Online Auction for Pharmaceutical Supplies Helps Portsmouth Hospitals NHS

Trust Generate Savings Equivalent to running a 20-Bed Ward for One Year

Organisational Profile

Portsmouth Hospitals NHS Trust [www.portshosp.org.uk](http://www.portshosp.org.uk)

Portsmouth Hospitals NHS Trust is one of the largest Trust in the UK and provides healthcare services for almost one million people throughout Portsmouth and South East Hampshire

Industry: Healthcare
Employees: 5,000 to 9,999
Annual Gross Revenue: $501 million to $1 billion

Key Benefits:

- £640,000 reduction in cost of pharmaceutical products
- Savings sufficient to fund 20-bed ward for 12 months
- Knowledge transfer will enable auctions to be held in house
- Lower administration and transaction costs for suppliers

Portsmouth Hospitals NHS Trust Responds to Government Drive for Increased Efficiency in Public Sector Spending

Portsmouth Hospitals NHS Trust has generated savings of £640,000, equivalent to the cost of running a 20-bed ward for 12 months, by holding the UK's first reverse online auction for pharmaceutical supplies, combined with traditional procurement processes. One of the largest Trusts in the country, Portsmouth provides medical care for almost one million people in southwest England. Online auctions were seen by the Trust as an opportunity to negotiate savings on the cost of supplies it purchased in bulk, particularly when consolidating spend with other Trusts across the South of England. Driving competition between suppliers by increasing price transparency through real-time bidding would ensure the lowest prices and most favourable trading conditions. The Trust also wanted to reduce the procurement cycle by streamlining sourcing and cut the administration and paperwork associated with traditional tendering processes.

"We wanted to use technology to achieve direct savings and strip cost from back office purchasing processes, " said Neil Kemsley, deputy director of finance, Portsmouth Hospitals NHS Trust.

Portsmouth's first reverse online auction took place on UKprocure's electronic trading platform built on Oracle Exchange and Oracle Sourcing. UKprocure's consultants trained the Trust's purchasing professionals and the suppliers taking part. They also managed the event on the day and provided post-auction support.

High-Level Project Goals

- Purchase standard products at lowest
- Release cash for front line services
- Demonstrate benefits of auctions to suppliers

Adapted, with permission, from material supplied by Oracle Corporation
• Shorten the procurement cycle
• Cut cost of purchasing administration

"Service support and technical expertise are critical to the successful running of e-auctions," said Bill Shields.

From Set-Up to Live Auction in 4 Weeks

The solution provider worked with the Trust in putting together a project plan and familiarised suppliers with the processes and regulations surrounding online bidding.

Knowledge transfer was a key part of the preparation, with procurement and supply managers at the Trust being involved at every stage. On the day of the auction, just four weeks later, 26 suppliers submitted a total of 185 tendered bids outlining their best deals for pharmaceutical supplies. At the end of the auction Portsmouth and the successful suppliers agreed the lowest mutually acceptable purchase price.

"We had already determined a reserve price, above which we were not prepared to negotiate, and that had been communicated to all suppliers before the auction," said Neil Kemsley. "Suppliers had to bid lower than the reserve price, with each having a 30-minute window to better the preceding offer. Supplier anonymity was assured by not showing names of bidders on the screen to anyone apart from buyers at the Trust."

12% Saved on the Cost of Pharmaceutical Supplies

The £640,000 savings generated by combining traditional procurement process with a reverse auction represent a 12% price reduction for the Trust. Online auctions also save purchasing organizations substantial sums in administration by eliminating the need to evaluate tenders manually and help shorten the procurement cycle.

Suppliers Gain from Lower Costs and Greater Price Visibility

Suppliers benefit from the reduced administration and lower transaction costs afforded by online auctions. Seeing what prices are being offered for the same or similar products increases a supplier's market intelligence and can help improve competitive advantage.

Future plans

The success of its first reverse auction has proved to Portsmouth Hospitals NHS Trust that auctions can improve productivity and cut costs. The Trust is currently planning two more online auctions, one for clinical supplies and one for non-clinical items, during 2004. In time, Portsmouth intends to embed online auction procedures.

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