



Building a more  
resilient healthcare  
supply chain:  
perspectives from  
a pandemic

US national survey  
Fourth quarter 2020



# Introduction

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Supply route disruptions, rising costs, eroding margins and the scarcity of critical items have all contributed to supply chain resiliency becoming a healthcare provider imperative as evidenced by the COVID-19 pandemic.

To better understand how health systems are advancing the supply function, in fall 2020 we surveyed 39 large US health providers, primarily nonprofits ranging in patient population and geography.

Their responses offer insights into how to reinvent the health supply chain. Several themes emerged in the areas of strategy, integrated planning, procurement, performance and risk management, and efficiency.





# Key takeaways

Major supply disruptions, increasing costs, eroding margins and the lack of supply chain resiliency have all contributed to the supply chain being brought to the forefront of healthcare provider imperatives amid the COVID-19 pandemic.

Through this global exposure, Ernst & Young LLP has seen its healthcare clients demonstrate increasing attention to advancing the supply chain function. In our recent survey, several themes emerged.

**Supply chain is increasingly seen as a strategic function of health systems, likely as a result of the COVID-19 experience; nevertheless, there is still room for improvement.**

Only **23%** of hospital systems in the US report that an integrated supply chain strategy has been developed and aligned with the corporate strategy.

**Many participants do not have a holistic integrated planning program with real-time data forecasting.**

**95%** of US health systems surveyed want to increase demand planning. Over half do not use any system for planning.

**Increased costs came at a time when health systems were cash-strapped and margins had been decimated.**

**Most** participants are considering a shift in their relationships and risk management with respect to GPOs, distributors and suppliers.

**Healthcare systems and payers are shifting to an outcome-based model.**

More than **50%** of the survey respondents tie patient outcomes to supply chain initiatives.

**There is a definite need for more efficiency in the supply chain, which can be supported through automation and other technology.**

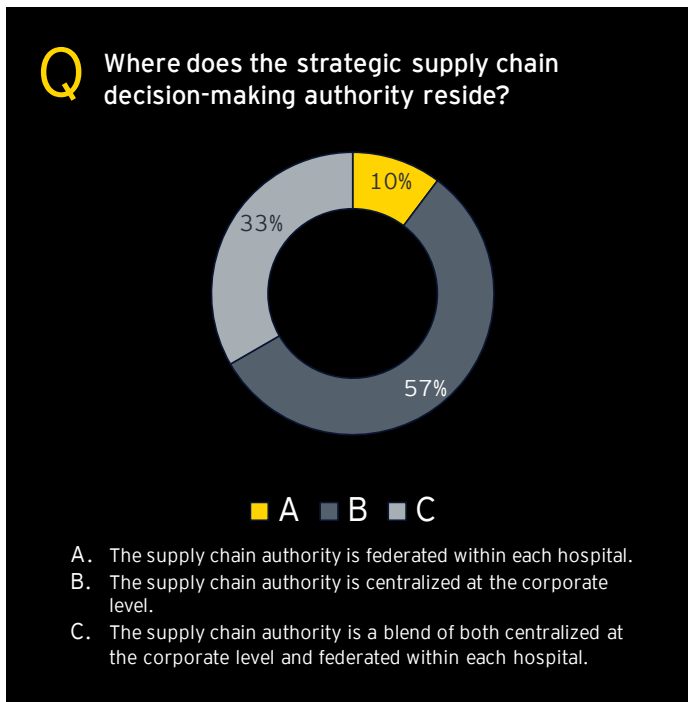
Over **74%** of the survey respondents have implemented lean continuous improvement programs, but few have seen gains worth the effort.

# Supply chain strategy

## A more strategic function in the new normal

Supply chain is increasingly seen as a strategic function. Yet, only about one-third of the respondents connected their supply chain strategy to the overall corporate strategy.

- ▶ Continue to strive to align with the vision of the health system
- ▶ Collaborate toward a common purpose



## Governance and decision-making

- ▶ Success is usually determined by clear governance, standardized processes, designated roles and responsibilities, and regular two-way communication.

**57%** of survey participants use a blended decision-making model that is both centralized at the corporate level and federated within each hospital.

