

SPECIALISING IN PROCUREMENT

By ALLAN KARR, MRPHARMS, MBA

Medicines represent a significant portion of NHS expenditure and so it is not surprising that there is interest in their procurement. This article sets out aspects of a procurement pharmacist's job and looks at the training available for those considering a career in this field

Expenditure on medicines represents a significant slice of the NHS "cake"

When people ask me what I find so interesting about medicines procurement, I usually respond by explaining that the speciality is one of the fastest growing within the pharmacy service. In particular, there has been a wide number of strategic changes taking place over the past few years, including an Audit Commission report on procurement, the development of confederations and hubs, and the recent reorganisation of the NHS Purchasing and Supply Agency (PaSA).

So why are there so many developments in this field? Perhaps the answer lies with the simple fact that medicines represent £8–9bn (ie, 12–13 per cent) of NHS expenditure. This is the largest single element of the "non-pay" (ie, other than salaries) budget after estates. Nearly £2bn of medicines are purchased by the hospital sector alone. This expenditure is an obvious target for the actions of the Government, chief executive officers of trusts and financial directors as well as anyone else who is trying to control NHS costs.

Medicines procurement, however, is not just about saving millions of pounds for trusts or obtaining value for money — it is really more about providing a fast and effective supply service to patients. At first glance having the correct quantity of the right medicine, available at the right time for the

right patient and at the right price to the trust, might seem straightforward. This is not, in reality, the case. In particular, many medicines used in hospitals can be difficult to source. In addition, a complex range of operational, business, information technology, safety and risk management systems are involved, in order to ensure that clinical governance and other professional medicines management practices are followed.

PHARMACISTS' INVOLVEMENT

Hospital managers, nurses and clinicians expect their patients to receive all medicines in a timely and appropriate manner and they see pharmacy staff as being the most appropriate people to arrange this.¹

It is therefore not surprising that pharmacists are an important part of the medicines procurement team, itself a key part of the medicines supply service. Pharmacists (as opposed to trust general supplies officers, accountants and business managers) understand how medicines will be used in a clinical setting and whether products are interchangeable or not. They are also aware of the practical risk management issues associated with, for example, the packaging, labelling, licensing, formulation and presentation of products. Pharmacists are able to have meaningful dialogues with clinicians (ie, supplementary prescribers and doctors) about their prescribing needs and with those working in quality control and formulary pharmacists. Moreover procurement and stock control software is fully integrated with dispensing software, used only by pharmacy staff.

With pharmacists fully integrated into the medicines procurement service it ought to be possible to offer:

- Reduced medication errors
- Reduced medicines expenditure due to contracting and negotiation
- More effective stock control and reduced number of stock outs
- Reduced medicines wastage because there is less out-of-date stock
- More use of high quality medicines, including when unlicensed medicinal products are needed
- Reduced patient waiting time by minimising supply delays
- Up-to-date information about product availability
- Better control of the safe handling of medicines throughout the supply chain (eg, adherence to cold chain requirements)
- Effective sourcing of products that are in short supply
- Timely production of medicine expenditure and other useful reports
- Development of new supply routes (eg, home care)

ASPECTS OF THE JOB

Contracting for medicines forms a major part of the procurement pharmacist's role. The approach to contracting taken tends to depend on whether generic or branded medicines are being purchased.

Generic medicine contracting All generic products should be subjected to a competitive tendering process in order for the trust to

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Panel 1: Knowledge-base for procurement pharmacists

- Supply chain management policies
- Commercial principles of supply
- Service performance and standards
- How to determine appropriate stock levels
- Logistics
- How to work within a procurement consortium
- How to assess market conditions
- Price variation analysis
- Law applied to procurement (eg, European Union procurement law, NHS terms and conditions of contract, EU competition law and rules about product liability)
- Legal issues relating to parallel imports and orphan drugs
- Legal framework for unlicensed medicinal products
- How patent expiries and product life cycles affect procurement
- Economic principles related to market structures
- Forecasting and calculating order quantities
- Timing and methods of payment
- Stock valuation systems
- Pharmacoeconomics
- Drug usage review and evaluation
- How to find out about individual medicines market conditions
- E-commerce and e-procurement principles
- Invoice matching
- Risk management
- Work measurement
- Contract management
- How to negotiate effectively
- Principles of effective adjudication
- Role of quality control and Medicines and Healthcare products Regulatory Agency
- How to manage product withdrawal and shortages
- Safe handling and storage rules (eg, Control of Substances Hazardous to Health rules)
- Standard financial instructions and orders
- Supplier evaluation and vendor rating
- How to make decisions
- How to purchase services (eg, home care), rather than just goods
- Understanding supplier marketing strategies
- Stock and inventory control
- Labelling and packaging requirements
- Wholesaler dealers' licenses
- Pharmacy stock control systems
- Ward order distribution
- Disposal of waste and expired stock
- Procedures for the accurate receipt of stock
- Role of supply chain stakeholders (eg, wholesalers, P.I. suppliers, distributors)
- Financial auditors
- How to carry out an end of year stocktake
- Differences between centralised and decentralised services
- Managing and motivating many different grades of staff (eg, technicians, pharmacy assistants and porters)
- How to determine analysis of savings
- Sourcing strategies
- Liaising with other pharmacists (eg, formulary pharmacists and quality control pharmacists)
- Medical gases
- Cost and budget analysis
- Delivery schedules
- Stores layout
- Repacks
- Automation
- Error management and operational audit
- Business planning and how to prepare business cases

