Healthcare Supply Chain Top 25 Capabilities Model: Changing Focus to Health Systems

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Initiatives: Supply Chain Head of Strategy Realization

> Gartner has revised its model that guides peer and analyst voters (supply chain leaders) in assessing organizations in the Healthcare Supply Chain Top 25 for the U.S. market. The new model, reflecting our changed focus from all of healthcare to only health systems, is more evolution than revolution.

Overview

Key Findings

- Gartner is changing its Healthcare Supply Chain Top 25 to a U.S. health system focus and will no longer include manufacturers, distributors and retailers. Our Healthcare Supply Chain Top 25 Capabilities Model is being revised to capture changes over the past five years and changes related to this narrowed focus (see Methodology Changes for the 2021 Gartner Healthcare Supply Chain Top 25).

- Gartner retained the elevated and overriding goal of the healthcare supply chain to "improve human life at sustainable costs," but made 11 changes. Four changes relate to the emphasis given to a capability and seven are entirely new capabilities.

- In our change to the model in 2016, we reflected the need for an improved data and analytics framework led by supply chain. This model expands on that concept, replacing that terminology with "digital supply chain" to reflect a larger footprint than just analytics.

- Key concepts of risk and/or resiliency have expanded and increased in importance in the network visibility pillar while environmental, social and governance (ESG) makes its debut. At the foundation, the individual concept of governance rises in importance and focus. The past five years have taught us that, without authority and control, much of the rest of supply chain maturity is weakened.

Recommendations

Healthcare provider supply chain leaders that are interested in improving capabilities should:

- Review the new healthcare supply chain Capabilities Model. Analyze how your organization demonstrates excellence in these categories that improve human life at sustainable costs.

- Develop a clear and intentional strategy for supply chain. Approach your role more like a startup CEO for supply chain who has to effectively sell the value of the enterprise to stakeholders, catalyze improved governance and raise capital for advancement. Increase focus on strategic leadership, vision and communication.

- Develop capabilities that will help you lead at your organization and in the industry. Prioritize building a digital supply chain, aligning supply chain goals to organizational strategy and building solutions to support improving the health of your population.

- Build out your supply chain resilience and risk management capability. The pandemic created a burning platform to build out this function. Highlight and develop the capability to layer on top of sourcing, logistics and clinical alignment.
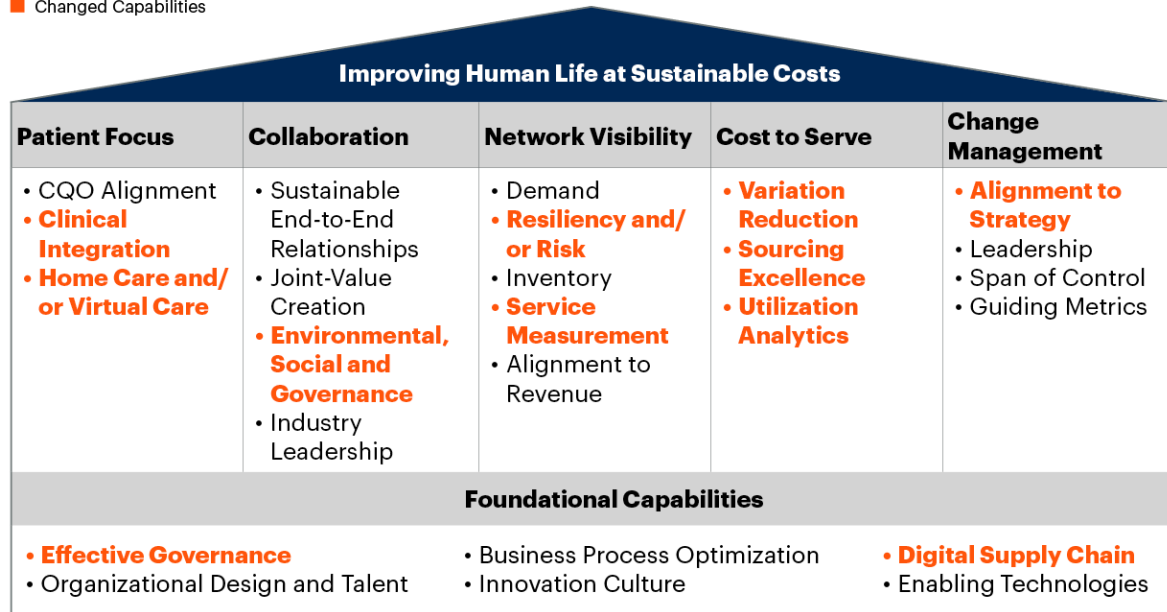
Analysis

