSA to attract the "best and the brightest" in its leadership roles, it required a competitive recruitment for the Chief Executive Officer (CEO) and several high-level managers. Given the nature of the transformation involved, it required a CEO and a team of managers who were good "change agents". Between 2008 and 2013, KEMSA and its partners gradually started assembling a team of professionals for leadership and managerial roles at KEMSA. These included people with strong commercial sector experience in the healthcare, financing and logistics industries and not civil servants or career bureaucrats. These individuals brought a different working style and culture to KEMSA.

6.2 Creating an Appropriate Legal Framework

With a strong leadership in place, confidence in KEMSA gradually increased. Greater political appetite for KEMSA reform coupled with support from all stakeholders led to the passing of the Kenya Medical Supplies Authority Act No. 20 of 2013 which transitioned KEMSA from a Public Agency to a Public Authority with greater autonomy. The new legal framework also enabled greater financial autonomy for KEMSA to effectively carry out its mandate in a new devolved health system. KEMSA was re-categorized from Category 7C to 7B which provided KEMSA the flexibility to set a higher salary scale for its staff.

6.3 Robust and Effective Governance Structure

The new legal framework required (and allowed for) a new governance structure at KEMSA. The new Board of Directors of KEMSA was to be led by a competitively recruited Chairperson.

The membership of the board included prominent leaders from different fields and was not limited to civil servants. Specific board committees were created with clearly outlined charters, roles and responsibilities. Board members were provided training on financial oversight and board governance to equip them to manage their oversight and governance roles.

6.4 Greater Transparency

In the first decade of its existence, the lack of transparency at KEMSA undermined confidence in its ability to effectively fulfill its mandate. In 2010 the World Bank provided financial assistance to KEMSA to enhance transparency of its procurement activities. Under this agreement all procurement contracts awarded by KEMSA were to be posted on the KEMSA website and made available publicly in other ways. This was successfully implemented to a large extent and details of contract awards were available to the public. This enhanced confidence in the transparency of the procurement function at KEMSA.

6.5 Building a Change Coalition

Attempts to reform or bring about significant positive change at KEMSA had failed in the past because of the inability to motivate middle management and operational staff of the need for change. There was a lack of vision making it difficult to achieve an organization-wide consensus on goals. Such a vision was also critical to building support for change among external stakeholders of KEMSA. Leadership and visioning were the key components of building an internal and external coalition for change. Since change is also easier to achieve in response to external stimuli, devolution provided such external stimuli for the last phase of the KEMSA transformation project. Devolution and the critical debate about the future of KEMSA since 2009 provided both the necessity and urgency to the transformation project.

6.6 Robust Quality Assurance

While the responsibility of ensuring quality of medicines and health products in Kenya rests with the Pharmacy and Poisons Board (PPB), KEMSA management had the foresight to realize that in the case of any quality problems, KEMSA, as the national agency in charge of procuring and distributing medicines, would face significant reputational risks. It therefore developed strong collaborations with the Poisons and Pharmacy Board (PPB), the National Quality Control Laboratory (NQCL) and created a robust internal QA department. Before 2008, there was only one staff at KEMSA in charge of QA activities; now KEMSA has a fully developed QA department with an in-house Mini-laboratory. In addition to ensuring that drugs procured meet the standards of quality as set by the PPB, the QA department also ensures that commodities in transit to the health facilities maintain high quality. It has SOPs for outsourced transporters to meet good storage and distribution practices for medicines and other health commodities. KEMSA staff also conduct supplier audits and work with other partners on post-distribution surveillance.

Apart from technical measure to improve quality, KEMSA also developed a strong quality system for all its activities and processes. It first obtained ISO 9001 Certification in 2010 and has subsequently been successfully re-certified after every two years.

6.7 Adequate Staffing

When the current phase of KEMSA reforms started, 40 out of the 90 staff at KEMSA at that time were retained and the rest were let go. Since then, KEMSA has grown to a staff strength of 330. A work load analysis study conducted by Deloitte was used to inform the optimal staffing levels within each department in KEMSA. Important policy standards were also put in place before hiring new employees. An in-service integrity testing program was also put in place. Apart from expanding the staff base, comprehensive and relevant training programs were institutionalized for existing and new staff at KEMSA.

