



CHECKLIST

3 steps to building a resilient supply chain

Healthcare

Healthcare supplies are often scrutinized because they account for an average of **15% of a healthcare organization's expenses**, and can run upwards of 40% of all expenses.¹ That is why many organizations meet demands with a just-in-time (JIT) or lowest unit of measure (LUM) supply chain management system. In addition, supply chain teams are perennially asked to do more with less by trimming budgets and resources. COVID-19 exposed the risks in this type of operation when personal protective equipment (PPE) and other vital items became scarce so soon after the pandemic began.

To effectively manage healthcare's most critically needed supplies, hospitals and health systems need to pinpoint where products are in the ordering and fulfillment cycle, especially supplies that are paramount in patient and caregiver care and safety.

“Hospitals began to run out of masks for the same reason that supermarkets ran out of toilet paper—because their 'just-in-time' supply chains, which call for holding as little inventory as possible to meet demand, are built to optimize efficiency, not resiliency.”²

FARHAD MANJOO

The New York Times, Opinion Columnist

Consider these three steps that add resilience to a healthcare supply chain:

- 1. Review your plan.** As we continue to face challenges in the months ahead, it's time to put a recovery plan in place that includes a diversification strategy. We've seen more collaboration between hospitals, health systems, group purchasing organizations, Global Healthcare Exchange (GHX), manufacturers, and distributors. This collaboration spurred a dialogue on how to address supply chain gaps, such as the amount of raw goods and materials that are sourced or manufactured overseas. And it's likely that there will be more diversification of healthcare supply chains post-pandemic. This means keeping the right product at the right level, and depending on your inventory strategy and relationships with vendors that could be a combination of bulk, LUM, and partnerships, with vendors and other provider organizations that self-distribute. Lean components of JIT and LUM still need to be applied where appropriate, but neither of the two practices should be relied upon as an all-encompassing methodology.
- 2. Understand your source.** Develop a practice of understanding **where critical supplies are sourced**, and how your contracts are structured so you receive remediation if vendors or suppliers do not deliver or perform according to their contract.³ Ensure that manufacturing facilities are not in a part of the world that can be impacted by weather events, and if they are, determine the supplier's back-up plan.

For example, in 2017 Hurricane Maria caused a shortage of IV therapy products because hard-hit Puerto Rico manufactures some of these products. During the pandemic, it quickly became apparent that hospitals and health systems could not rely on products sourced mainly in China. Some **hospital systems** are now seeking to expand the number of domestic PPE manufacturers.⁴

- 3. Score your vendors.** Vendor relationships are crucial to ensuring that a healthcare organization's supply chain runs at maximum efficiency. For instance, take a look at how many times you stock out, and define key performance indicators within your vendor service level agreements to measure performance. Building a better methodology to monitor vendor performance gives you the opportunity to establish more strategic relationships and ensures that you work side by side to identify functional and clinical product equivalencies. Having a dashboard at your fingertips to track performance helps keep your supplies where they are needed, ensures cost-effective pricing, and helps develop strategic partnerships where you work as a team to ensure that the most critically needed items are available for your care team and everyone in your facility.

Find out more about better ways to source and manage healthcare supplies by downloading this eBook: **Five steps to responding to a healthcare crisis.**

¹ Yousef J. Abdulsalam and Eugene S. Schneller, "Hospital Supply Expenses: An Important Ingredient in Health Services Research," Medical Care Research and Review, April 2019.

² Annie Gasparro, Jennifer Smith, and Jaewon Kang, "Grocers Stopped Stockpiling Food. Then Came Coronavirus." The Wall Street Journal, March 23, 2020; Farhad Manjoo, "How the World's Richest Country Ran Out of a 75-Cent Face Mask," The New York Times, March 25, 2020.

³ Patricia Birch and Peter Borden, "Beating The Next Pandemic With a Resilient New Healthcare Supply Chain," Cognizant | Digitally Cognizant, May 15, 2020.

⁴ Robert King, "COVID-19 has forced hospitals to be more careful about their suppliers. Here are some of the lessons learned" FierceHealthcare.com, Oct 2, 2020.

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