

EXECUTIVE BRIEFING

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# How Providers Will Transform Their Supply Chains in Response to Covid-19

Four key takeaways from our 2020 Health System Supply Chain executive survey



**D**uring the first Covid-19 surges last spring, widespread medical equipment and drug shortages taught the health care industry a harsh lesson: we need a more efficient and resilient supply chain. To understand how providers are responding to new supply chain pressures, we launched a multiphase research initiative across the summer and fall. Our goal was to help trading partners across the industry identify meaningful opportunities for improved communication, collaboration, and supply chain innovation.

As part of this research, we surveyed 70 supply chain, finance, and operations leaders at hospitals and health systems across the country. The survey aimed to uncover how provider organizations plan to reshape their purchasing and supply chain management strategies in light of Covid-19's financial and infection-control pressures—and to spotlight areas where trading partners and innovative technology platforms can help. Read on to learn the four biggest takeaways for suppliers and service providers.

# Four key takeaways from our 2020 Health System Supply Chain executive survey



# 01

## **This is about more than PPE. Your customers are holistically reimagining supply chain strategy.**

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**S**hortages of personal protective equipment (PPE), drugs, and critical care equipment dominated headlines last spring. Not surprisingly, most provider organizations plan to increase both stockpiles and contracted vendors for PPE. But the planned changes impact far more than PPE.

A significant number of organizations plan to increase available stocks of other essential items ([Figure 1](#)). Equally telling, more than a third of respondents plan to standardize (and reduce) vendors for physician preference items—suggesting a recognition that the increased expenses needed to ensure sufficient PPE requires supply chain leaders to find savings in other areas. Another source of potential savings will likely come from improved inventory management across all product categories. Although only about one-third of respondents flagged inventory management as a renewed area of focus, our research interviews suggest this number is likely to grow over time. **▼**

FIGURE 1

**For each product category, which tactics, if any, are you likely to start doing or expand significantly in the next 12 months?\***

n=68

	Diversify vendors	Streamline or reduce vendors	Better manage inventory	Increase stockpiles
Personal protective equipment (PPE)	56%	5%	34%	85%
Covid-19, flu-related pharmaceuticals	29%	9%	36%	50%
Critical supplies, equipment	23%	3%	38%	38%
Physician preference items	1%	38%	25%	1%
Non-Covid-19, flu-related pharmaceuticals	15%	7%	32%	20%
Other supplies, equipment	7%	11%	20%	5%

**Longer-term considerations:**

Until the pandemic is under control, most providers will continue to focus primarily on critical supplies like PPE, but this is no time for complacency—especially for incumbent suppliers. Your customers will struggle to balance necessary risk mitigation with renewed financial pressures. As providers look for opportunities to increase visibility and efficiency of their warehousing and product logistics, many will need help from trading and technology partners to minimize carrying and transportation costs, redundant purchases, stockouts, and waste.

\* Other tactics tested but not shown here include: increasing purchasing through GPOs, participating in purchasing coalitions outside of GPOs, increasing purchasing through distributors, and increasing direct-from-manufacturer purchasing.

# 02

## **Providers view your supply chain risks as bigger threats to business continuity than their internal risks.**

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**T**hree-quarters of survey respondents identified supply chain risk mitigation as one of the top three supply chain priorities. Thus far, providers have focused on stockpiling and expanding vendor rosters, but they will likely soon turn to monitoring and minimizing supply disruptions upstream. That's because providers view your sourcing, manufacturing, and distribution risks as long-term threats to their supply chain stability and resiliency. More than two-thirds of respondents listed geographic manufacturing concentration as a significant supply chain threat, and 60% flagged lack of upstream supply chain visibility as a concern (Figure 2.1). Nearly half also saw risk in the concentration of suppliers' suppliers. In contrast, very few saw their own organizations' dependence on sole-source contracts or lack of inventory transparency as major long-term threats.