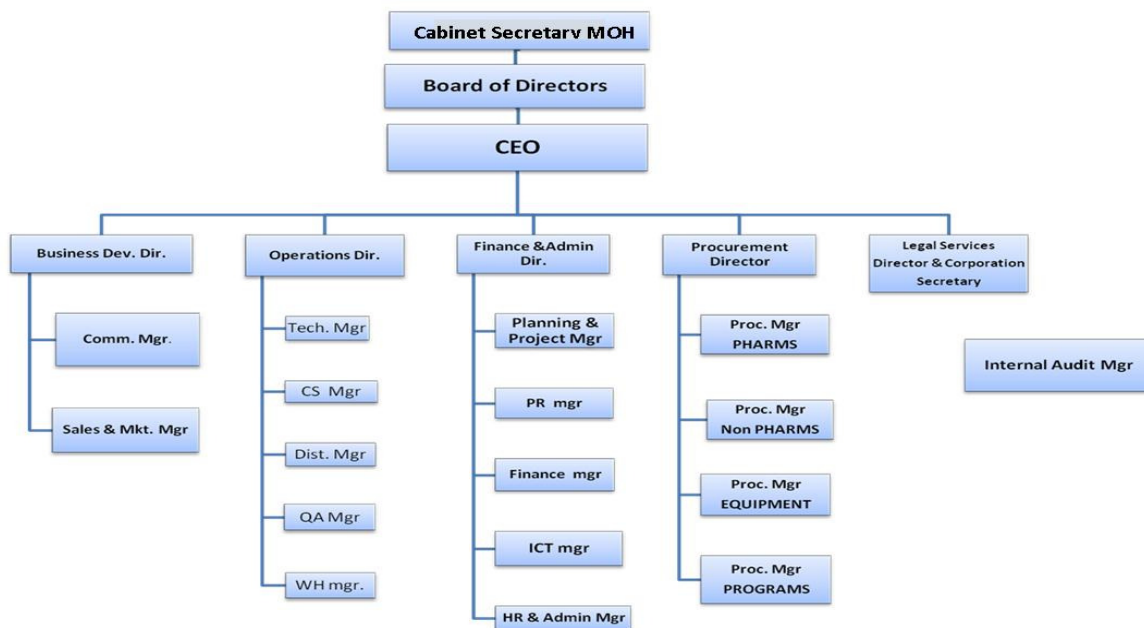


Figure 2: KEMSA Organigram 2013 (Source: KEMSA)

6.8 Transparent and Effective Procurement Department

A well-staffed Procurement Department was put in place for the management and oversight of procurement at KEMSA. Through a public and competitive procurement process, they try to procure at the lowest cost, while achieving the quality standards set by the PPB or other international agencies involved. The Procurement Department now has 23 full time staff who are involved in developing tender specifications, bid solicitation, contract / price agreement issuance, receipt and processing of purchase requisitions and orders, payments authorizations, contract management, post-contract performance review, etc.

The organigram below presents the current organization of the Procurement Department.

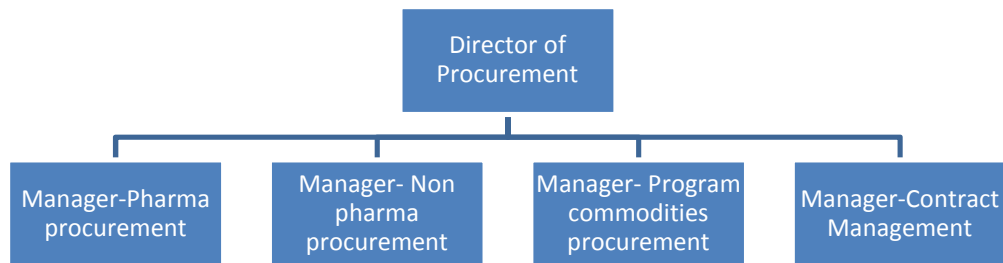


Figure 3: Organigram of the procurement department at KEMSA

95% of value procured by KEMSA is through open national tender or International Competitive Bidding. Direct procurement or restricted tendering is used only occasionally. The procurement department works closely with the commodity planning committee which includes experts from the Ministry of Health and disease programs. The commodity planning committee has subcommittees for different product categories, e.g., pharmaceuticals, consumables, equipment, lab supplies, etc. Technical evaluation is carried out by a committee that includes functional experts, procurement secretariat at KEMSA and representatives from the Ministry of Health.

