

A Work Project, presented as part of the requirements for the Award of a Master's Degree  
in Management from the Nova School of Business and Economics

Consulting Project for CUF and Health Cluster Portugal with the topic:

**CLOSING THE PORTUGUESE TRADE BALANCE GAP OF MEDICAL PRODUCTS**  
**By Creating A Suppliers' Club And Improving Public Purchases**

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04.01.2021

Price is the most relevant variable in Portuguese hospitals' purchasing decisions, forcing them to search for cheaper options in other countries, since the Portuguese offer is not competitive enough



## DIAGNOSIS | Medical Related Environment | Portuguese Buyers

### PUBLIC HOSPITALS

- **Number of Hospitals (2018): 107** (+4 public-private partnerships) <sup>1</sup>
- **Procurement Mentality:** most public players have a short-term vision, in which **price is the most relevant variable**
- **Public Tenders:** products are acquired through **public tenders at a minimum price**, requiring a big effort from suppliers to meet quantity and price demands
- **Payment Delay:** public buyers take a long time paying to suppliers, **>50%** of the public sector's **debt has already expired** <sup>4,5</sup>

### MAIN PLAYERS



### PRIVATE HOSPITALS

- **Number of Hospitals (2018): 119** <sup>1</sup>
- **Procurement Mentality:** even though the price is the main variable in hospitals' purchasing decisions, private players are shifting their focus towards prioritizing **value-based healthcare**, focusing on quality since it is harder to compete in price with public hospitals
- **Cooperation:** private hospitals are interested in building **fruitful relationships** among them and with suppliers, as long as **competitiveness is ensured**

### MAIN PLAYERS



Public hospitals buy ~80% of the total medical products bought in Portugal <sup>2,3</sup>



Price is still the most relevant variable in hospitals' purchasing decisions



Portuguese hospitals search for cheaper options in other countries, because Portuguese companies are not competitive enough



## KEY TAKEAWAYS

SPMS is the centralizing entity of public purchases, which generates significant savings but hospitals also have the legal power to do their own procurement, independently

## DIAGNOSIS | Medical Related Environment | SPMS

SPMS

*Serviços Partilhados do Ministério da Saúde* is responsible for the **provision of specific shared services in the health sector**, in terms of purchasing, logistics, financial services, human resources, information and communication for public health entities. This way, public procurement is centralized in the SPMS, which has the **legal power** to do the **public hospitals' procurement** and launch public tenders

## Public Purchases' Paradigm

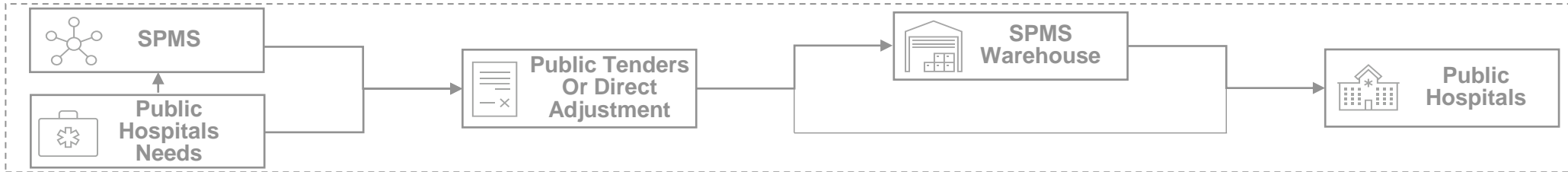


Figure 6: Public Purchases' Paradigm

## RESPONSIBILITIES AND POWER

- Public Hospitals **communicate their needs** to the SPMS, which has the **power to launch public tenders** for the medical products needed
- SPMS has its **own catalogue**, to facilitate and improve the acquisition of goods and services by public entities
- Public hospitals have the **legal power to conduct their procurement, independent** of SPMS

