

Domestic sourcing strategy brings balance to healthcare provider supply chains

Introduction

U.S. healthcare systems are reevaluating their supply sourcing after experiencing and learning from recent global supply chain disruptions. Providers are deploying new links in their supply chains and implementing resourceful strategies that minimize risk during future supply chain stress. One important strategic change is a shift to balance location of supply between offshore and domestic suppliers. The result is new supply routes are, in many cases, shorter, closer to home and more reliable.

Hospitals are determined to avoid a recurrence of the shortages the industry experienced by relying too heavily on international supply chains. Health systems and suppliers alike are diversifying some of their global supply chains with domestic sourcing to avoid complete reliance on foreign suppliers, manufacturing and shipping – all with the goal of being better prepared and building supply assurance.

“While not entirely immune to disruptions themselves, supply chains diversified with both American-made and international sourcing offer a more balanced supply chain that comes with greater assurance and resiliency,” said Cristina Indiveri, associate vice president, Strategic Programs, for Vizient. “The shift to diversify supply sourcing with domestic and community suppliers provides tangible benefits for the country and the communities served by the healthcare systems – from spurring local economies and creating jobs to reducing carbon emissions and improving human and environmental health.”

However, reconfiguring supply chains to capture a deeper mix of international, U.S.-based and local community sourcing relationships is not done quickly or easily – and it must involve more than just hospital purchasing departments. It requires a commitment from the entire healthcare system, a de-emphasis on price, and a willingness to identify and engage with new vendors and suppliers.

Fragile chains

Healthcare systems experienced harsh realities during the pandemic about the length and fragility of their global supply chains. Suddenly, everything from personal protective equipment (PPE) to pharmaceuticals and medical devices were in short supply due to closed factories, a shortage of workers and delays in international shipping. Accessible stockpiles were quickly depleted. Regional systems that were used for responding to local shortages by shifting supplies internally found that approach inadequate.

The shortages were more than an inconvenience; many of them posed severe risks to patients, clinicians and staff. In some cases, clinicians resorted to wearing garbage bags as PPE and ventilators were crafted from what equipment was available. Hospitals scrambled for replacements and U.S.-based companies stepped up to fill the gap, including some who weren't even in the healthcare field. Many alcohol distillers switched to manufacturing hand sanitizer, while major clothiers made masks.

The remaining U.S. healthcare suppliers added capacity and some reopened factories that were mothballed when work went overseas. Price concerns were backburnered as purchasing managers demonstrated their resourcefulness and creativity in securing supplies. In April 2020 prices for isolation gowns had spiked by 2,000% and the cost of one manufacturer's N95 masks was up 6,136%.¹ In October 2020, a survey found that nearly 70% of facilities were still unable to access one or more types of PPE.¹

It can be tempting to dismiss the pandemic as a “black swan” event and hope that the occurrence and its negative consequences are a rarity. Likewise with the war in Ukraine. And the Suez Canal blockage in 2021. Not to mention the labor shortage that left a fleet of container ships anchored off West Coast ports, waiting to be unloaded. But such a dismissal would be a mistake. When enough black swans occur simultaneously, they’re no longer singular events -- they’re a flock of problems. Apart from the potential of another global pandemic, we don’t know what other troubles are on the horizon – but we do know that they are coming. And healthcare systems can be better prepared before they do.

A shift in priorities

The good news is that in the aftermath of these events hospitals are rebalancing their priorities on procurement. For decades, cost has been a chief factor for hospitals when choosing suppliers. That’s what led to supply chains stretching overseas to foreign companies that could provide products at a lower cost than their U.S.-based competitors. It also contributed to U.S. firms shifting production offshore and eliminating their domestic manufacturing and warehousing capabilities.

That was the most budget-conscious approach and it largely worked. Hospitals saved money and the supplies arrived on time. Thus, resulting in a decline in the capacity and capabilities of the domestic medical supply industry. Supply disruption on the scale caused by the pandemic simply wasn’t a scenario health systems, or industry stakeholders, thought of as a possibility.

However, the pandemic and other crises revealed how risky it is to make cost the overriding factor in sourcing and warehousing. After all, product availability outweighs affordability when it comes to essential patient care products.

So healthcare systems are shifting supply chain priorities where resiliency and reliability are a higher focus. During the height of the pandemic, cost came off the table as hospitals were willing to pay the price of critical demand for the most essential supplies. As the crisis has eased, cost is necessarily reasserting itself, but no longer as a the lead determining factor.

As a result, healthcare systems, while still keeping an eye on the bottom line, are reconfiguring their supply chains to include more domestic sourcing. “Instead of long, ocean-spanning chains, picture a spiderweb of shorter routes reaching into local communities and neighboring cities and states,” said Indiveri. “In some cases, that means buying supplies in the United States. In other cases, it’s sourcing and procuring services within the same communities served by the hospital system.”

Of course, it’s unfeasible for a healthcare system to source everything domestically; trade is simply too global, even in the wake of the pandemic.

Lessons learned

As shortages over the past few years have ramped up and down, healthcare systems, suppliers and group purchasing organizations (GPOs) gained clarity on the shortcomings of reliance on global supply chains and the adverse effect to patient care and staff.

Through experience, stakeholders can affirm that reliance purely on a global supply chains is:

- Dependent on international suppliers and manufacturers whose production can be disrupted by internal and external events. These events are often unpredictable and beyond the planning and control of healthcare systems.
- Requires even more insight into supplier sourcing. Healthcare systems that source from overseas suppliers often don’t have a complete picture of the network of manufacturers and vendors that their supplier works with and how vulnerable they are to interruption.
- Dependent on international ocean freight shipping, which can be interrupted with various delays for months at a time. During the pandemic, shipping was delayed by workplace shutdowns and shortages of longshoremen and truck drivers.