KEMSA has started procuring through indefinite quantity **framework contracts** which allow quick ordering under pre-negotiated terms and conditions from local suppliers. KEMSA realized that when they enter into a contract with a supplier, the contract cannot just be left to run but requires active management. As new contracting structures used by KEMSA are more complex than before, it is vital that they are properly managed. A new role of contract management was therefore created at KEMSA. Contract management includes the administration of a range of activities, including:

- Contract change control
- Ordering procedures
- Receipt and acceptance procedures
- Payment procedures
- Operational and management reporting
- Managing service level agreements
- Exercising penalty or other contractual clauses
- Post-contract performance review and continuous improvement

KEMSA has put procedures in place to ensure that the administrative data on tenders, bidders, and suppliers are collected and stored in a structured way, available for review and analyses in the future.

6.9 A demand-driven (pull) distribution system and investments in ICT

Historically, distribution from KEMSA to the hospitals and health centers was using a push model under which commodities were shipped to health facilities based on some historical estimates of their needs. In 2006, KEMSA had started using a pull system for hospitals under which commodities were supplied in response to an order from the health facility. For a period of time, KEMSA operated on a combination of push and pull where hospitals and urban facilities operated on pull based model, whereas Rural Health Facilities received commodities based on a push model. Gradually the pull model was scaled up nation-wide and quarterly deliveries were made to all health facilities based on requisitions received by KEMSA. This has prepared KEMSA for the new model they are operating under post devolution. If they were still under a push model it would have been challenging for KEMSA to make the transition to receiving orders from counties and picking, packing and distributing them in a rapid turnaround way.

A pull model required investments in ICT to facilitate the data flow of requisitioned quantities, stock on-hand and other information sets from the health facilities. KEMSA, with assistance from USAID, invested in a homegrown ERP system implemented by Alliance Technologies that went live in July 2010. KEMSA also implemented a Logistics Management Information System (LMIS).

The KEMSA e-mobile service allows health facilities to place their orders to KEMSA over mobile phones. In addition, for health facilities that are not connected by conventional means, KEMSA has started piloting a mobile phone-based model to capture real-time stock data from such facilities. ZiDi™ developed by MicroClinic tracks medicines and supplies consumed and in-stock, and estimates the requisition quantity for the next period. While tracking facility level consumption and estimating requisition quantities is not directly KEMSA's mandate, KEMSA's management realized that this will help them in pro-active planning of shipments. KEMSA also realizes that stock outs of commodities at health facilities, even if they are for reasons beyond the control of KEMSA, will eventually be perceived as the ineffectiveness of KEMSA.

6.10 Outsourced transport-focus only on areas of comparative advantage

In 2007-2008, KEMSA began outsourcing transport from its warehouse to the hospitals and health centers to a few private transporters (between 3-7). KEMSA's executive management realized that operating a transport fleet was not their comparative advantage and it could be managed more effectively by private transporters. This process of outsourced transport was initially quite challenging because on-time performance of the transporters was poor and this was resulting in long delivery lead times and stock outs. KEMSA started including and enforcing stringent service level agreements (SLAs) in its transport contracts and started holding the transporters accountable to on-time delivery performance by strongly enforcing its SLAs.

Transporters were also required to collect PODs for their payment to be processed. On time delivery and expedited filing of PODs would trigger quicker payments to transporters, creating the appropriate incentive structures for transporters to deliver performance.

6.11 Creating a customer oriented KEMSA

In the past, KEMSA viewed the Government of Kenya and the development partners/programs as its customers. Organizations such as MEDS (Mission for Essential Drugs Supplies) were stronger on customer service interactions. Recognition that KEMSA's customers of focus are the health facilities who receive supplies from KEMSA geared the organization for greater customer orientation. This customer service orientation was driven from top management.

A well-functioning customer service department had to be created which integrated process, organization, people and technology to provide high degree of service to health facilities who would place their orders or call regarding other queries. A clear division of roles and responsibilities within the customer service department and some degree of workflow standardization enabled this.