## PUBLIC PURCHASES' CENTRALIZATION

- SPMS is the **centralizing entity of public purchases**, in the Portuguese health sector
- Centralized public purchases generated significant **savings** for the Portuguese government, reaching ~€160m in 2018<sup>2</sup>
- In certain products, the **centralization of purchases** allowed >50% price reductions<sup>3</sup>



SPMS provides shared services in the Portuguese health sector



Public Hospitals have the legal power to conduct their procurement



Centralized purchases generate significant savings



## KEY TAKEAWAYS

B1

Decrease the Price Paid  
by Finding New Markets  
to Buy From



Finding new and cheaper  
markets may not be the  
optimal solution to  
decrease price, since  
Portugal already imports  
products at competitive  
prices

## Medical product buyers' characteristics and current trading partners' competitive prices restrain Portugal from importing from new markets

### ANALYSIS | Imports Hypothesis

#### PUBLIC PLAYERS

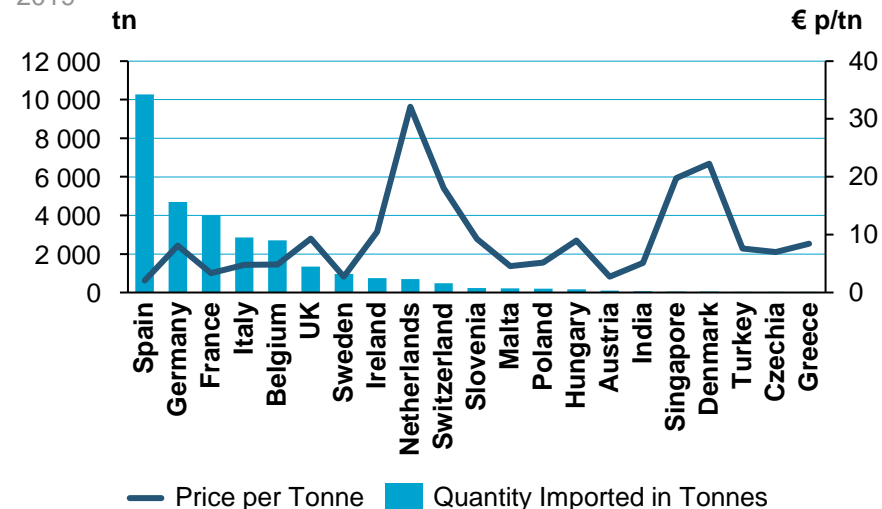
- Public players buy their medical products through **public tenders** at a minimum price, which are **highly regulated in Europe**
- Hospitals are **not allowed** to specify a certain supplier or country, due to **free trade laws**

#### PRIVATE PLAYERS

- Private hospitals' focus on **Value-Based Healthcare** restricts imports since it's difficult to find and reach markets with competitive prices and **reliable quality**
- These entities may also have **strict rules in terms of ethics**, like CUF has, with its Manual of Conduct for Suppliers

**Graph 37: Top 20 Portuguese Importing Markets for the most traded Pharmaceutical Preparation**

2019<sup>1</sup>



- Portugal imports from **91 (out of 195) countries**<sup>1</sup>
- The graph shows the Top 20 importing markets' distribution of the most traded pharmaceutical preparation, "*Medicines for Therapeutic and Prophylactic use*", that represents **~43% of the total Portuguese medical products' imports**<sup>1</sup>
- The **20 countries** discriminated in the graph account for **~99%** of this product's total imports<sup>1</sup>
- From the graph, it is possible to infer that countries from where Portugal imports **higher quantities** have **relatively lower prices**



KEY TAKEAWAYS

Centralized purchases allow cost savings and negotiation leverage against strong foreign suppliers, which tends to reduce prices

