

# Hospital Supply Chain's New Role in the Spotlight



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# Introduction

If all the world's a stage, as one well-known playwright put it, then healthcare supply chain leaders have surely been the stage crew behind the scenes, ensuring the clinicians and administrators in the leading roles can get their lines right. But not so any longer. COVID-19 has thrust these supply chain leaders, often reluctantly, onto center stage with the spotlight on them. While the scrutiny and pressure have often been uncomfortable, this has also forced many supply chain leaders to wonder: Is this the role we should be playing (and should have been playing all along)?

The pandemic demonstrated what perhaps only a pandemic could: the criticality of supply chain for high-quality, accessible and affordable care. Yet the supply chain in many health systems has historically been relegated to serving as a cost management center, operating quite independently from the clinical team. But the pandemic gives cause to question the status quo.

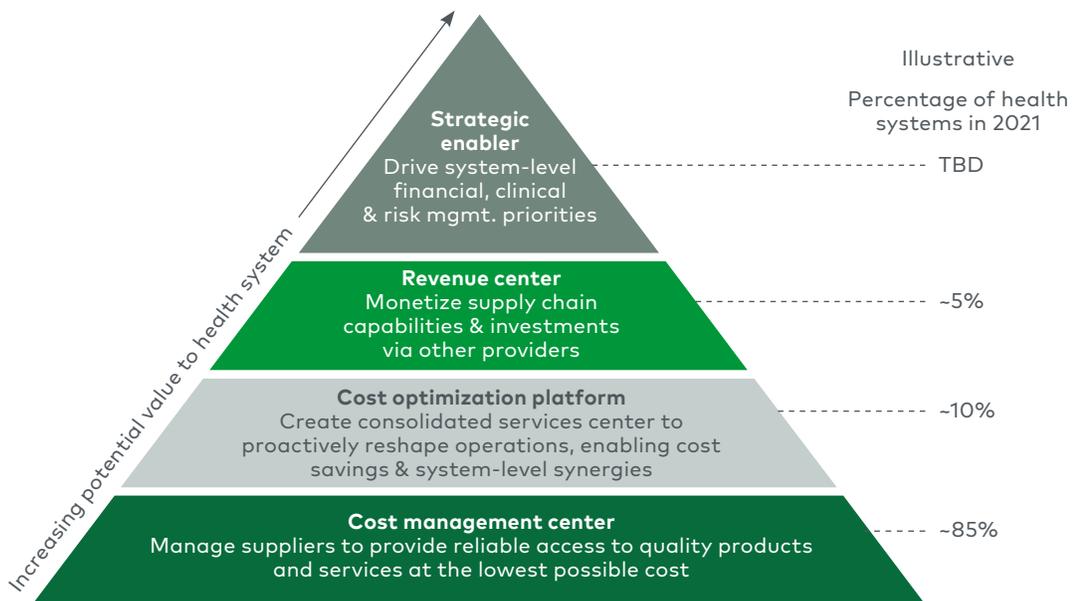
As evidenced during the pandemic, the supply chain is a powerful tool for managing a health system's enterprise risk (e.g., accountability to communities served, staff liability, financial performance). It is also a uniquely useful lever for enabling a health system to operate as a system, whether by further enabling value-based care (e.g., by driving standardization and reducing variability in clinical practice) or by helping deliver on the promised yet largely undelivered benefits of greater organizational economies of scale.

# Key findings

As supply chain leaders finally shift from putting out fires to a more controlled state of managing the pandemic and a gradual return to an altered normal, the future of the supply chain is in question. While the base requirements of cost control and product standardization remain critical, the transition from the pandemic to endemic phase of COVID-19 presents supply chain leaders with the opportunity to look beyond the immediate needs and consider ways to establish a new operating model for the supply chain function as a strategic enabler (see Figure 1). L.E.K. Consulting's 2022 U.S. Hospital and Healthcare Supply Chain Survey provides insights on this journey for hospital/health system supply chains, including:

1. Continued focus on supply chain cost reduction, especially given the current inflationary environment
2. Pursuit of standardization for both acute and non-acute care site supply chains, with opportunities for suppliers to support these efforts
3. Focus on long-term supply chain resiliency by investing in supply chain data and analytics, near-shoring, self-distribution capabilities, and consolidated service centers (CSCs)