KEMSA also started a Supplementary Services Division (SSD) which allowed it to bring greater customer focus and become better prepared for the new business model. Customers of the SSD included faith-based health facilities, NGO health facilities, Public Schools, Colleges and Universities, other government Institutional Health Facilities such as Kenya Prisons, KDF, KNH, and MOI Teaching & Referral Hospital.

Lessons Learnt from KEMSA's Transformation

- Central Medical Store (CMS) reforms that cover surface issues/symptoms without trying to correct the underlying root causes are unsuccessful.
- Political appetite for a more integrated transformation approach is a prerequisite for successful reform of a CMS.
- Better governance at the top is the key to implementing CMS reforms
- Transformation should start by
 - Creating appropriate organizational structure
 - Attracting the right talent to leadership and management roles
 - Creating a performance management plan
 - Streamlining operational processes
 - Leveraging ICT
 - Focusing on areas of comparative advantage and outsourcing other activities
- Procurement and distribution have to be integrated in order to create a seamless medicines supply system
- Central Medical Stores should proactively invest in building stronger capacity for stock requisitioning and quantification at the health facility level. In the end facility level stocks outs are perceived as ineffectiveness of the Central Medical Store, even if the stockouts are due to poor facility level quantification

7. KEMSA's New Operating Model-Post Devolution

In the new devolved model, budget for medicines and health commodities will come from country governments who will receive a predetermined allocation from the Federal Government. Counties (health facilities and hospitals) will submit their orders (LPOs) to KEMSA. Upon submission of orders and payment, KEMSA will process the order and deliver commodities to the specified health facilities in the country. KEMSA will replenish its stocks using the funds realized from sale of medical commodities to county health facilities. The price charges by KEMSA will be the purchasing cost of the commodity plus its procurement, warehousing and distribution fees (approximately 8%). Facilities will either make advance payments or in some cases may receive up to 30 days credit from KEMSA. Out of a total of 47 counties in Kenya as of February 20, 2014 26 had already signed an MOU with KEMSA and a total of 33 counties were buying from KEMSA under the new arrangement.

Table 1: Highlights of KEMSA's new operating model

Function	Pre devolution model of KEMSA	Post devolution model of KEMSA
Who pays?	Ministry of Health paid for the procurement of commodities and costs of warehousing and distribution Program drugs (HIV/AIDS, Malaria, TB, RH) financed separately	Counties will pay the cost of the commodities plus a warehousing and distribution fees Program drugs(HIV/AIDS, Malaria, TB, RH) financed separately
Who procures from manufacturer/supplier?	KEMSA Except select program drugs	KEMSA Except select program drugs
Choice of medicines supply agency	All public health facilities receive supplies from KEMSA	Counties can chose to purchase from KEMSA ad-hoc, KEMSA under MOU or from other suppliers e.g. MEDS
Which products?	Ministry of Health	Ministry of Health, KEMSA and Counties
Who places an order?	Health facilities in the pull system since 2010, MOH before that	Counties place orders on behalf of all health facilities in county

Payment terms	Erratic payment from MOH to KEMSA	Counties pay upfront before receiving supplies or 30 days credit
Delivery frequency	Quarterly (Monthly to Hospitals)	Quarterly (Monthly to Hospitals) in most cases. Part of agreement between counties and KEMSA
Transport	Private transporters contracted by KEMSA deliver product to all health facilities	Private transporters contracted by KEMSA deliver product to all health facilities Counties may choose to receive supplies at a single location



8. Recommendations for KEMSA and its partners

The long and arduous path of transformation at KEMSA has encountered a number of hurdles on the way, some of which still remain. KEMSA may face many more challenges in the future as a result of the ongoing changes in the health sector in Kenya. The recommendations below are intended to ensure that KEMSA is effective, efficient and more sustainable in the long term.

8.1 Objective communications to dispel perceptions based on past performance

KEMSA does not have an established track record or reputation for high performance. In fact, their historical performance often arouses skepticism amongst different stakeholders including the population of Kenya. The public's expectations and demands from KEMSA are high. Counties will expect better and higher degree of customization in the service they receive from KEMSA; they will be reluctant to pay any premium for those additional services. Therefore, KEMSA should widely communicate factual information about its performance to all concerned parties. The population and the counties have to be assured that the transformation process at KEMSA is proceeding well and that its results are being communicated to them in a transparent manner.