ANALYSIS | Imports Hypothesis

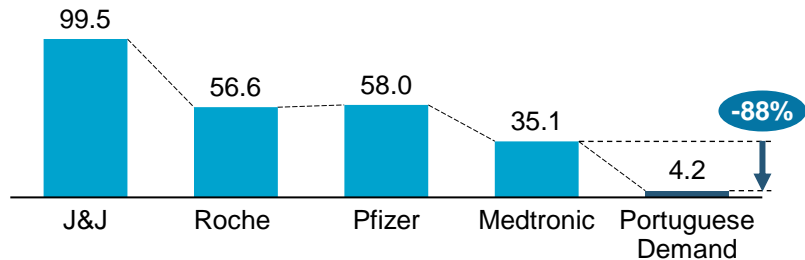
CENTRALIZATION: PUBLIC VS PRIVATE

- **90% of the purchases of pharmaceutical preparations in Portuguese public hospitals are centralized** which, since 2017, **saved over €230m<sup>2</sup>**
- Nevertheless, different **private groups tend to buy alone**, with specific orders and prices

IMPACT OF CENTRALIZATION ON FOREIGN SUPPLIERS

Graph 38: Main Foreign Suppliers' Revenues vs Total Portuguese Demand

2019, €bn<sup>6,7</sup>



- This value accounts for all medical products in Portugal and, still, if all the demand went to the same supplier, it would **not account for more 12% of their revenues**

BENEFITS OF CENTRALIZATION

Increase Bargaining Power and Reduce Prices

- Price-volume contracts, faster payment
- Further assured stock and discount prices
- Increase cost of contract breach, for suppliers

Create Cost Synergies

- No duplicated procurement and supplier relationship efforts
- Possibility of warehouse and transport efficiencies

Table 18: Countries With Similar #Population Savings Examples

	In 2010, <b>Greece</b> created a centralized agency that, in one year, created a <b>20% price reduction</b> for medical devices and 10% reduction for pharmaceuticals <sup>4</sup>
	In the early 2000s, the introduction of centralized purchases <b>saved 8% of the total purchasing cost</b> , in <b>New Zealand</b> <sup>5</sup>
	<b>Denmark and Norway</b> have centralized purchases for 20 years and <b>saved 30%-60%</b> , when compared to neighbor countries' prices <sup>4</sup>

B2

Decrease the Price Paid with Cooperation between Buyers



Centralized purchases allow cost savings and negotiation leverage against strong foreign suppliers, which tends to reduce prices



## KEY TAKEAWAYS

B3

Decrease the Price Paid  
with Cooperation  
between Buyers &  
Foreign Producers



Combination of external  
factors make cooperative  
relationships between  
buyers and foreign  
suppliers barely  
impossible

Strict regulation and Portuguese buyers' small size makes it difficult to reduce the levels of intermediation and establish cooperative relationships with foreign producers

## ANALYSIS | Imports Hypothesis

The **purchasing decisions** of Portuguese buyers vary because **public and private hospitals** have different requirements and needs and are subject to different regulations. Therefore, the ability of players to **establish constructive relationships with foreign producers differs**

## PUBLIC HOSPITALS

Public hospitals are **state-owned entities**

- **Centralization:** purchases in the public sector tend to be centralized, through *SPMS*, a government agency
- **Public Tenders:** purchases are made through **public tenders** at a **minimum price** and are subject to European free trade laws, making it **impossible to specify a certain supplier or country**
- **Suppliers Specifications:** in public tenders, hospitals are only allowed to demand the **specifications the product** should meet

Considering **European strict regulations** and the **weight the Portuguese public sector** has on suppliers' total production, it is barely impossible to establish relationships with foreign producers

## PRIVATE HOSPITALS

Portuguese private players are **private entities**

- **Luz Saúde:** the group was acquired by **Fosun International**, a Chinese multinational, in 2018, allowing the company to develop **GLS Med Trade**, a medical devices' distributor with strong connections to **Chinese suppliers**
- **Remaining Private Players:** represent a **small portion of suppliers' sales**, making it difficult to establish contact with these producers, unless they have a representative in Portugal

**Private players' size** makes external costs, associated with reducing the number of **intermediaries**, very difficult to support, which leads companies to use **distributors**

Public hospitals' purchases can be improved by centralizing public purchases and by including new criteria to the public tenders, which will, consequently, decrease the value of imports