**Figure 1**  
Hierarchy of health system supply chain roles

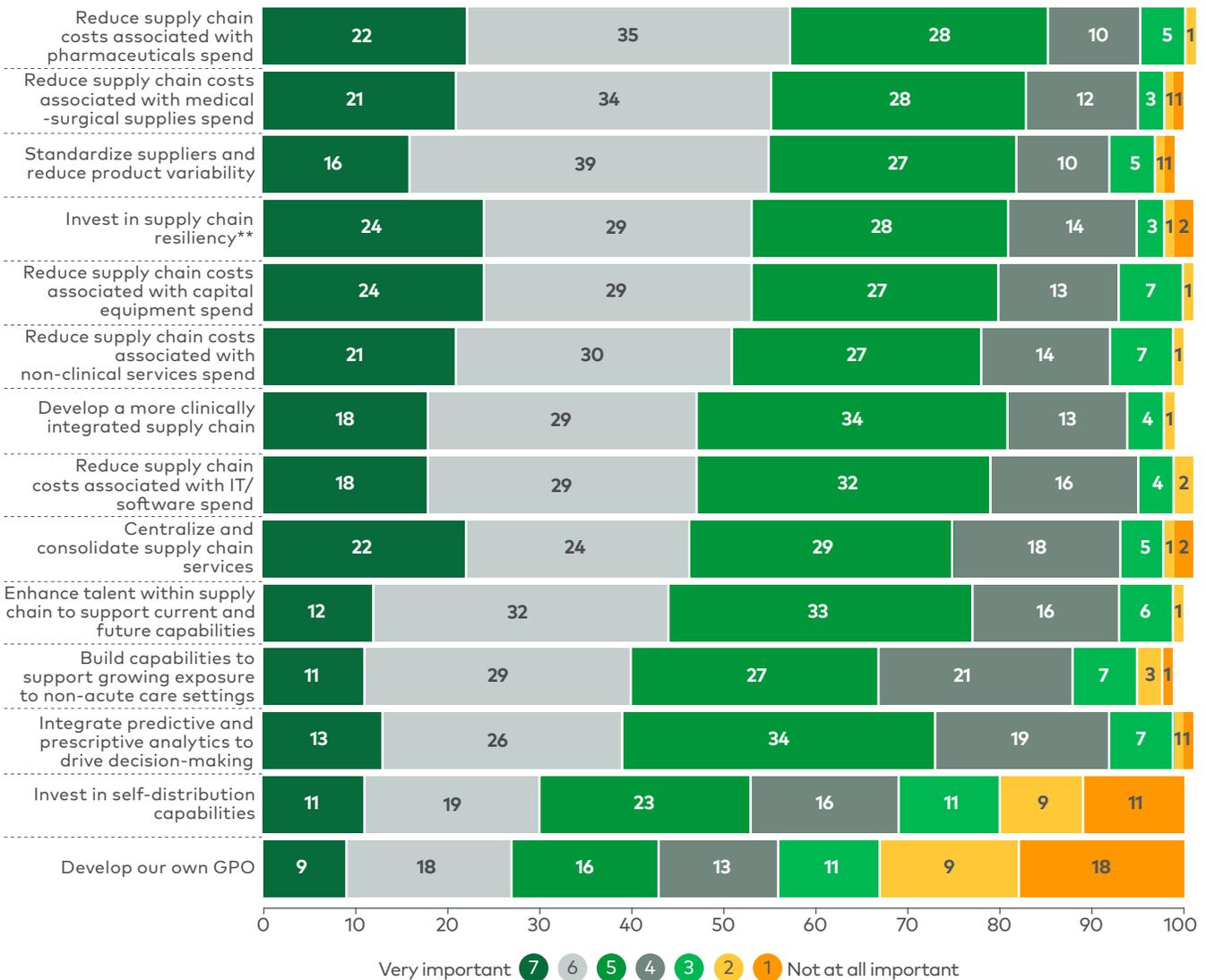


## 1. Continued focus on supply chain cost reduction, especially given the current inflationary environment

While an evolved model of the supply chain has potential to become a significant strategic leverage point for hospitals and health systems, it does not imply that the focus on cost management will wane. This is reinforced by hospital and supply chain executives and directors who report that their most important short-term priorities are reducing costs, specifically around pharmaceutical, medical-surgical and capital equipment, and supporting a drive toward standardization (see Figure 2).

**Figure 2**

Importance of supply chain priorities for hospitals in the near term (next 12 months) (N=238\*)



\*Survey question: Which of the following supply chain priorities do you expect to be most important for your [hospital/health system] in the near term (e.g., next 12 months)? Scale: 1-7, where 1 means "Not important at all" and 7 means "Very important"

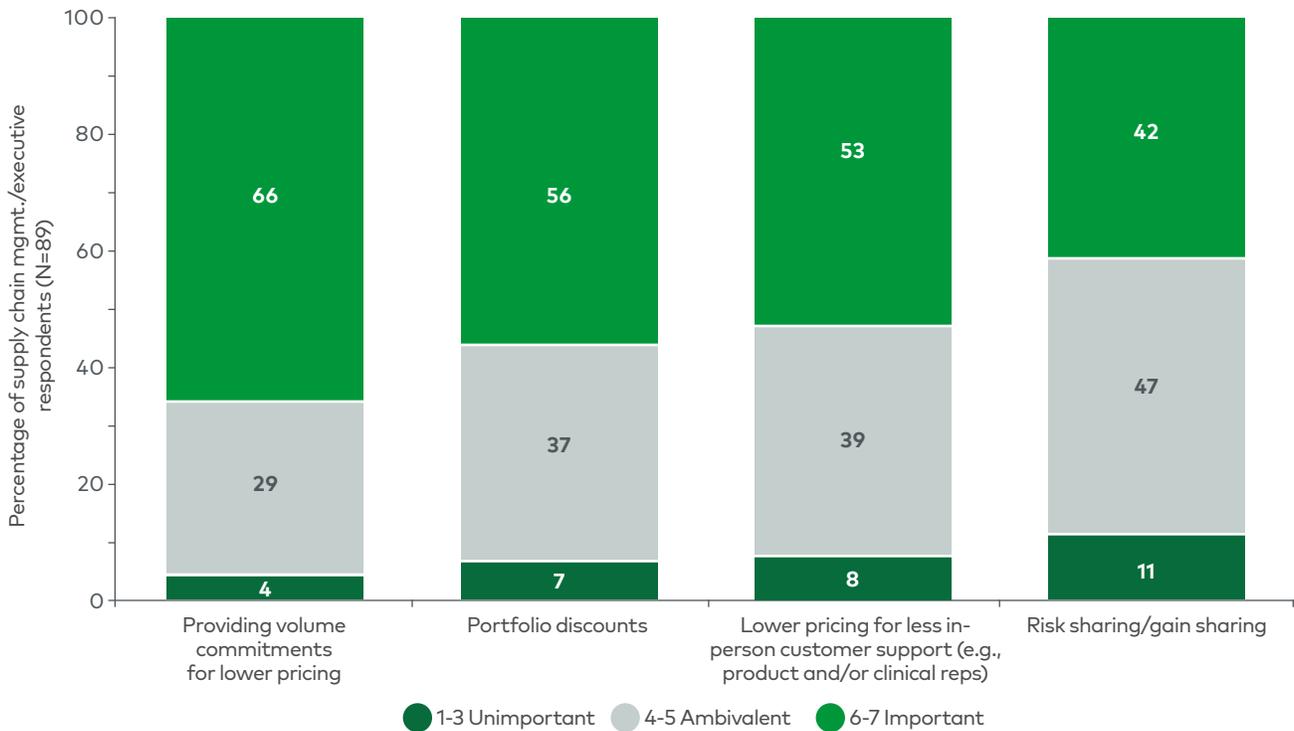
\*\*Defined as the highest rating given to the two individual priorities "centralize and consolidate supply chain services" and "invest in self-distribution capabilities"