Needed foresight and strategy:

- Supply assurance - due to a lack of flexibility and diversification in sourcing supplies to overcome disruptions. Hospitals that rely on a single international source for a product often must have an alternative when that supply was interrupted. And hospitals must have connections with domestic suppliers to easily pivot during an emergency.
- Domestic stockpiles - a traditional emphasis on efficiency and lean supply chains resulted in a shortage of reserves to tap during the pandemic. What limited stockpiles did exist were quickly depleted and could not be replenished, leaving hospitals in dire situations. The time is now to implement regional and national stockpile strategy.

“However, systems can achieve a balance in their supply network, a functional, resilient mix of U.S.-based and foreign, large and small, direct and distributed that will meet their needs while providing the necessary assurance, reliability and transparency,” said Indiveri.

Benefits to hospitals and communities

Sourcing products and services domestically and within the local community means more resilient supply chains for systems and the patients they serve. These suppliers generally are located closer to the hospitals they serve and as such are less vulnerable to disruptions in shipping and overseas manufacturing. Generally, the more suppliers a system has and the closer they are, the less the danger of disruption and interruption. Domestic stockpiles and locked-down contingency suppliers add another layer of safety.

But the benefits of domestic and community sourcing extend far beyond that.

Healthcare systems spend billions of dollars a year on supplies and services with much of that money going to foreign companies. Spending even a portion of that money with more American companies could have a tremendous impact as far as building more resilient supply chains while also benefitting domestic suppliers.

Working with domestic suppliers has a number of benefits, including the following for hospitals:

- Decreasing product shipping time and expediting lead times. This also improves the system’s flexibility in responding to unanticipated demands and shortages.
- Promoting environmental sustainability. Transporting products domestically typically results in less pollution than international shipping. In keeping with their mission to improve community health, it’s incumbent on hospital systems to do as much as possible to reduce their carbon footprint. Also, in many instances, U.S. manufacturers and shippers are subject to stricter environmental regulations than their overseas competition, which makes the U.S. supply chain not only shorter, but greener than international ones.
- Providing clarity into the supply chain. During the pandemic, it became evident to healthcare systems how dependent their suppliers were on their own international network of suppliers and manufacturers, crucial links in the supply chain about which hospitals had little choice or knowledge.
- Meeting federal and local requirements for domestic and diverse sourcing (minority-owned, veteran-owned, LGBT-owned, women-owned). Meeting these requirements is good for the businesses, the national and local economies and the hospital system.
- Strengthening local relationships and reputation. Using services and vendors in the communities it serves, hospitals can strengthen community bonds and a diverse mix helps improve reputation.

The benefits for the economy and communities are substantial, as well:

- Spurring the U.S. economy and local job market through the creation of new jobs and new companies, and by spending dollars locally.
- Strengthening national security and stability amid global turmoil. Keeping our healthcare system supplied during crises is crucial.
- Fostering ingenuity, as innovation and manufacturing are often related.
- Improving the health of the community by creating jobs that provide health insurance, spending dollars locally.
- Supporting diversity, equity, and inclusion efforts to attract the best talent.

Shaleta Dunn, vice president, supplier diversity and social investment impact at Vizient, points out that sourcing products and services within the community also indirectly supports healthcare systems’ mission to improve community health. Local contracts create local jobs, many of which will come with health insurance. Employed people with health insurance are better able to access and benefit from healthcare. It’s not unreasonable to expect that people whose jobs are created by community sourcing will become patients of the systems that created the jobs.

Challenges and resources

Both Indiveri and Dunn note that reshaping once-global supply chains to include more U.S.-based and community suppliers isn't easy and it can't be done piecemeal. It requires locating and contracting with new suppliers and requires a systemwide commitment with buy-in from the top. It can mean identifying a whole new group of suppliers, some of which might be new to the field. Sensing opportunity, some U.S. companies are entering the healthcare sector for the first time.

For health systems, it's crucial that forging new supply chains be a systemwide goal, one that is visibly supported and reinforced from the C-suite down. Program goals should be clearly identified and enforced, but with the knowledge that the adjustments will take time.

For their part, some suppliers and vendors might not know how to approach a healthcare system or even be aware of them as a potential customer.

"Companies accustomed to contracting with smaller customers might assume they're not large enough to compete for business with a healthcare system or they could be intimidated by the hospitals' procurement requirements," said Dunn. "Procurement and community outreach requirements by health systems can be lengthier and more rigorous than what smaller, local businesses are used to. However it is achievable and I regularly see the two successfully reach business goals together."

Hospital purchasing departments aren't necessarily suited to research and build new supply chains on their own. "With their industry knowledge and research resources, GPOs can help healthcare systems identify and connect with suppliers that meet the goals for domestic and community contracting, including diversity, community impact, sustainability and affordability," said Dunn. GPO purchasing power can also help their health system customers offset any price increases resulting from the switch from international to U.S. based.

Conclusion

Creating diverse, domestic, assured supply chains puts hospitals in a better position to withstand disruptions, whether natural or man-made, and supports delivery of high-quality patient care. In addition, using a sourcing approach that balances domestic with offshore suppliers, health systems help the country and the communities they serve. The approach is also good for suppliers, creating new companies and new jobs. Forging these chains requires effort and commitment on the part of all stakeholders – hospitals and health systems, suppliers, distributors and GPOs -- but it can and should be done.

Reference

1. Hannah D. One way to build more resilient medical supply chains in the U.S. Harvard Business Review February 16, 2021. Accessed September 30, 2022. <https://hbr.org/2021/02/one-way-to-build-more-resilient-medical-supply-chains-in-the-u-s>

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