- ▶ This model may enable collaboration and increase buy-in across the enterprise; however, health systems should be concerned about whether hospitals operating at the individual entity level are performing as well as if they had leveraged the system as a whole.

## Looking ahead

- ▶ Advance the supply chain function from a core cost center to a revenue-generating function
- ▶ Leverage increased attention and need for advancement as a way to garner support for much-needed investment, development and innovation



We can help you establish your supply chain strategy, along with the associated operational planning, value proposition and ROI development to support your strategic plan.

# Integrated planning

## The need for true integrated planning among health systems

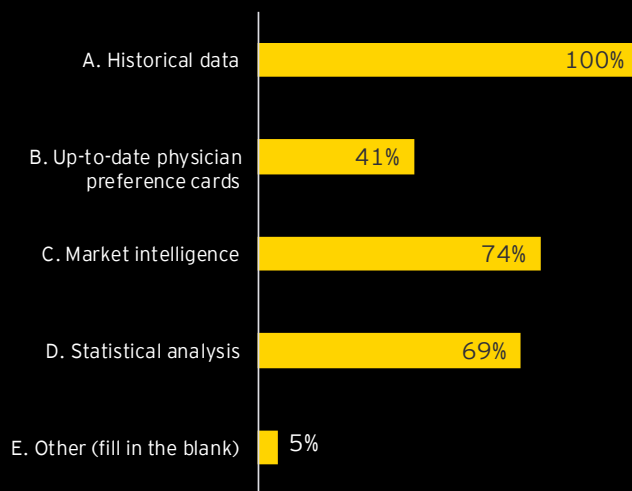
- ▶ Planning is an instrumental lever to deliver risk management and resiliency within the supply chain.
- ▶ Few participants have a holistic integrated planning program with real-time data forecasting and modeling systems.
- ▶ COVID-19 disruptions in the supply chain will place a new emphasis on demand planning programs and require more established analytical technology.

The majority of respondents indicated that they have no formal demand planning system, instead they're using historical data to predict demand.

- ▶ Responses indicate a gap in demand sensing techniques, which can be used to identify short-term fluctuations and adjust short-term demand.

**77%** see a need to increase their health system's demand planning capabilities, with a few organizations looking to begin demand planning.

### Q What data do you utilize to determine the demand to support forecasts?



\*Number represents the percentage of respondents that selected each option.

### Looking ahead

- ▶ Develop a multi-echelon inventory network that provides visibility across the supply chain for more accurate ordering and planning
- ▶ Establish true integrated planning programs with the necessary data tools and analytics with the goal of becoming less reliant on data from distributors, GPOs and suppliers



To learn more about establishing a planning program for your health system, contact us to see a demo of our integrated planning tool.





# Procurement

## Experiencing increased costs at a time when health systems are in need of margin recovery

- ▶ When providers have access to data about the cost and outcomes of the supplies they use, the impact on supply use and cost is prompt and measurable.
- ▶ Consider "localization" or "onshoring" to better manage risk, which would likely be done between more local suppliers directly working with health systems, while excluding GPOs or distributors – but only do so with a robust supplier risk and relationship management program in place.

What remains to be seen is how much cost the health systems are willing to incur to reduce risk, given the need to manage cost.

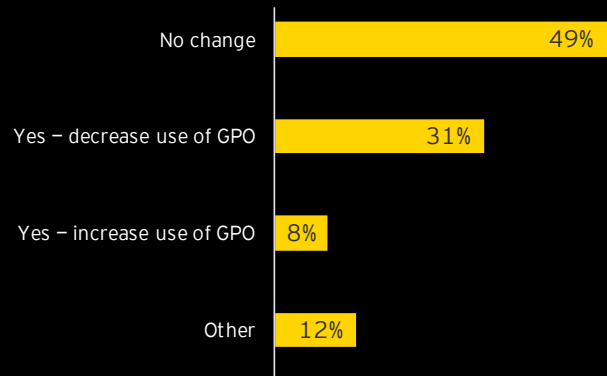
### GPO constraints

- ▶ Most survey participants see a necessary shift in the relationships and risk management of their GPOs and suppliers.

One-third said they would decrease their use of GPOs.

- ▶ This decrease may be driven by the fact that the GPO model tends to limit a diverse and expansive array of suppliers.