Note: Some responses total more than 100 due to rounding

Source: L.E.K. 2022 Hospital Study Survey

As the post-pandemic financial situations for many hospitals and health systems remain stressed, and inflation appears to be a factor for the foreseeable future, hospital executives are particularly attuned to cost containment mechanisms in their supply chain contracts. When asked about the perceived importance of different contractual elements, survey respondents reported that volume commitments in return for lower pricing are the most highly valued, followed by portfolio discounts and lower prices in return for fewer in-person service offerings (e.g., reduced in-person maintenance or customer service access) (see Figure 3). While risk-sharing and gainsharing are still of interest, and many health systems continue to experiment with these models, they are of lower priority, given their complexity.

**Figure 3**  
Importance of different contract options\*



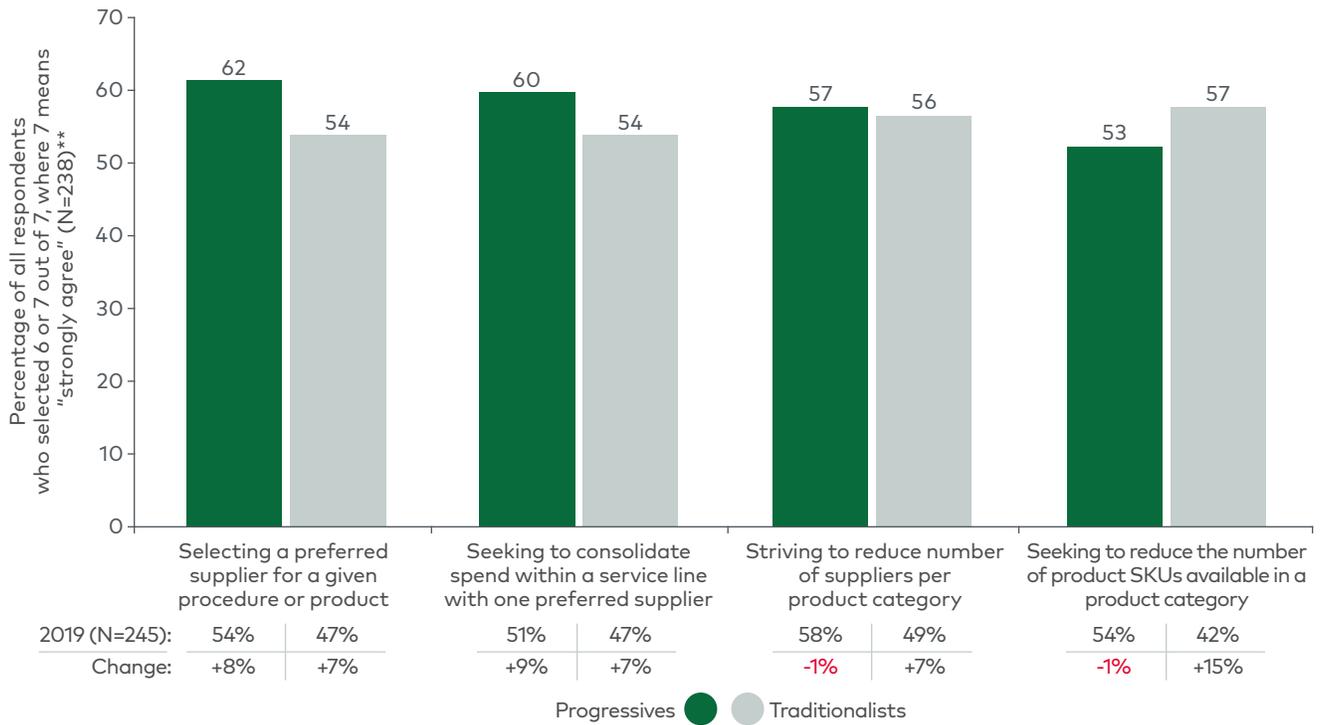
\*Survey question: Please indicate the extent to which each of the following contracting options is important to your [hospital/health system]? Scale: 1-7, where 1 means "Not important at all" and 7 means "Very important"  
Source: L.E.K. 2022 Hospital Study Survey

## 2. Pursuit of standardization of acute and non-acute care site supply chains with opportunities for suppliers to support these efforts

While progressive and traditionalist health systems report similar levels of interest in reducing the number of suppliers and SKUs per product category, progressives report greater focus on more sophisticated standardization approaches such as consolidating spend within service lines to a single preferred supplier (see Figure 4; see Figure 10 in the Appendix for more details on progressive and traditionalist segmentation).

**Figure 4**

Hospital approach to standardizing the purchasing and use of medical products and services\*



\*Survey question: Please indicate the extent to which you agree or disagree with the following statements regarding your [hospital/health system's] approach towards standardizing the purchasing and use of medical products and services. Scale: 1-7, where 1 means "strongly disagree" and 7 means "Strongly agree"

\*\*Respondents who answered "I don't know" were included in N above but excluded from the analysis (6-10 per question)

