



Beyond Traditional GPO

Moving Supply Chain from Transactional to Strategic

One out of four supply chain leaders [don't have a strategic plan for supply chain](#)—and among those that do, many haven't refreshed their plan for the evolving realities of a post-COVID environment.

It's one reason why the need for a long-term, more strategic approach to supply chain that goes beyond group purchasing contracts toward accelerating value-driven work is rising in importance for hospitals and health systems.

Today, [78% of health care supply chain leaders](#) say they are most focused on cost-reduction goals. To get there, many center on tried-and-true approaches to cost savings, like minimizing variation in supplies and consolidating purchasing partners to streamline processes and optimize contract savings. Also of high importance for three out of four leaders: deepening relationships with distributors.

Research suggests [97% of hospitals](#) lean into relationships with group purchasing organizations (GPOs) to obtain better pricing for supplies by leveraging their collective purchasing power to obtain lower prices from vendors. It's a model that has existed for more than 100 years, and it has served the industry well.

But traditional GPOs have been slow to change their business model. What is needed: long-term, stable supplier relationships, backed by key performance indicators (KPIs) for which health systems and suppliers hold mutual responsibility to achieve.

"The practice of keeping many suppliers on contract in various categories, with pricing tiers that are revisited every two to three years, has created an insufficient, unstable environment that never allows health systems to pursue value beyond product price points. Just as you finalize an agreement, update systems, educate staff, and convert product, it's time to start the whole process over again."

— Dan Hurry, Chief Supply Chain Officer,
Bon Secours Health System

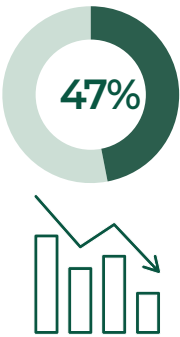
An emphasis on long-term relationships and shared goals for performance ensures quality, promotes innovation, and fosters higher degrees of transparency, all of which are building blocks of forward-thinking health care GPO models. It also promotes a more mature supply chain, which offers tremendous strategic advantages for health care.



The Imperative for a Transformational Approach

At a time when rating agency experts predict it will be a long time before hospital operating margins [return to pre-pandemic levels](#), high-performing supply chains offer an avenue not just for controlling costs, but also supporting service and market-area growth.

Supply chain costs in the average health system contribute to just over 37% of total cost of care, [according to Gartner research](#). These costs comprise the supplies, pharmaceuticals and purchased services that help ensure patients receive the right care at the right time. They are intensely affected by disruption, which can range from manufacturer consolidation to climate events to economic and political upheaval. Disruptive forces prompt health systems to make reactive purchases in response to backorders and recalls, further driving up costs, Gartner research shows.



of health care leaders say supply cost reductions will be their organization's **No. 1 cost-saving initiative** this year.

In contrast, mature health care supply chains [demonstrate three characteristics](#), according to Gartner:

- **They align to increasing financial pressures on the organization.** The value proposition supply chain creates must go beyond incremental price reduction. Top supply chain teams look for ways to ease financial pressures on the hospital or health system through cost efficiencies. Many are exploring new opportunities to drive value, such as keeping suppliers from automatically passing on cost increases in response to an inflationary environment or working with clinicians to determine ways to reduce the cost of procedures.
- **Sustaining and building risk and resiliency.** [Leading organizations—those that made Gartner's Top 25 Supply Chains list](#)—hire risk-and-resiliency leaders who not only direct organizations' efforts to become more resilient, but also help align supply chain capabilities with this effort. Typically, these organizations work to strengthen supply chain resiliency and response through the use of data, systems and analytics.
- **Making ESG a top consideration for supply chain purchases and initiatives.** Interest in environmental, social and governance initiatives [is rising](#) as health systems look for ways to reduce their organization's carbon footprint, decrease energy costs and stay ahead of environmental regulations. Rating agencies also have begun to [look at a hospital's ESG score](#) in evaluating an organization's potential to repay debt. Yet just 8.6% of not-for-profit health systems would rate their environmental maturity as "mature" or "very mature."

The financial challenges health systems face—coupled with continued global supply chain issues, such as inflation, and health care workforce shortages—necessitate a strategic-versus-transactional supply chain approach.

The days of measuring supply chain performance against an annual budget are gone. Many health systems are moving to quarterly or even monthly evaluations of organizational performance. They must be able to rely on the efficiency, resiliency and transparency of supply chain data to make real-time operational decisions that influence a health system's trajectory and staying power in a disruptive environment.

The Value of a Transformational Approach to Supply Chain

Taking a transformational—not transactional—approach to supply chain innovation in health care achieves value that goes beyond cost. Here are four examples.