## RECOMMENDATION 2 | Improve Public Hospitals' Purchases (1/4)

RATIONALE	OBJECTIVE	DESCRIPTION
<p><b>Centralized planning and procurement</b> allows public hospitals to increase their bargaining power, having significant savings, as well as to create cost synergies among them</p>	<p><b>Decrease the value of imports</b> by <b>centralizing</b> all public hospitals' <b>purchases</b> through a public entity and by <b>changing public tenders'</b> current paradigm, whose main <b>focus is price</b></p>	<ol style="list-style-type: none"> <li><b>1. Creation of a public entity</b>, that will be responsible for all public hospitals' purchases centralization</li> <li><b>2. Incorporate new criteria</b> to the public tenders, apart from price</li> </ol>

The **changes** to the public purchases' chain **imply hospitals to communicate their needs exclusively to the centralized entity, that will issue a public tender** or make a direct adjustment for the products. After that, the entity would be responsible for distributing, through its regional warehouses, the products to each hospital

### Recommended Public Purchases

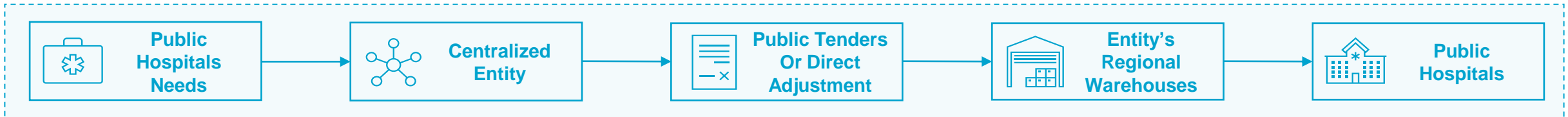


Figure 10: Recommended Public Purchases

### Current Public Purchases

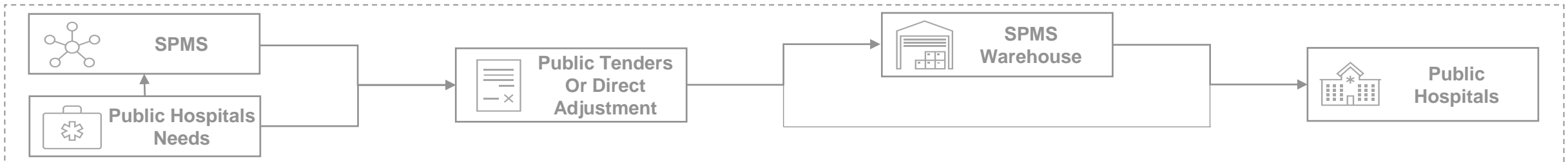


Figure 6: Public Purchases Paradigm

Public hospitals should centralize their purchases through a public entity, ensuring that it will have the legal power to be responsible for the procurement and distribution of medical products



## RECOMMENDATION 2 | Improve Public Hospitals' Purchases (2/4)

### 1 | Centralize Public Hospitals' Purchases

#### CENTRALIZE ALL PUBLIC HOSPITALS' PURCHASES THROUGH A PUBLIC ENTITY

The entity will be responsible for the procurement and distribution of medical products to Portuguese public hospitals



**Legal Figure:** The public entity, ruled by the government, will need the legal power to **be the only responsible** for **launching** the public tenders, **buying** the medical products, and **distributing** them, to all public hospitals



**Procurement:** The entity will be responsible for **gathering and organizing** all public hospitals' requests, separating them **by type of product** and, consequently, **launching a public tender** for this specific product



**Experts:** Bringing experts (doctors and nurses) to the entity will allow them to **appropriately make the public procurement**, according to **doctors' requirements**. This specialized team will serve the doctors' needs correctly, **preventing hospitals from receiving undesired and faulty products**



**Distribution:** After receiving the products in its **warehouses**, which will be **strategically located** by regions (North, Centre, South), the entity will **ensure the distribution** to each hospital, according to their requests