Source: L.E.K. 2019 and 2022 Hospital Study Surveys

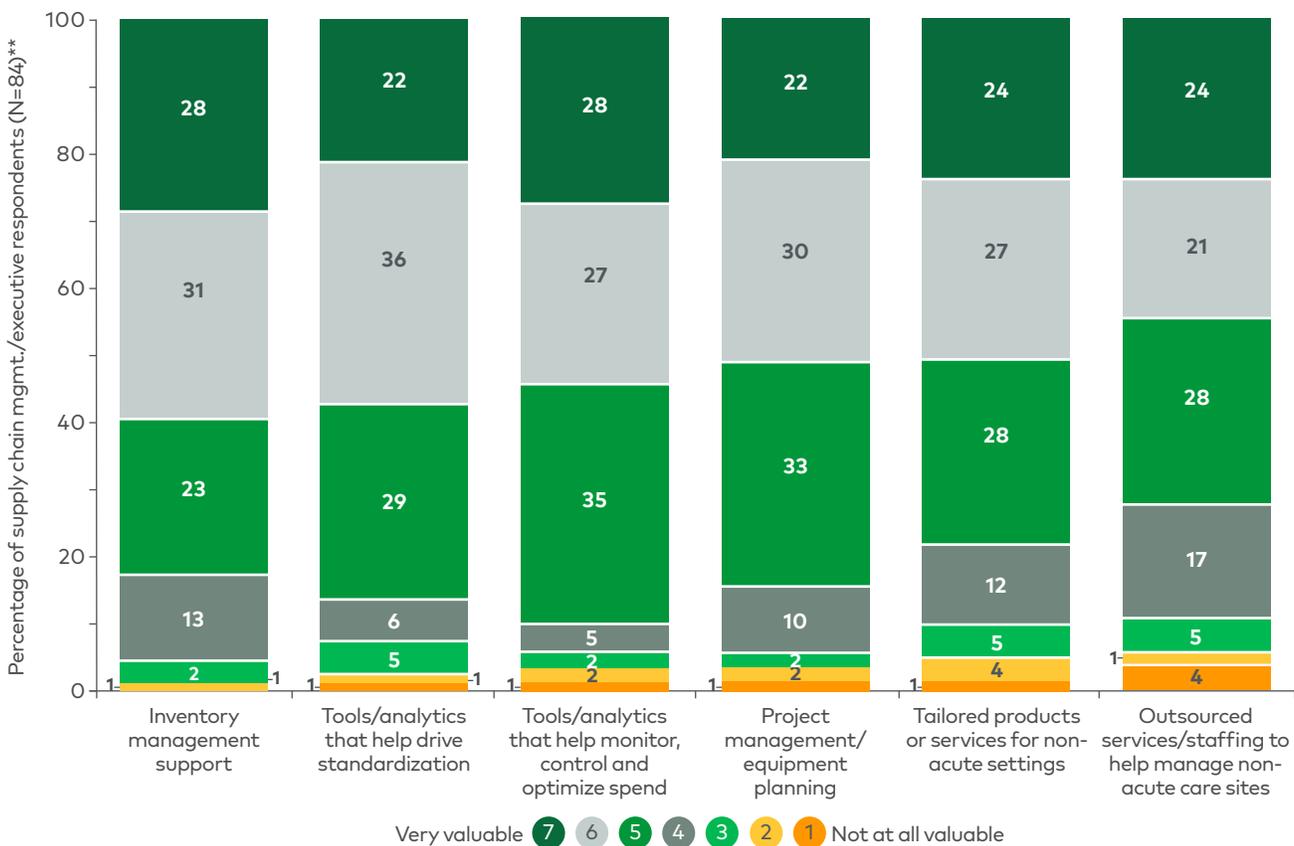
This supports the understanding that progressives are building experience and capabilities to pursue more challenging areas of standardization, whereas traditionalists are still working through the "quicker win" mechanisms for standardization. More broadly, it is notable that the level of interest in driving standardization (and perhaps ability to do so as well) has substantially increased since 2019. That said, while standardization will continue to be a priority, clearly the lessons of the pandemic (e.g., disruptions in PPE and lack of redundancy in supply sources) will impact category-specific considerations and end goals.

In parallel to their standardization efforts reflecting growing health system scale, supply chain leaders are also increasingly grappling with supporting their expanding non-acute footprint. Health systems have been acquiring primary care and specialty physician practices (to drive referrals and care alignment), building out urgent care facilities (to expand catchment areas) and expanding presence in ambulatory surgical centers (to accommodate, and benefit from, the ongoing shift of surgical procedures to outpatient settings). This has naturally introduced additional complexity to supply chains and requires enhancements in supply chain capabilities.

Supply chain executives and directors report considerable involvement in supply chains for their non-acute care sites, with about 50% of respondents reporting that they wholly manage, and an additional 37% reporting that they partially manage, supply chain operations for different types of non-acute sites.

Hospitals' supply chain cost reduction and standardization priorities also apply to non-acute sites, and given the resource requirements to manage disparate sites, supply chain executives and directors are looking for support from their supply chain partners. The most important elements of support cited are inventory management, tools/analytics to increase standardization and tools/analytics to optimize spending (see Figure 5). These results showcase the opportunity for suppliers to be more proactively involved in helping health systems create a true "system" approach across all their care sites.

**Figure 5**  
Value of support from suppliers for non-acute sites\*



\*Survey question: As your [hospital/health system] increasingly integrates with non-acute care sites, to what extent would you value the following support from your suppliers (e.g., medical device manufacturers, distributors, GPOs, etc.)? Scale: 1-7, where 1 means "not at all valuable" and 7 means "very valuable"

\*\*Only asked of supply chain mgmt./executives for sites where respondents state their hospital/health system owns or partially owns at least one non-acute site. Respondents who answered "I don't know" were included in N above but excluded from the analysis (1-2 per support type)  
Source: L.E.K. 2022 Hospital Study Survey