1

Improves access to prescription drugs. Prescription drug shortages are approaching an all-time high, [leading to rationing](#) and scenarios where the right drugs aren't available for life-saving treatment. Specialty drug spending topped \$300 billion in 2021, a 43% increase over 2016 figures, driven largely by a [small number of high-cost products](#). A transformational mindset for supply chain seeks to balance automation, solid inventory management, and data insights to help mitigate shortages. It also incorporates ideas around migrating to generic alternatives, 340B opportunities, and strengthening the ability to anticipate drug shortages and react to the market while implementing robust chain-of-custody requirements.

2

Builds strategic supplier relationships. This can be achieved by identifying and partnering with fewer suppliers, which enables the exploration of value levers far beyond price points. The ability to build trust and work collaboratively with supplier partners is a critical path forward—and a key reason why health systems' GPO partners must play an active role in deepening relationships between suppliers and providers.

3

Enhances the experience of care for patients and clinicians. A transformational mindset explores options for changing the cost curve for care delivery while delivering innovative solutions that achieve value from the perspective of the consumer and those who provide care. "As a supply chain, we must not sacrifice quality in exchange for lower price points," says Dan Hurry, president, Advantus Health Partners, and chief supply chain officer, Bon Secours Mercy Health. "It is our job to strike a balance that meets the quality needs of our patients and clinicians while helping our organizations achieve financial stability."

4

Creates a foundation for innovation. Transformational supply chain teams foster collaborative, trusting relationships with suppliers that stimulate new ideas for approaching common and emerging challenges. "While we strive to have deep, strategic relationships with fewer suppliers, we also work to bring these suppliers together for the benefit of innovation," Hurry says. "Differing philosophies, processes, technologies, capabilities, systems, and data can all form an ecosystem that can serve as the catalyst for innovation."



Making the Right Moves for Long-Term Value

What are the transformational moves health systems must make to move from “transactional” to “strategic” in supply chain? Our experience points to five key actions.

Invest in the appropriate skill mix. Across industries, supply chain talent is becoming [harder to retain](#) and recruit. That's especially true in health care, where loss of senior supply chain leaders has created a knowledge gap that is hard to overcome and where strong pipelines to develop young talent do not exist.

Take a look at your organization's career growth and development options and consider: "Is this the right mix of options to attract top talent?" Look broadly across the needs of your supply chain team and assess whether your team has sufficient support in sourcing, negotiating, data and analytics, customer service, enterprise resource planning and more. Then, establish common goals and objectives that encourage team members to work together to achieve success. Too often, supply chain teams are siloed. This results in inefficient processes. It also presents barriers to effective communication—essential to any transformation effort.

Make sure supply chain has a seat at the C-suite table. Supply chain connects every aspect of the care experience. It's also crucial to resource optimization, quality of care and patient safety, all of which are critical components of health care value. Yet typically, supply chain doesn't get a seat at the table when it comes to value-based strategy—and it should. By bringing supply chain leaders to the C-suite table, health care leaders can set the stage for building a more resilient supply chain—one that defines the root causes of supply chain vulnerabilities and empowers teams to develop innovative solutions. In leading health care organizations, supply chain leaders also have a voice in health system strategy.

Simplify processes to make them nimble and flexible. The needs of health care organizations are quickly changing, and supply chains must be dynamic to adjust. Involve the team in determining what changes are needed—and why—to gain buy-in and build momentum for change. Ideally, the supply chain team's efforts also should be in tune with the strategic direction and goals of the organization so it can anticipate and lead any necessary changes.

Invest in technology that allows for highly accurate data capture in real time. Then, lean into tools that operationalize this information to drive key decisions. As supply chain teams work with internal and external partners to synthesize data from various systems, the GPO can play a major role in helping to provide support. Supply chain leaders should engage their GPO to maximize the value of available data. This will better position leaders to make informed decisions that support proactive decision-making rather than simply respond to historical indicators.

Top Strategic Supply Chain Technology Trends for 2023



Source:
"Gartner Reveals the Top Supply Chain Technology Trends for 2023,"
Gartner, May 10, 2023,
<https://www.gartner.com/en/newsroom/press-releases/2023-05-10-gartner-reveals-the-top-supply-chain-technology-trends-for-2023>



Seek like-minded partners that share common goals. The ideal supplier or GPO will be open to a new and dynamic relationship where each party views the other as a partner, not an adversary. Even today, most suppliers and providers do not understand each other. They struggle to align on common goals and are afraid to be vulnerable in discussions, which prevents real issues from being discussed and solutions from being sought. It's essential that health systems choose supply chain partners that are willing to innovate, be transparent, move away from inefficient legacy processes, and work to unlock a new level of value.

About Advantus Health Partners

Advantus Health Partners is a health care solutions company that makes supply chain easier for its clients through streamlined supply chain management, organizational purchasing, operations and cost-savings efficiencies. Advantus will leverage its successful model to benefit your organization.

Learn more about our solutions and contact us to set up a consult.