Why the focus on suppliers' manufacturing and transportation risks instead of their own? Most likely, these responses reflect normal human behavior and perceptions—it's easier to blame others, and we tend to overestimate the threats we cannot see or easily control. But to the extent that perceptions guide priorities and investments, suppliers should expect providers to ask more questions about sourcing, manufacturing, and distribution

risks, with larger health systems likely to demand new supply chain risk disclosures and contingency plans from their most important trading partners.

While disclosures are important, many systems will also value concrete actions by suppliers, distributors, and GPOs that help mitigate risk (Figure 2.2). For suppliers, health systems want manufacturing diversification and transparency. For GPOs, systems want help diversifying qualified vendors and proactively managing risk. Increasingly, your risk-mitigation strategies and ability to communicate those to providers will make or break your relationships. ▶

“ Our distributors’ and suppliers’ risk becomes our risk. And if we can’t assess risk, we can’t be partners.”

Supply chain leader

FIGURE 2.1

## Which of the following do you view as the greatest threats to your supply chain?

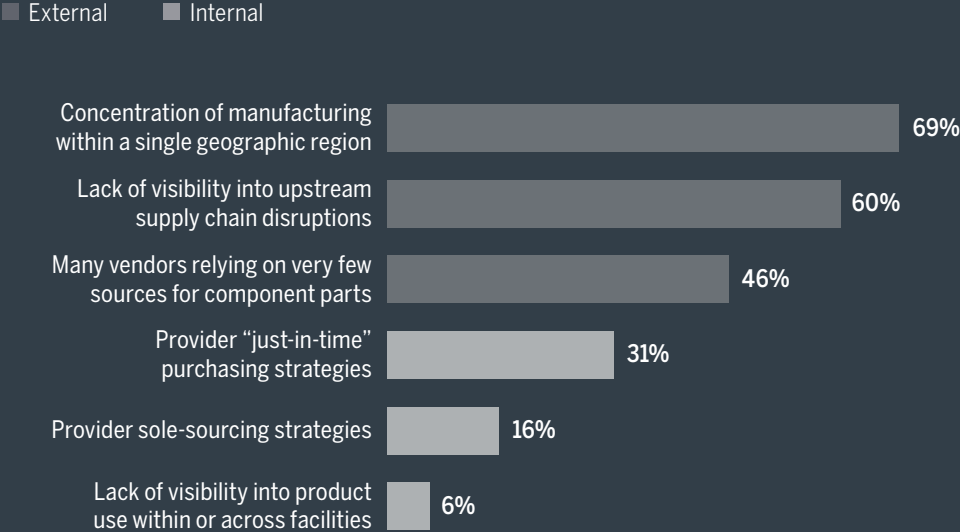
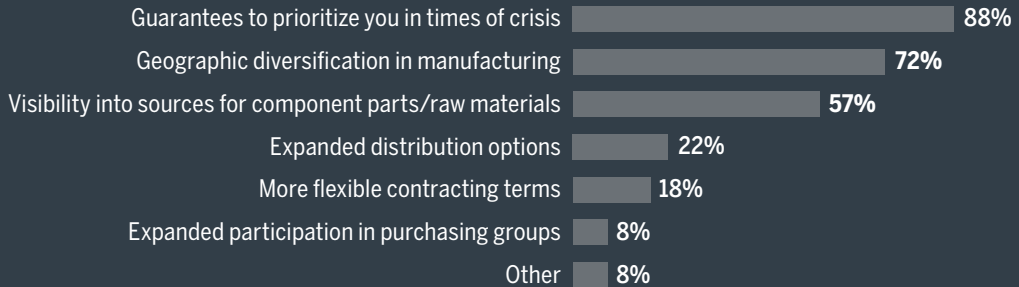


FIGURE 2.2

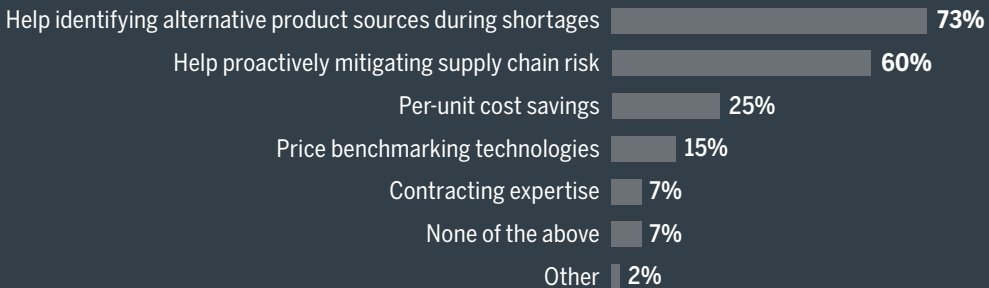
## Which supplier capabilities would provide the greatest value to your supply chain?