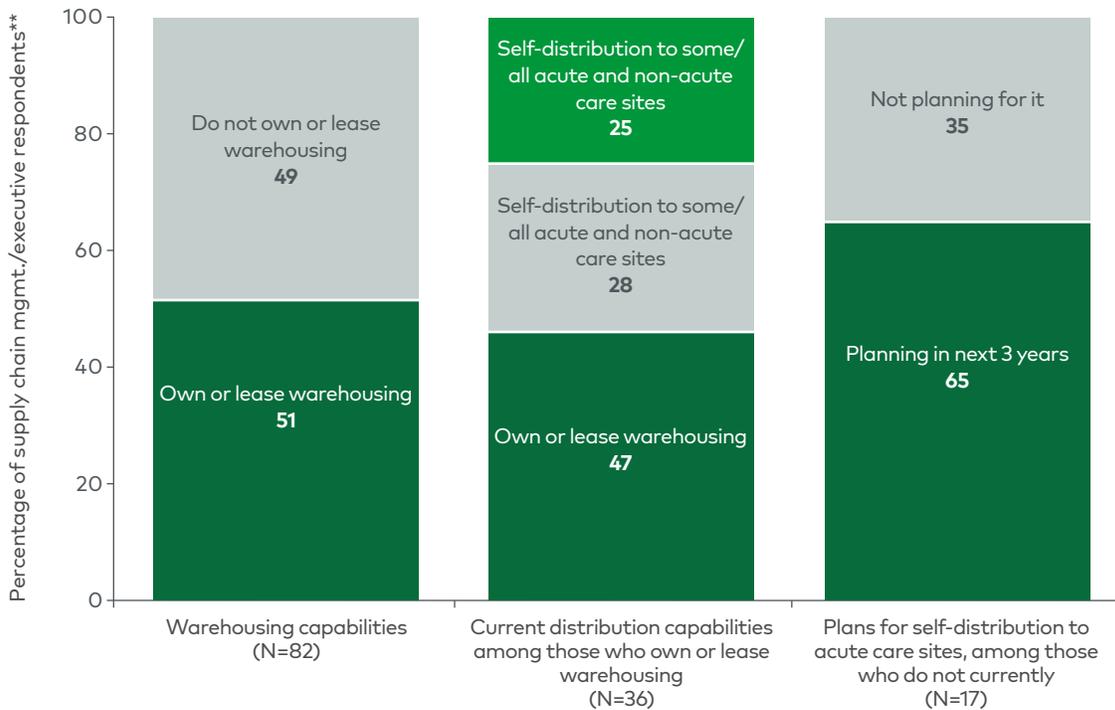
### 3. Focus on long-term supply chain resiliency

As U.S. health systems have gained scale with consolidation, they have also increased in operational sophistication, including in their supply chains. This push is paving the way for the supply chain to transition to a more strategic orientation. A minority of progressive health systems have already begun this evolution, leveraging their supply chains to become broader cost optimization platforms (e.g., via establishment of warehousing, internal shipping and CSCs), and some are even finding creative ways to make their supply chain a revenue center by exporting their advanced capabilities to smaller or less progressive provider institutions. Several key initiatives that support this evolution include:

- Data and analytics:** Given the recent supply interruptions for critical supply categories during the pandemic, many health systems are seeking to build long-term capabilities in real-time supply chain data and analytics. In fact, nearly three quarters of respondents identify predictive and prescriptive analytics for decision-making as at least a somewhat important supply chain priority going forward.
- Self-distribution:** To take greater control of their supply chains, especially in light of the inventory shortages of critical products during the COVID-19 pandemic, many health systems are moving to acquire one or more self-distribution capabilities. More than half of respondents report that their hospital or health system currently owns or leases warehousing, and many are considering expanding their logistics capabilities further. Of those that have warehousing capabilities, more than half have self-distribution capabilities to some or all of their care sites. Further, for those that do not currently self-distribute, many indicate they are planning to make investments in the next three years (see Figure 6).
- Nearshoring:** Supply chain disruptions for key products like PPE during the pandemic have increased interest in building a shorter supply chain with U.S. or nearshore manufactured products. Approximately 30% of respondents report that they prefer a meaningful portion of their medical-surgical products to be manufactured in the U.S., and another 30% prefer a meaningful portion to be manufactured nearshore. Of respondents preferring a meaningful portion to be manufactured in the U.S., nearly 60% are willing to pay a premium of 5%-14%. That said, this will likely manifest in relatively small actual sourcing strategy shifts due to the fact that price premia are generally higher for these products than the willingness of most hospitals and health systems to pay, especially given near-term financial concerns and limited availability of U.S. and nearshore supply.

- Consolidated service centers (CSCs):** To further support self-distribution and management of disparate clinical sites, about a quarter of respondents report that their health system currently operates a CSC and approximately another quarter intend to develop the capability in the next three years. For respondents who currently operate CSCs, the most commonly covered capabilities are supply chain logistics/sourcing/contracting, distribution of clinical products, IT services, maintenance for non-clinical equipment, and other ancillary services. Further, these current CSC operators report interest in expanding their capabilities further, especially in areas such as distribution of non-clinical products, pharmacy filling/repackaging/compounding, and sterilization services.

