

GOING **GLOBAL**

How Direct Sourcing Saved the Day Amid COVID-19

In this Banner Health case study, learn how direct sourcing can enable access to PPE and the leading practices of building supply chain diversity and future resiliency.

Executive Summary

At the height of the pandemic, surging COVID-19 cases and product demand spikes created immense pressure on health systems to obtain personal protective equipment (PPE).

Like other healthcare providers, Banner Health – an Arizona-based health system comprised of 30 hospitals and more than 50,000 employees across six states – recognized early on that accessing high-quality PPE to protect their front-line workers and patients was vital.

Innovative supply chain strategies, including direct sourcing, allowed Banner Health access to critical PPE, all while decreasing product lead time, maximizing efficiencies and achieving cost savings.

This white paper presents the keys to a thoughtful direct sourcing strategy to help protect us from disruptions and provides a blueprint as we build a more resilient supply chain.

Introduction

While the supply chain has faced isolated spot shortages in the past due to natural disasters and other health crises, no one could have fully prepared for the global surge in demand for critical products as a result of COVID-19.

Supply	Inventory Days on Hand During COVID-19 Spikes in 2020	Inventory Days on Hand (March 1, 2021)	Percent Change in Purchase Order Spend for March 2020 vs. March 2019	Percent Change in Purchase Order Spend for March 2021 vs. March 2020
N95s and KN95s	23 days	200 days	+14,302 percent	+715 percent
Surgical Masks	30 days	45 days	+1,310 percent	+93 percent
Isolation Gowns	20 days	40 days	+428 percent	+96 percent
Exam Gloves	15 days	30 days	+51 percent	+225 percent

These unprecedented demand spikes that plagued 2020 created immense pressure on health systems to obtain the PPE and supplies needed to protect employees and care for patients. Simultaneously, and according to a Premier survey of its members, 60 percent of hospitals received a gray market PPE solicitation in the spring of 2020 with unauthorized, third-party sellers trafficking counterfeit or faulty products.

Now, more than a year later, while most hospitals are seeing greater availability of many types of PPE, the healthcare supply chain remains fragile and constrained.

Forward-looking health systems are employing innovative strategies to not only enable expeditious access to PPE and other supplies, but to also maximize efficiencies and ensure vital products live up to superior clinical standards.

For Banner Health, this means a strong direct sourcing capability that enables its leaders to align with cost, quality and outcome improvements and save lives by keeping its healthcare workers safe.

THE VALUE OF DIRECT SOURCING

Sourcing is an integral part of supply chain operations, and direct sourcing is one key strategy to obtain high-quality products, including those in short supply.

Direct sourcing is exactly what it sounds like: working directly with manufacturers in the production of high-quality supplies and products, creating a more frictionless and direct relationship between suppliers and their buyers.

Direct sourcing is a sound strategy for diversifying and building resiliency into the healthcare supply chain. Done successfully, it creates greater efficiencies while enabling the delivery of quality care at a lower cost.

Going factory direct also doesn't mean sacrificing quality. One leading practice indicates that suppliers supporting direct sourcing regularly visit partners around the world to meet with suppliers, manufacturers and economic leaders who understand the geopolitical and trade landscape. These visits can help ensure that all products come from validated and inspected suppliers and are made according to our members' specifications, building a formulary of high-quality products that meet providers' stringent clinical standards.

Banner Health's Three Innovative Supply Chain Strategies During COVID-19

While pandemic-related supply shortages affected Banner Health, the health system was able to recover from them quickly as a result of actions taken to:

- Diversify supply sources, including direct sourcing strategies.
- Optimize internal processes.
- Harness the power of data.

Here's how advance planning and innovative, creative strategies enabled Banner to obtain products in short supply.

STRATEGY #1: DIVERSIFY SUPPLY SOURCES

For Banner, a future-forward supply chain management strategy requires diversifying production and Banner's supplier base – both abroad and domestically – to mitigate risk and help ensure timely product access.

"A vital component to success in this effort was the groundwork we'd laid years prior to diversify sourcing strategies, including direct-to-manufacturer and forward-buy activities," explained Doug Bowen, Banner Health's Vice President of Supply Chain Services. ***"Eliminating unnecessary middlemen like brokers and importers, and working directly with untapped, global producers, gave us greater efficiencies and reduced lead time of hard-to-source products."***

Throughout COVID-19, nimble and expedited direct sourcing support allowed Banner to quickly find PPE and other supplies that were just not available from conventional sources.

While global direct sourcing is one cornerstone of Banner's strategy to diversify its supply chain, so is investing in greater U.S. manufacturing capacity. "To help reduce overreliance on other parts of the globe, we realized early on that we needed to boost domestic production of essential medical gear," said Bowen.

To help meet this goal, Banner and 15 other leading health systems invested in Prestige Ameritech, a Texas-based producer of much sought-after N95 face masks. With this investment, this U.S.-based company is now providing more than 60 million U.S.-made N95s, surgical masks and goggles per year for Banner and other participating Premier members.

STRATEGY #2: OPTIMIZE INTERNAL PROCESSES

Banner further alleviated risk with an investment and focus on distribution and inventory management as well as supply conservation measures.