ensure they achieve maximum cost savings. The manner in which these products are contracted for can vary across the UK. In England, the contracting process normally occurs at a regional level every two years. Reviews of the contracting process have led to a selective competitive tendering process which enables some products to have their contracts extended by a further two or four years. In addition, recent collaborative work between A.T. Kearney, management consultants and PaSA has seen the development of a national generic contract for approximately 500 product lines. The start of the tendering process for these lines will use a reverse e-auction (*Hospital Pharmacist* 2004;11:293).

Contract adjudication is provided by an expert panel which would include pharmacy procurement and quality control professionals. This team is required in order to ensure that detailed attention to the quality of the product, manufacturer and distributor occurs. Adjudicators have to take account of a wide range of influencing factors, for example, quality of labelling, delivery from the wholesaler or direct, packaging, licence variations and stability data. Product selection can sometimes be problematic as the lowest priced commodity may not always be awarded for quality or strategic reasons.

Branded medicine contracting Branded medicines, by their nature, are more difficult

to contract for than generics. Pharmaceutical companies will try to recover costs for their research and development investment, obtain profit to pay for further research and satisfy their shareholders' interests during the period their products have patent protection. Discounts are rarely obtained, unless tough therapeutic competition is prevalent. However, a variety of contracting approaches can be investigated to try and reduce the cost of branded medicines, including formulary or commitment contracting, purchasing parallel imports or placing bulk orders.

Formulary or commitment contracting

Some suppliers may offer discounts depending upon the commitment by trusts to the use of their branded product for a specific clinical indication or volume. Close links between the procurement manager, the formulary pharmacist and the clinical team are required to take advantage of any suitable and appropriate offer.

Parallel imports More parallel importers than ever before appear interested in tendering for the supply of hospital branded products. Many of these contracts require careful evaluation at the adjudication stage to ensure that the packaging, labelling and availability of the products are suitable.

Bulk ordering The costs of distributing medicines to hospital pharmacy departments

can be significant, especially if trusts are located long distances away from suppliers. Suppliers may therefore choose to offer additional discounts for large orders so that they can reduce their own distribution costs. Trusts that have invested in large storage facilities or operate on a trading basis (ie, sell on to other trusts for mutual benefit) are likely to be able to take advantage of these.

In order to carry out their contracting role and the other aspects of their job, procurement pharmacists should have a wide knowledge base covering the issues set out in Panel 1.

SYSTEMS AND STRUCTURES

Over the past 20 years sophisticated pharmacy procurement structures have developed to deliver the systems necessary to manage products and suppliers at different levels (eg, strategic, tactical and operational levels). The pharmaceutical hospital supply systems are generally regarded as the "gold standard" (compared to those for non-medical supplies) within the NHS. This is because, for example, purchasers have expert product knowledge, the IT systems (ie, procurement and dispensary system) are well integrated, and activities are patient focused. There is also effective communication between local trusts, with the setting up of consortia, regional systems and national

organisations (such as the National Pharmaceutical Supplies Group [NPSG] and the Purchasing and Distribution Interest Group of the Guild of Healthcare Pharmacists [PDIG]).

NPSG This group has been the key strategic group for procurement over many years. It comprises key procurement pharmacists, PaSA representatives and other senior NHS staff from across England. Its remit is to consider the strategic issues that will impact on the NHS hospital sector. Several working groups support its function, the most significant of these being the Pharmacy Market Support Group (PMSG), information about which is set out in Panel 2.

PDIG PDIG has been established for approximately 10 years. It organises two national symposia each year covering medicines supply chain issues and is influential in developing training for procurement pharmacists (see later).