**Q** Do you anticipate your health system's use of GPOs to change as a result of the COVID-19 pandemic (for example, moving toward more self-sourcing)? If so, how?



### Looking ahead

- ▶ Health systems may shift away from GPO and distributor reliance to provide better risk management. What remains to be seen is the extent of this migration as it will likely increase costs at a time when there is a greater focus on margin and cost reduction, not to mention that it will open the organization to risk.
- ▶ Focus cost reduction efforts on the utilization of supplies, variation in the use of supplies by physician and by procedure, and value sharing with key supplies.



**We can help you determine alternate sourcing strategies to manage costs, risk and quality.**

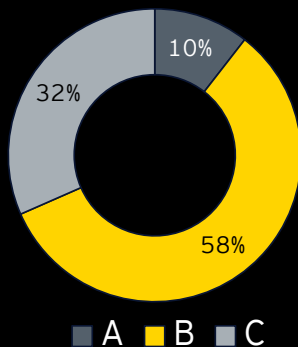
# 4 Performance and risk management

## A focus on supplier report card and risk management

- ▶ 28% of survey respondents use outcome-based scorecards to measure supplier performance.
- ▶ As outcome-based care models continue to grow in the healthcare community, having a robust supplier report card, including data about the outcomes and costs, is essential.

**Q** To what extent are patient outcomes measured to track the impact of supply chain initiatives?

- A. Patient outcomes are not measured.
- B. Patient outcomes are sometimes measured, but are not used to track the impact of supply chain initiatives.
- C. Patient outcomes are a standard measurement and routinely used to track the impact of supply chain initiatives.



## Looking ahead

- ▶ Although most health systems track health outcomes to some degree, over half of respondents said they are not using this data to track the impact of supply chain initiatives, including supplier performance.
- ▶ Many health systems are unable to measure outcome-based performance of suppliers due to system constraints and the supply chain being siloed from the clinical side of the operation.
- ▶ As more healthcare systems and payers shift to an outcome-based model, it will become significantly more important to align suppliers to the same methodology to increase the cost-quality-outcomes capability across the health system.



**Our health supply chain professionals bring deep insights to help you establish better risk management, resiliency and supplier relationship management.**



# Supply chain efficiency

## Enabling technologies and continuous improvement

- ▶ Many health systems are beginning to look at enabling technologies to automate and alleviate the transactional and administrative burden on their workforce.
- ▶ The real-time availability of data and information will enable better decision-making to drive efficiency, risk management and improved patient care.

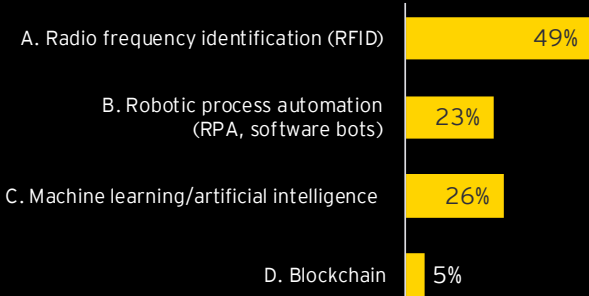
**44%** see a strong need for enabling technologies within their supply chains, but few have implemented such technologies on a wide scale.

Over **74%** of survey participants have implemented lean continuous improvement programs, yet few have been able to see the efficiency gains that they expected from these efforts.

### Looking ahead

- ▶ Operating models should be designed to remove organizational complexity, streamline processes and shift from a transactional supply chain to a strategic supply chain.
- ▶ Some of the key levers to do this are through intelligent automation, including robotic process automation, virtual agents, cognitive automation and artificial intelligence.
- ▶ Enabling streamlined processes will require focused investments and the integration of enhanced digital capabilities and core operational technologies.

**Q** What advanced enabling technologies has your supply chain function implemented?



\*Number represents the percentage of respondents that selected each option.



We are a recognized leader in helping health systems automate and improve their supply chains, select the right technologies for efficiency and process improvements, and team with industry-leading organizations to provide those capabilities.



# Ernst & Young LLP contacts

To learn more about the survey, participate in the next survey or discuss EY supply chain solutions for healthcare providers, contact us.



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