#### MAIN GOALS

**1** Create a public entity **legally responsible** for all public hospitals' purchases

**2** Turn this entity into the **only responsible** for all public hospitals' procurement

**3** Add **experts** to entity's team to **better serve** hospitals' needs

**4** The entity will ensure products' **distribution** with its **strategic warehouses**

After evaluating the possibility of changing public tenders' focus on price, it is required that a new award criteria is included and the level of specifications is increased



## RECOMMENDATION 2 | Improve Public Hospitals' Purchases (3/4)

### 2 | Change Public Tenders' Focus on Price

#### PUBLIC TENDERS' PARADIGM

##### Award Criteria

- Portuguese public tenders' award criteria is the **most economically advantageous option** between the ones that **fulfil product's specifications**
- **Little specifications** are required, to get the lowest price possible

##### Only Focus on Price <sup>1</sup>

Portugal-Lisbon: Disposable gloves

2020/S 233-574667

Contract notice

Supplies

Legal Basis:

Directive 2014/24/EU

II.2.5) Award criteria  
Criteria below  
Price

Figure 11:  
Contract Award  
Criteria

- In almost all medical products' public tenders, the **only criterion is price**

#### SOLUTIONS

Evaluate the possibility to deviate the **price focus**: test both legal and practical issues, since the Portuguese government has limited resources

**Additional award criteria**: include new criteria focused on medium and long term savings, which will be more sustainable than short term savings

**Increase specifications**: collaborate with experts to add more product specifications and target Portuguese suppliers and boost national production

#### ADDITIONAL AWARD CRITERIA

- **Centralized purchases** through a public entity will generate **significantly savings**, which will, consequently, allow the entity to buy products for public hospitals with **superior quality**
- **New award criteria**, targeting **products' quality**, should be included in public tenders as it will **generate future savings**, by improving patient care
- **Benchmark best practices**, other European countries are already doing it, by focusing on **additional services** that products provide to the contracting authorities, **technical parameters**, the **usability**, **product's safety**

#### INCREASE THE NUMBER OF SPECIFICATIONS

Experts need to **increase the products' specifications** in public tenders to:

- Make sure every hospital gets **exactly** the product they **asked for** and **need**
- Reduce the risk of having faulty/undesired products
- **Target specific suppliers**, mainly Portuguese companies

In the next three years, efforts should be made to centralize public hospitals' purchases and to change the public tenders' focus on price



## RECOMMENDATION 2 | Improve Public Hospitals' Purchases (4/4)

### ACTION PLAN

Nr	Tasks	Start Date	2021				2022				2023			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>1</b>	<b>Centralize public hospitals' purchases</b>	<b>Q1 2021</b>	[Gantt bar from Q1 2021 to Q4 2022]											
1.1	Create an entity with legal power to control all public purchases	Q1 2021	[Gantt bar from Q1 2021 to Q2 2021]											
1.2	Promote this entity as the sole centralizing entity for public purchases	Q3 2021	[Gantt bar from Q3 2021 to Q4 2021]											
1.3	Contract medical products' experts to the entity's procurement and logistics team	Q1 2021	[Gantt bar from Q1 2021 to Q4 2021]											
1.4	Adjust 3 public warehouses (North, Centre, South) to control all products received and to distribute to each hospital	Q3 2021	[Gantt bar from Q3 2021 to Q4 2022]											
<b>2</b>	<b>Change public tenders' focus on price</b>	<b>Q1 2022</b>	[Gantt bar from Q1 2022 to Q4 2023]											
2.1	Evaluate the likelihood of changing public tenders	Q1 2022	[Gantt bar from Q1 2022 to Q4 2022]											
2.2	Add new award criteria to the public tenders	Q1 2023	[Gantt bar from Q1 2023 to Q4 2023]											
2.3	Increase the levels of specification in public tenders	Q2 2022	[Gantt bar from Q2 2022 to Q4 2022]											

Table 42: Recommendation 2 Action Plan



# APPENDIX

Gonçalo Santos

Portugal should follow other countries' centralized purchases best practices to change the SPMS figure or create a new public entity and, consequently, improve public purchases