In addition to communicating progress to external stakeholders, it is also important to report and celebrate progress internally in order to keep staff morale at KEMSA high in an environment where the devolution and the role of KEMSA are often in political debate.

8.2 Third party measurement of KPIs

Improvements in Key Performance Indicators (KPIs) measured by a credible third party would go a long way in changing perceptions about KEMSA and would increase effectiveness in accountability and service delivery. Third party measurement and verification (TPV) using impartial, credible and competent organization reviewing data and evidence will help to establish that the level of service provided by KEMSA meets the desired standards. It will also provide useful data for internal performance benchmarking. KEMSA's partners would also gain from such an exercise.

A set of 2-5 measurable, easy-to-understand and outcomes-focused KPIs, such as order fill rate and on-time delivery, should be selected. The KPIs along with the sources of evidence can be presented on KEMSA's website and disseminated widely through other channels.

8.3 Maintaining ubiquity and uniformity of service

KEMSA operates in the social sector where ubiquity and uniformity of service are extremely critical for it to maintain its reputation. Ubiquity means that KEMSA must deliver to every health facility in the country. Uniformity means that a certain degree of service quality should be maintained irrespective of where the health facility is located.

Lower transactions costs and sustainability considerations will drive KEMSA to consider hospitals and higher volume health facilities as its "customers of choice". However, KEMSA

needs to manage a delicate balance between the needs to be sustainable and cost-efficient with its mandate to serve all health centers in Kenya. Even though Rural Health Facilities (RHF) are not the most profitable customers because the cost to serve is high relative to the value delivered, it will be important to ensure that KEMSA continues to serve RHF with a reasonably high degree of customer service. KEMSA has to realize that the longer term gains from meeting its universal service obligation and serving RHF are likely to be greater than the short term gains from “cream skimming”. The success in meeting this balance in service standards could be evaluated quarterly by an independent third party.

8.4 Efficient financial flow and inventory management

In order to successfully meet the changes that come with devolution, KEMSA will have to ensure that it runs its cash flow cycle efficiently. Longer payment terms from counties, suppliers asking for quicker turnaround on payments, and the need to carry a wider assortment of products can put pressure on the cash-to-cash cycle and cash-conversion-ratio at KEMSA. Holding an optimal inventory of products and a wider assortment will be critical to build confidence in the counties in order for them to purchase from KEMSA. However, excessive inventory and poor inventory turns can adversely affect cash flow cycle and bring KEMSA to a tricky cash flow situation. Maintaining the balance between high customer service and inventory turns will be central to the effective cash flow management at KEMSA. It is important for KEMSA management to realize that higher levels of inventory in the warehouse often do not translate into better service or increased sales. Streamlined order fulfillment processes and faster turns can achieve higher sales and better service at relatively lower inventory.

KEMSA’s senior management (and external partners interested in its success) should carefully observe the inventory turnover ratio and cash conversion cycle (the length of time it takes for KEMSA’s inventory to generate cash, considering payment terms from suppliers and payment terms from counties) at KEMSA.

At present, it appears that KEMSA has a reasonable buffer in the cash cycle. If counties pay within 30 days and suppliers are paid in 90 days, there is a 60 day float for inventory. Often public organizations believe that by extending the payment terms to suppliers they can achieve positive cash conversion cycle. It usually turns out to be a myopic strategy as poor payment terms start reflecting as higher prices in the next round of purchasing/tendering. It is therefore critical for KEMSA to streamline the flow of delivery confirmations and other processes required to complete supplier payments in a timely manner.

8.5 Understanding KEMSA’s customers and enhanced value proposition

For KEMSA to succeed, it has to develop a realistic understanding of why its customers would buy from KEMSA rather than from its competitors. Price is not always the decisive factor in a customer’s decision. For KEMSA to be the “supplier of choice” for counties, it has to create a value proposition that is stronger than its competitors in all respects, i.e. price, delivery terms and customer service. A myopic confidence on price competitiveness may not offer the best path

forward. KEMSA also has to imbibe a culture of customer service throughout the organization. Greater customer service is not just the responsibility of staff in the customer service department; all staff at KEMSA including pickers, packers, and order-entry operators should care about high-quality customer service as KEMSA's differentiating strategy and unique value proposition.