n=60



## Which GPO capabilities would provide the greatest value to your supply chain?

n=60



### Longer-term considerations:

Prepare for providers to ask more questions and demand more insight into your sourcing, manufacturing, and logistics. For some suppliers, it may make sense to diversify geographically. For many, heightened disclosure demands may raise legal and competitive concerns. Each organization should assess the strategic trade-offs of modifying what are likely highly efficient supply chains or sharing what may be considered trade secrets. That said, our research strongly suggests that suppliers and distributors should at least dial up efforts to understand their strategic customers' evolving risk mitigation requirements to guide appropriate and proactive responses.



# 03

## **Providers will demand greater transparency across the entire supply chain. Trading and analytics platforms may help, but barriers to investment still exist.**

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Covid-19 may be a watershed moment for supply chain trading and analytics platforms. In fact, our survey revealed that providers believe the investments most essential to achieving supply chain goals (beyond increased stockpiles) are technology platforms that improve upstream supply chain visibility (manufacturing, availability, and distribution), downstream supply chain visibility (from purchase through use), and demand planning capabilities.

More than half of respondents to our survey identified analytics platforms that increase supply chain visibility (upstream and downstream) as essential investments (Figure 3). Unfortunately, it's not enough that providers recognize the need for better supply chain analytics and transparency, as few expect to make such investments any time soon. Faced with extreme financial pressures, many providers don't have the capital budgets or cash flows to support such investments.

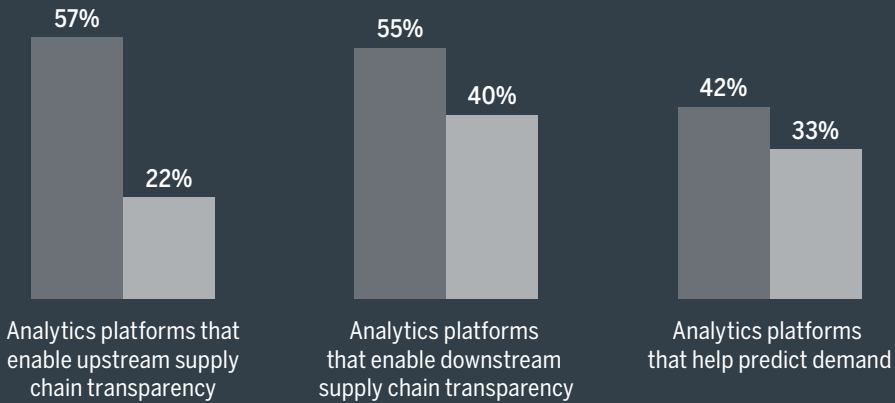
Even where budgets are less of an issue, many supply chain leaders struggle to convince other senior executives that such supply chain technology investments can help their organizations achieve patient care and growth goals.

The greatest alignment between priorities and planned investments seems to be in tools that can aid in demand planning—a common source of concern among supply chain leaders nationwide. Here, the biggest challenge appears to be with product awareness. Several respondents noted that they don't feel confident in their knowledge of the product landscape, their ability to compare platforms, or their ability to integrate different tools across the enterprise. ▼

FIGURE 3

## Essential, and likely, supply chain investments

- Percentage who feel each investment is essential to supply chain success
- Percentage who expect their organization will make each investment



### Longer-term considerations:

Our research reveals a clear opportunity for new or enhanced tools that enable greater product demand planning, supply chain visibility, and cross-party/cross-facility data sharing. But convincing organizations to invest in such tools will take work and clear articulations of value. Companies offering upstream transparency solutions need to go beyond proving why a customer needs such an investment, instead clearly and convincingly demonstrating potential financial risks and rewards. Companies offering downstream transparency or demand planning solutions should focus heavily on customer education (understanding the problem) and ensure their products integrate seamlessly into existing IT infrastructure, like EHRs or ERPs.