## APPENDIX E6 | Recommendation 2 | Best Practices





	PORTUGAL <sup>3</sup>	BEST PRACTICES <sup>1,2,4</sup>		
	 Portugal	 Andalucía	 France	 Germany
<b>Entity</b>	SPMS	SAS	RESAH	EK UNICO
<b>Purchases</b>	€1.3bn (2018)	€2.9bn (2019)	€1.2bn (2019)	€1.4bn (2019)
<b>Main Characteristics</b>	<ul style="list-style-type: none"> <li>• <b>Description:</b> public entity responsible for providing shared services in the health sector</li> <li>• <b>Main Takeaway:</b> shared services between public hospitals, from financial services, human resources to strategic purchases to better support the <b>Portuguese NHS</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Description:</b> public entity that coordinates the healthcare system in Andalucía</li> <li>• <b>Main Strength:</b> efficient centralized purchasing model, using unique platforms that facilitate the products' distribution. Each province has its own warehouse, from where the products are directly distributed</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Description:</b> public central purchasing body specialized in both healthcare and medical social sectors in France, offering &gt;4000 public contracts</li> <li>• <b>Main Strength:</b> own consulting department, composed by experts in public procurement in the healthcare sector, acting at national level</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Description:</b> purchasing group of twelve German university hospitals</li> <li>• <b>Main Strength:</b> bundles the demand of university hospitals' for medical products, in different areas, to better coordinate them. This centralized and efficient procurement allows public tenders to have additional criteria apart from price</li> </ul>

Figure 34: Recommendation 2 Best Practices

The new public tenders' paradigm has more products' specifications and additional award criteria, apart from price