Regional systems England has been divided into a number of regions for the purposes of contracting. Many of these regions have appointed a procurement specialist to lead on medicines contracting, benchmarking practices and supply chain problem solving. The regional specialists provide an invaluable source of information. Their advice is often sought from those working at a strategic level, as well as local staff who have just started their career in this speciality.

Consortia Links between nearby trusts are essential to maximise purchasing efficiency and the sharing of limited resources and market information. Many regions already have groups of trusts working collaboratively in the form of a procurement consortium. Consortia gain considerable benefits from increased purchasing power, sharing market intelligence, benchmarking prices and stock control practices. A more strategic perspective to procurement by individual trusts can also be taken. The development of pharmacy consortia has been emulated recently by the Government for non-pharmaceutical procurement with the introduction of NHS procurement confederations and hubs.

TRAINING

There are many local training courses available for some of the general skills required for effective procurement, such as those involving management, business, IT and marketing. For more specialised training PaSA offers training in local purchasing issues, basic contract law, European Union (EU) procurement rules, basic negotiation skills, contract management and supplier management.

Some universities are considering developing modules on procurement and distribution in their postgraduate degree

Panel 2: Pharmacy Market Support Group (PMSG)

The PMSG has been operational for two years, following an external review of the generic contracting process. It comprises procurement experts who aim to ensure that the medicines market has sufficient suppliers and performs in an ethical and competitive manner. It advises regional generic contract adjudicators and liaises with suppliers at executive level and helps the supply chain to have a patient-centred focus

training courses. However, the commonly accepted training standard for procurement staff is without doubt the diploma in purchasing and supply (usually followed by taking up professional membership of the Chartered Institute of Purchasing and Supply). More recently, PDIG have worked co-operatively with the London Metropolitan University to develop a two-year bespoke procurement course for pharmaceuticals with eight different modules covering issues such as external resource management, developing commercial relationships, legal aspects of supply chain management, medicines procurement strategy, issues associated with purchasing in an international arena and supply-chain logistics. Contact details for this course, and for the other national organisations mentioned above, are set out in Panel 3.

THE FUTURE

The future, like the past, will be challenging for all those in pharmacy procurement positions. Trusts and strategic health authorities are increasingly demanding more medicines savings, while also continuing to insist on higher standards of service performance. An even more business-like approach may be required to deliver this. It is also likely that collaborative procurement between primary and secondary care will occur. Procurement managers will then need to liaise with an even greater variety of people with different backgrounds and needs.

Of course, because of the critical financial importance of medicines procurement, it is possible that external individuals or private organisations will be brought in to manage the process. However, as set out above, existing medicines procurement systems are well-developed and operate effectively. The need for expert product knowledge and an interface with the local formulary and other medicines management systems and personnel is necessary for the high standards required by trusts. A fully integrated medicines management approach at trust level as

well as at strategic level seems to be the only method which can achieve the maximum savings and the minimal risk to patients.

Technology will soon change our traditional procurement processes. Contracting, for example, is likely to occur through a wide variety of electronic processes (eg, e-tendering, reverse e-auctions, automatic contract upload into pharmacy computer systems). Developments in e-prescribing will mean that more data will be available for analysis which in turn will provide greater opportunities to influence prescribers. Electronic ordering and invoice matching are also likely to become standard practices over the next few years, with many trusts have access to supplier IT systems. Other technological enhancements, such as automated systems, barcode readers and product tagging are set to become more readily available. Technology will no doubt improve distribution as well as procurement services, which could mean more centralised distribution systems, available to a broader range of customers.

Challenges also include introducing real-time stock control at ward level, which in turn should improve patient care and managing comprehensive contracts for services (rather than just products) such as those for automated dispensing equipment and unlicensed medicine supply. The growing home care market is another example of where effective procurement can make a significant difference to patients.

The future for pharmacy procurement looks promising. Why not find out more?

Panel 3: Contact details for procurement organisations and courses

- Purchasing and Supply Association: visit www.pasa.doh.gov.uk
- Procurement and Distribution Interest Group: visit www.pdig.org
- Pharmacy procurement course at London Metropolitan University: contact Angele Cauthery, Management Development Unit (telephone 020 7133 3005, fax 020 7133 3006 or email A.cauthery@londonmet.ac.uk)

REFERENCES

1. Karr A. All customers are equal but some customers are more equal than others. *Pharmacy Management* 2000;4:41.

The PDIG 2004 autumn symposium ...

... takes place on 3 November at The Hilton Hotel, Coventry. Further details are available from www.pdig.org