# 04

## Smaller provider organizations are more likely to stick to the supply chain status quo.

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**O**ur survey revealed some important differences between the approaches to supply chain modernization at small and large health systems. By and large, the size of a respondent's health system (based on number of hospitals) was directly proportional to the extent that they: prioritize supply chain improvements, plan to invest in their supply chains, and prioritize risk mitigation as a supply chain goal.

While over one-third of leaders at health systems with more than three hospitals flagged improving their supply chain as a top three priority, only 20% of leaders at small health systems (three or fewer hospitals) said the same ([Figure 4](#)). As such, small organizations appear less likely to invest significantly in their supply chain beyond stockpiling, as they're more focused on securing enough "stuff" than on mitigating future risk.

This distinction may be due to a lack of financial resources available to supply chain departments at smaller health systems, fewer staff members to dedicate to improvement efforts, or more pressing priorities that revolve around staying afloat given current economic turmoil. ▼

FIGURE 4

## Supply chain priorities vary by health system size

Number of hospitals within the organization	One to three	Four or more
Percentage of organization that rank “supply chain improvement” as a top three priority	20%	35%
Percentage of organizations likely to make investments in their supply chain beyond stockpiling	53%	77%
Percentage of organizations ranking risk mitigation as a top three supply chain priority	60%	81%

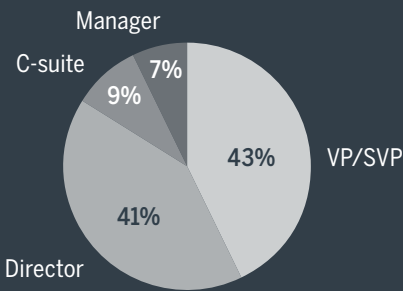
### Longer-term considerations:

There are some small health systems that plan to invest in their supply chain and build resiliency. However, be aware that value propositions that may resonate with leaders at large, progressive provider organizations may not gain as much traction with smaller customers.

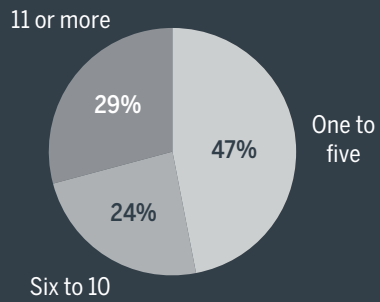
A NOTE ABOUT OUR SURVEY RESPONDENTS

n=68

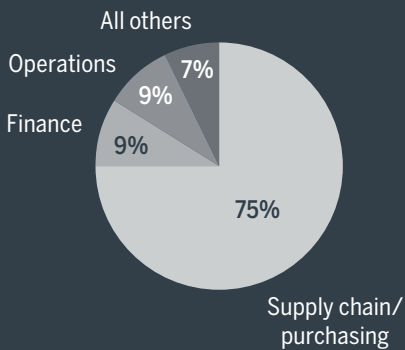
**Which of the following best describes your title?**



**How many hospitals are included in your system?**



**Which of the following best describes the department in which you work?**



# Parting thoughts

To offer meaningful solutions and provide value that helps your customers accomplish their strategic supply chain goals in the face of new mandates, you'll first need to establish yourself as a trusted partner and facilitate resiliency without sacrificing efficiency.

*Consider the following questions with your internal team:*

- ▶ What new questions are our customers asking about our supply chain? What questions do we feel unprepared to answer? Why?
- ▶ How integrated are our commercial and operations teams? Where and how can we build stronger internal relationships that will benefit our customers?

*Use these questions to facilitate a discussion with your key customers:*

- ▶ What do you view as the greatest threats to your supply chain? How can our partnership alleviate risk for both of our organizations?
- ▶ What does supply chain transparency mean to you? What information do you feel comfortable sharing with me? What would you like to see in return?

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