"We started looking for ways to streamline our distribution and opened Banner Health's Consolidated Service Center and Distribution Warehouse in 2004," said Bowen. "With more than 200,000 square feet and capacity for 7,000 pallets, our warehouse is centrally located to serve all our facilities in the Phoenix area, and allows our team to maximize storage and efficiencies."

Alongside this advanced inventory control, the Banner team recognizes that a clinically integrated supply chain is necessary to thrive in today's healthcare environment. Via Banner's direct sourcing partnership, for instance, all products come from validated and inspected suppliers and are designed to the Banner team's clinical standards at the lowest price point available.

Holistically, clinical integration in the Banner supply chain:

- Drives supply requirements and helps limit waste.
- Ensures all products are held to the highest safety and clinical standards.
- Gives Banner clinicians access to customizable, high-quality products at the right price and affords them more time to focus on patient care.

STRATEGY #3: HARNESS THE POWER OF DATA

Underpinning its holistic supply chain strategy, Banner is leveraging technology to better understand risk, provide greater visibility and support continuous operational transformation. During COVID-19, for example, industry-leading supply chain technology enabled Banner with the ability to better plan and allocate supplies, as well as fast-track critical products via expedited sourcing agreements.

"Many supply chains – both in and out of healthcare – still rely on disconnected data sets and outdated, manual processes. At Banner, we're committed to building integrated digital supply networks that can anticipate and respond to future shocks in the supply chain, minimize their impact and position us for operational success," said Bowen. ***"Technology enablement is the key to a modern, effective and resilient supply chain."***

Outside of pandemic-related preparedness, the innovative Banner team is also leveraging a technology-enabled supply chain to better manage purchased services contracts, automate supply chain invoicing and payables processes, and enable its leaders to align with cost, quality and outcome improvements systemwide.

THE RESULTS

- **10 million+ clinically vetted isolation gowns** for Banner's front-line caregivers.
- **60 million+ N95s, surgical masks and goggles** annually for Banner and other Premier members via the Prestige Ameritech investment.
- Decreased product lead time, maximized efficiencies and cost savings – while accessing the PPE and supplies needed to protect clinicians, employees and patients.
- Banner Health's Supply Chain has been ranked in the **Gartner Healthcare Supply Chain Top 25 for seven consecutive years and is currently ranked #5.**
- Overall, Premier forward buys for Banner and other members have gone on to source **130 million masks and 50 million gowns** during 2020. Throughout the pandemic, our direct sourcing capabilities supplied products for members at or above 100 percent allocation levels.

"We continue to do everything we can to protect our healthcare workers while they care for our communities. Creative partnerships, innovative sourcing and distribution strategies, conservation measures and technology can lower barriers to entry and drive stable supply. These actions are imperative to eliminate vulnerabilities and ensure greater supply chain resiliency through this pandemic – and beyond."

– Doug Bowen, Vice President of Supply Chain Services, Banner Health

Conclusion

Forward-looking health systems are realizing the benefits of a direct sourcing strategy – and the strategies that worked for Banner Health may also translate to success for providers across the country.

Here are some additional tips for healthcare providers to build and sustain a strong direct sourcing program:

- **Choose the right partners.** Building the capabilities and credibility that drive confidence in the end product takes time, so providers should aim to look for proven players in the space. Look for group purchasing organization (GPO) partners with specific expertise in direct sourcing and those who team up with validated and inspected suppliers in producing high-quality supplies.
- **Focus on quality, quality, quality.** Direct sourcing must rely on the credibility of its manufacturers in order to build, earn and maintain its customers' confidence. That's why vetting for quality is imperative. At the onset of the pandemic, we saw gray market offers for many shortage products, including N95 masks, and these unauthorized products posed risks to healthcare workers, as well as patient health and safety, while costing the buyer time and resources. Organizations should aim to work with a direct sourcing company that contracts with vetted suppliers and prioritizes inspecting for quality – guaranteeing that manufacturers have the appropriate expertise in the supplies they make.
- **Understand the cost equation.** When done right, direct sourcing saves money. Product specifications are drafted and shared with the direct sourcing team who goes factory-direct to the country of origin to have manufacturers produce products to those specifications. As a result, Premier members have seen over \$40 million in aggregate annualized savings.

Creative partnerships, innovative sourcing and distribution strategies, and a technology-enabled supply chain can lower barriers to entry and drive stable supply. These actions are imperative to eliminate vulnerabilities and ensure greater supply chain resiliency amid a pandemic – and beyond.

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About Premier

Premier Inc. (NASDAQ: PINC) is a leading healthcare improvement company, uniting an alliance of more than 4,100 U.S. hospitals and health systems and approximately 200,000 other providers and organizations to transform healthcare. With integrated data and analytics, collaboratives, supply chain solutions, and consulting and other services, Premier enables better care and outcomes at a lower cost. Premier plays a critical role in the rapidly evolving healthcare industry, collaborating with members to co-develop long-term innovations that reinvent and improve the way care is delivered to patients nationwide. Headquartered in Charlotte, NC, Premier is passionate about transforming American healthcare. Please visit Premier's news and investor sites on www.premierinc.com; as well as Twitter, Facebook, LinkedIn, YouTube, Instagram and Premier's blog for more information about the company.