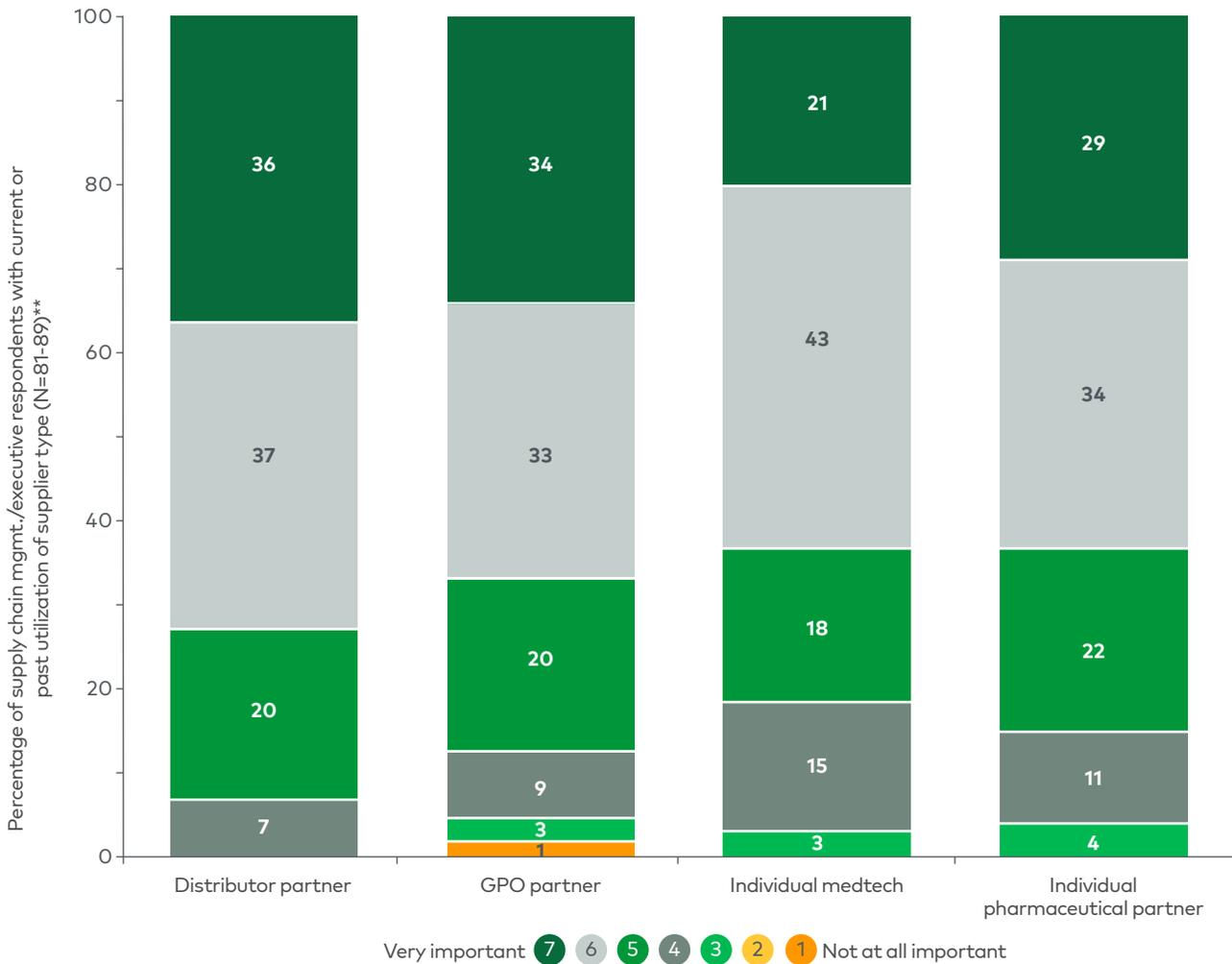
**Figure 6**  
Importance of offering a resiliency program by supplier type\*



\*Survey questions: Please indicate whether your [hospital/health system] currently owns or leases warehousing for clinical and non-clinical supplies. Which of the following supply chain capabilities does your [hospital/health system] currently have or plan to have?  
 \*\*Respondents who answered "I don't know" or "Not applicable" were removed from the analysis and the N above  
 Source: L.E.K. 2022 Hospital Study Survey

While healthcare systems are looking to increase their internal capabilities to enable greater supply chain resiliency, they are also seeking greater support from their supply chain partners. The majority of hospital/health system supply chain executives and directors believe it is important for their partners to offer resiliency programs (see Figure 7). While somewhat less importance is placed on this by individual medtech and pharmaceutical suppliers, interest is still relatively high (and likely higher for those in more critical product categories).

**Figure 7**  
Importance of offering a resiliency program by supplier type\*



\*Survey question: Please indicate the level of importance for your supply chain partners to have supply chain resiliency programs. Scale: 1-7, where 1 means "Not at all important" and 7 means "Very important"

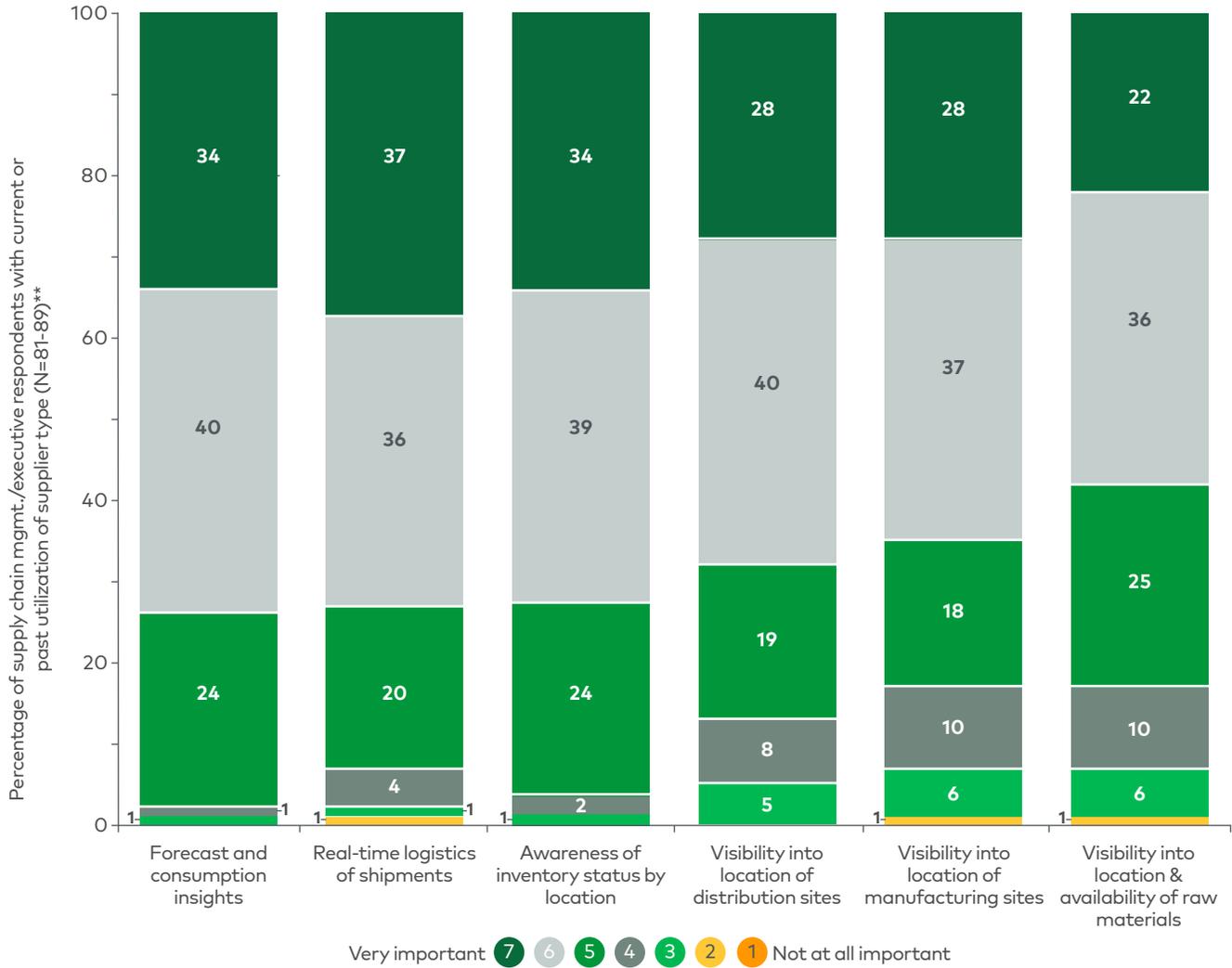
\*\*Distributor, GPO and pharmaceutical partner questions only asked of supply chain mgmt./executives for sites where respondents state their hospital/health system used such partner types; respondents who answered "N/A – we do not use" were included in N above but excluded from the analysis (1-2 respondents per supplier type)