## APPENDIX E7 | Recommendation 2 | Current and New Paradigm

### 2 | Change Public Tenders' Focus on Price

#### Current Portuguese paradigm <sup>1</sup>

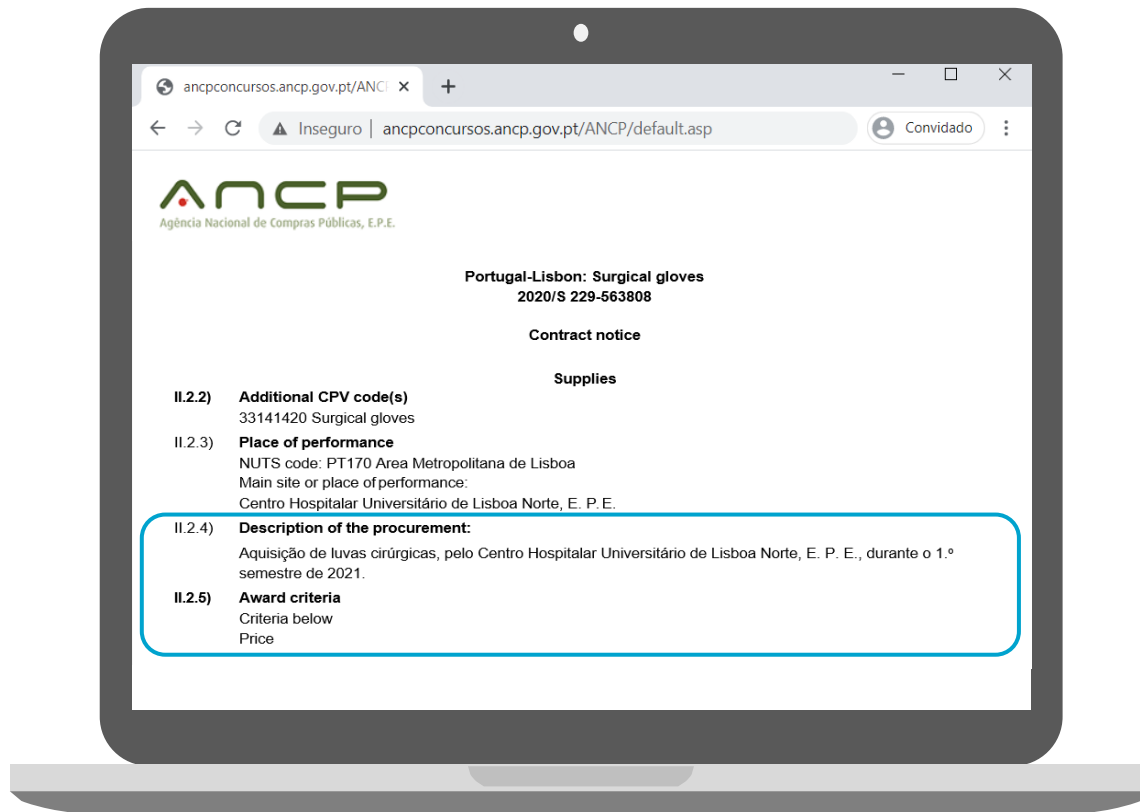


Figure 35: Current Portuguese paradigm

#### New paradigm based on best practices <sup>1</sup>

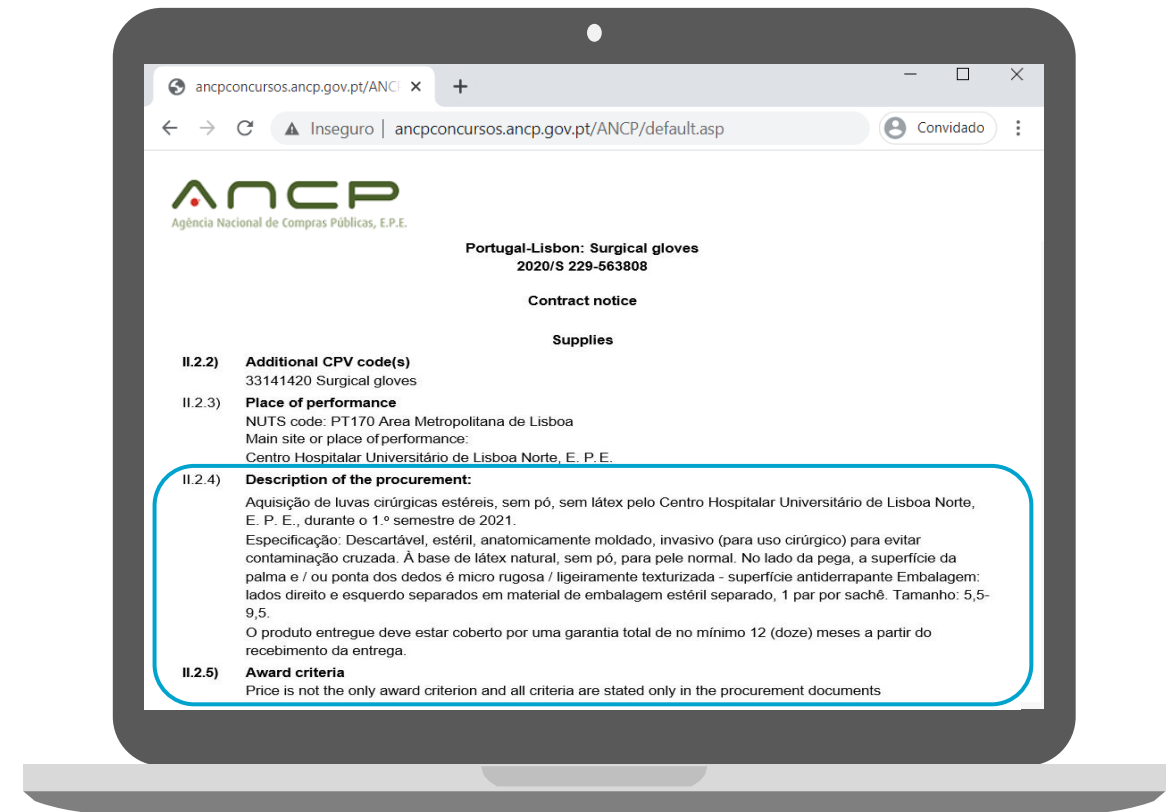


Figure 36: New paradigm based on best practices