8.6 Serving as eyes and ears to the Ministry of Health

In addition to their role of ensuring that health commodities reach all segments of the population, supply chains also provide key information about supply and demand to planners and policymakers. They often act as the information backbone of the health system. Information regarding demand and consumption collected at different points in the supply chain can serve as proxies to estimate other health system resource needs. Such information is crucial for resource planning, program budgeting and policy design. KEMSA should invest in systematically collecting such information through its network of sales, marketing and customer service staff. The ability to gather and provide this information to the Ministry of Health's Policy and Planning Department will become a key differentiator for KEMSA. In addition to the value such information will provide to the Ministry of Health, consumption and use information will also help KEMSA in proactive planning.

8.7 Offering flexibility in delivery frequency

Currently KEMSA delivers quarterly to most health facilities and monthly to high-volume hospitals. Under the devolved model, some counties may request higher delivery frequency and others may continue with quarterly deliveries. The ability to provide flexibility in delivery frequency as requested by individual counties will become an important differentiator of customer service. Higher delivery frequencies allow counties to reduce their stocks, which leads to lower capital outflow and lesser risks of product expiration (especially given poor quantification capacity). Past studies have also noted that there is a shortage of storage space at the health facilities. However, more flexibility in delivery frequencies will entail higher costs for KEMSA due to higher transport costs.

One option would be to re-examine the model with three distribution centers that may allow more flexibility in delivery frequencies at a lower cost burden.

8.8 Co-invest in building county capacity for requisitioning and quantification

Accurately quantifying their needs for a range of products will be one of the most difficult challenges facing counties in the new devolved models. Counties lack reliable historic consumption data as well as the capacity to develop their needs estimates. Lack of good quantification would result in stock-outs at counties and, while it may seem that such stockouts will not be attributed to KEMSA, in practice KEMSA will face significant reputational risks if such stockouts persist. It is therefore important for KEMSA to work closely with the Ministry of Health and its development partners to organize training workshops for county pharmacists and other staff around quantification, need estimation and requisitioning.

8.9 Maintaining and enhancing the comparative advantage of lower sourcing cost

The primary input in the new competitive market will be the cost of sourcing pharmaceuticals and other health commodities. Given its scale and procurement volumes, KEMSA has a comparative advantage over others in sourcing cost. KEMSA should put mechanisms in place to maintain and further enhance this sourcing cost advantage. This will require deep knowledge of product categories and their supply landscape, good relationship management with suppliers, adherence to payment terms and contractual clauses that can guarantee bulk discounts to KEMSA.

8.10 Greater transparency on KEMSA's website

Currently KEMSA's website serves mostly as an electronic bulletin board, where tender notices, tender prices and award notices are publicly posted. While it has increased transparency and access to procurement information, more can be done to enhance public and stakeholder confidence around procurement transparency. KEMSA should invest in providing details of procurement data on its website in a way that enables the public to understand it and creates a stronger perception of procurement transparency.

Building the Triple-A Supply Chain at KEMSA

Agility: will be extremely important for KEMSA under the new business model. Demand from the counties will be quite dynamic and supply lead-times from suppliers will continue to have some uncertainty. Agility in the operations at KEMSA will provide it the ability to react speedily to unpredictable changes in demand or supply. Agility will guarantee that products are always available and service to counties is not compromised.

Alignment: Well-performing supply chains align the interests of all the actors in the supply network so that when each actor works to maximize their own interests, the overall supply chain's performance gains. Under the new business model KEMSA has to align the interests of the counties with KEMSA's objectives. Delivery frequency and product assortment are areas where counties will require more customization and KEMSA will gain from standardization. Aligning the interest of its new clients will enable KEMSA to remain sustainable in the long run.

Adaptable: Well-performing supply chains remain well performing because they adapt over time as actors, market structures, environmental factors and strategies evolve. The market will not remain static and other agencies such as MEDS will also change their strategies. KEMSA needs to be ready to change and adapt its internal structure as market conditions change.

Agility, adaptability, and alignment are critical for the long term sustainability of KEMSA.

Adapted from Lee 2004

9. References

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