Source: L.E.K. 2022 Hospital Study Survey

For health system supply chain leaders, resiliency programs optimally provide transparency via forecast and consumption insights, real-time logistics reporting for shipments, and inventory status by location (see Figure 8). While hospital/health system leaders are interested in greater visibility farther upstream in the value chain (e.g., manufacturing sites, raw materials), there is recognition that these are less critical (and likely more challenging for suppliers). All in all, suppliers have an opportunity to differentiate by helping their customers achieve their resiliency goals with greater transparency in and control of their supply chains.

**Figure 8**

Value of different components of partner supply chain resiliency programs\*



\*Survey question: Please indicate the level of importance for your supply chain partners to have supply chain resiliency programs. Scale: 1-7, where 1 means "Not at all important" and 7 means "Very important"

\*\*Distributor, GPO and pharmaceutical partner questions only asked of supply chain mgmt./executives for sites where respondents state their hospital/health system used such partner type; respondents who answered "N/A – we do not use" were included in N above but excluded from the analysis (1-2 respondents per supplier type)

Source: L.E.K. 2022 Hospital Study Survey

# Conclusion: Supply chain's role as a strategic enabler

Hospital/health system supply chains will likely (and hopefully) never return to their pre-pandemic status quo. Hospitals have already begun the transition from stand-alone cost containment function to strategic enabler. Moves toward greater systemwide standardization, enhanced internal distribution capabilities and more resilient sourcing have demonstrated how the supply chain can contribute to the overall health system mission of delivering high-quality, affordable care. The use of the supply chain as a strategic enabler can become a core driver of competitive advantage for the systems that invest appropriately.

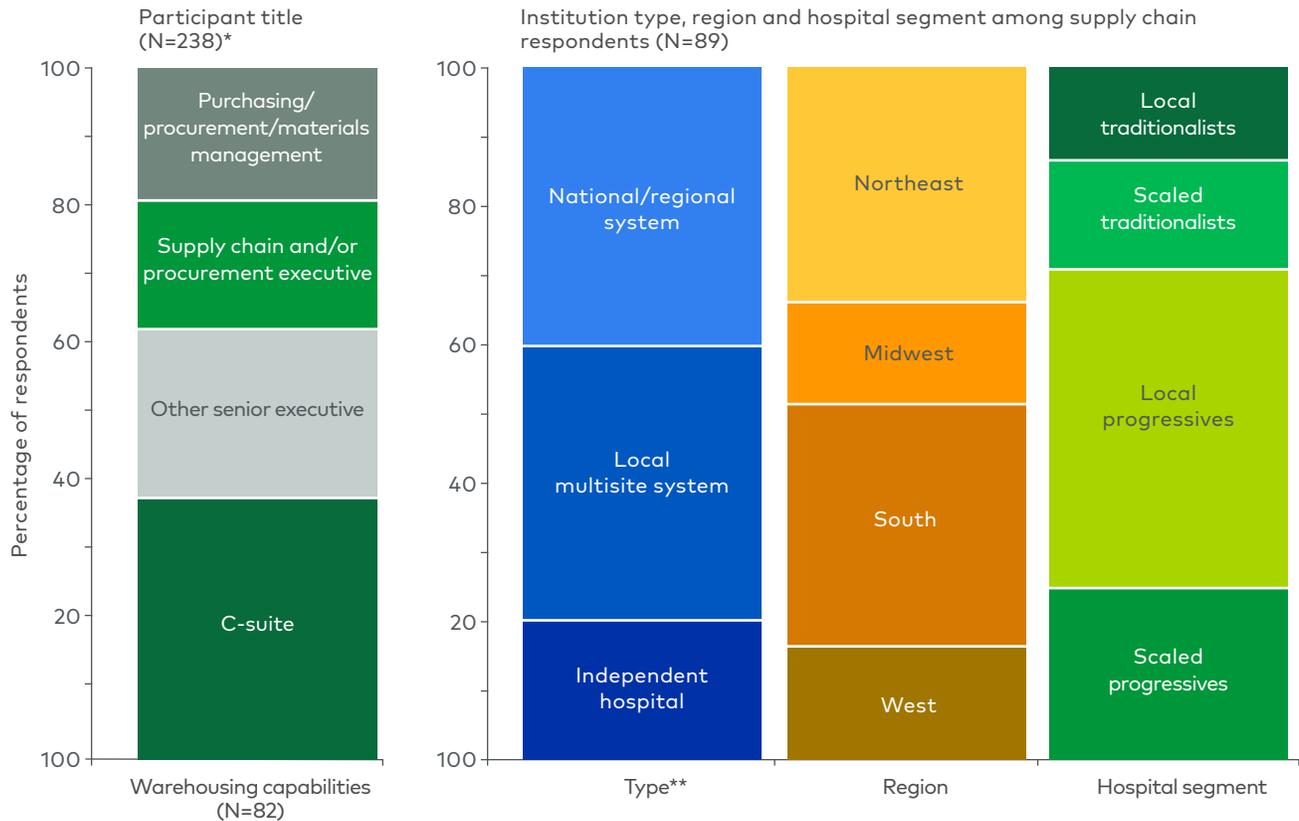
However, hospitals and health systems will not be able to make this journey by themselves. They will need the support of their supply chain partners. In fact, hospital/health system supply chain leaders are increasingly proactive in seeking partnerships and support, especially in achieving their highest-level priorities (e.g., standardization across the system, resilience of supply in critical categories, holistic cost management, self-distribution strategy).

For suppliers, distributors, GPOs and other partners, the opportunity has never been greater to create value for their health system customers, whether by structuring broader, more creative partnerships or developing new offerings targeting critical needs (e.g., resilience-oriented services, enhanced digital offerings to drive supply chain transparency).

# Appendix: Background and methodology

Each year, L.E.K. combines expertise and experience across the healthcare industry to run its U.S. Hospital Study, an internet survey of approximately 250 hospital decision-makers that generates actionable insights for healthcare stakeholders (see Figure 9). In 2022, this included ~90 hospital and health system supply chain leaders (e.g., Chief Purchasing Officer, Chief Supply Chain Officer, VP or Director of Purchasing, member of Value and Access Committee, etc.), who represent the respondents for most of the feedback presented in this report.

**Figure 9**  
Respondent mix in L.E.K. study (2022)



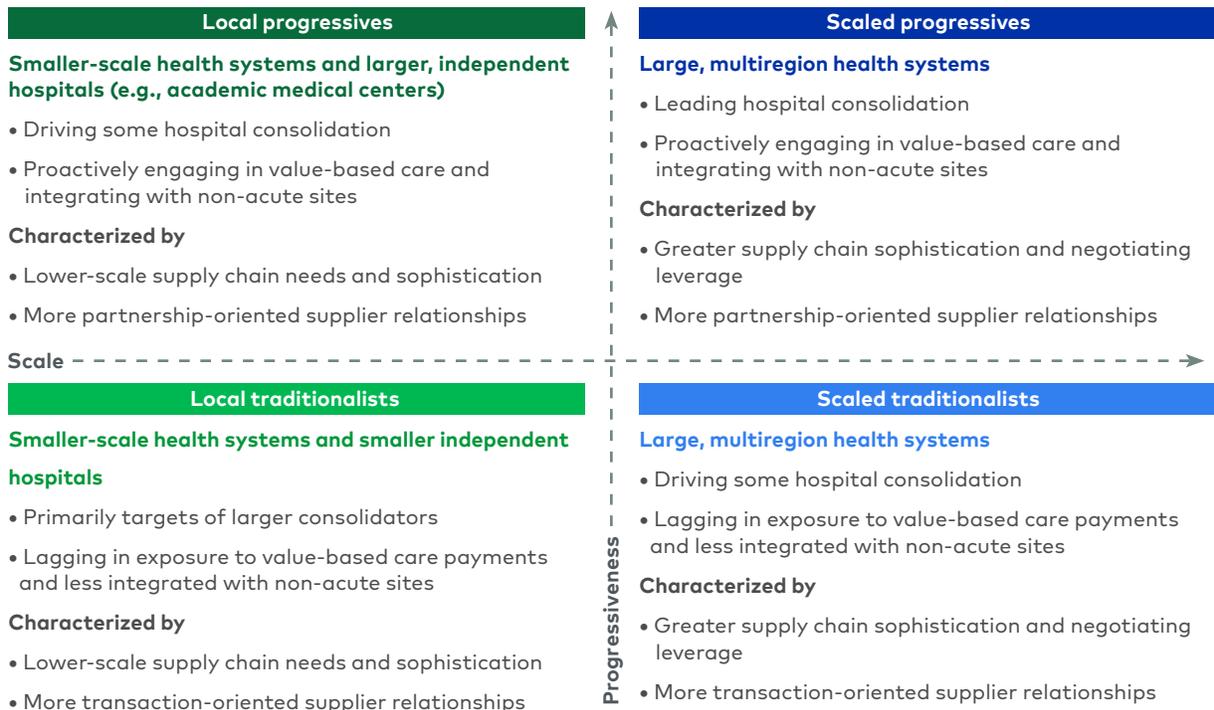
\*C-suite includes Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Medical Officer, Chief Nursing Officer, Chief Nursing Executive; Other senior executive includes Chief Marketing Officer, Chief Administration Officer, Chief Strategy Officer, Chief Information Officer, Chief Technology Officer, SVP of Business Development, department head, other senior medical executives; Supply chain and/or procurement executive includes Chief Purchasing Officer and Chief Supply Chain Officer; Purchasing/procurement/materials management includes VP and Director-level individuals and members of Value and Access Committee

\*\*Independent hospital: not part of a system; Local multisite system: hospital system operating in several sites but fewer than 4 metropolitan areas within 1 state; Regional system: hospital system operating in 4 or more metropolitan areas within 1 state or in 2-14 states; National system: hospital system operating in 15 or more states

Source: L.E.K. 2022 Hospital Study Survey

Over the past decade, distinct hospital and health system provider behavioral segments have emerged in response to market pressures. Our hospital survey data is classified this way to better understand performance of certain hospital or health system segments (see Figure 10).

**Figure 10**  
Behavioral segments of hospitals and health segment providers



Source: L.E.K. research and analysis

## About the Authors



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