We updated the Healthcare Supply Chain Top 25 Capabilities Model that we use in Gartner's Healthcare Supply Chain Top 25 to guide voting for peers and analysts. The Healthcare Supply Chain Top 25 is now tailored to the U.S. health system maturity of approximately 170 health systems with $2 billion or greater of operating expenses. Our Capabilities Model highlights activities in the healthcare value chain that help improve human life, driven by the core set of capabilities depicted in Figure 1. Each of the capabilities in the model is explained in detail in the next section.

Figure 1. Healthcare Supply Chain Top 25 Capabilities Model

Healthcare Supply Chain Top 25 Capabilities Model

■ Changed Capabilities

Improving Human Life at Sustainable Costs

Patient Focus	Collaboration	Network Visibility	Cost to Serve	Change Management
• CQO Alignment • **Clinical Integration** • **Home Care and/ or Virtual Care**	• Sustainable End-to-End Relationships • Joint-Value Creation • **Environmental, Social and Governance** • Industry Leadership	• Demand • **Resiliency and/ or Risk** • Inventory • **Service Measurement** • Alignment to Revenue	• **Variation Reduction** • **Sourcing Excellence** • **Utilization Analytics**	• **Alignment to Strategy** • Leadership • Span of Control • Guiding Metrics

Foundational Capabilities

• **Effective Governance** • Organizational Design and Talent	• Business Process Optimization • Innovation Culture	• **Digital Supply Chain** • Enabling Technologies

Source: Gartner
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The revised supply chain Capabilities Model incorporates 11 changes. It includes some new concepts, and refines and/or reorders some of the focus areas to better reflect the changing environment. Specifically, we changed the overriding goal of the model to be less focused on patient care versus specific product cost goals, and more focused on the sustainable total cost of improving human life. We also replaced the data and analytics framework in the foundational section to be a more inclusive "digital supply chain," and changed the cost-to-serve subheadings entirely. As our Healthcare Supply Chain Top 25 research over the past five years indicates, strategy development, change management, risk and/or resiliency, and talent development remain the most important differentiators for supply chain in healthcare, but only if foundational governance is in place.

Foundational Capabilities

- **Increased emphasis — Effective governance:** Ensuring good governance with strong structures is essential for effective oversight in decision making. Increasingly over the past few years, health systems require effective governance in order to mature to more advanced stages. The other foundational capabilities are less effective without the governance to make the changes that need to happen. It's important to have the authority given at a senior level to listen to the end users, set specifications and drive change at the clinical, end-user level. More importantly for many of the integrated delivery networks (IDNs), it's essential to have governance over the hospitals in their network, particularly those from acquisitions. That governance comes in the form of common enterprise resource planning (ERP) systems and the realization that decisions should primarily be made as a single operating system.

- **Organizational design and talent:** Companies that make the Healthcare Supply Chain Top 25 ranking attract and retain deep, top-quality talent over the years. Healthcare providers have a strong leader and lieutenants planning sourcing and logistics aligned to clinical care and use analytics. The chief supply chain officer (CSCO) has an equal voice at the table. Supply chain is aligned to the organization's goals and can effectively influence other functions to further the supply chain's goals.

- **Business process optimization:** This is the ability to have sound foundational business processes across the organization to ensure strong functional performance. Continuous improvement is a cultural aspect of an organization, and the best IDNs make it "the way we work." Many leading supply chains have their own project management offices (PMOs) or centers of excellence (COEs), and operate as internal consultancies for the end users that they support.

- **New — Digital supply chain:** The change in this term expands from data and analytics to "digital supply chain." "Digital" is a broader term, incorporating more than just data and analytics. While data and analytics is still the primary focus of the digital supply chain at healthcare providers today, we should also recognize other components such as robotic process automation (RPA) and the alignment to digital strategies being employed in the delivery of care in general. We've seen a lot of the more mature organizations hiring for roles such as digital supply chain officer. These organizations are thinking about how such roles relate to their own supply chains, but also to the 20 to 25 third-party platforms in which they use and store supply chain information. Providers are getting much smarter at aligning the data to look at the total cost of care to make trade-offs with product cost. The analytics findings are shared with clinicians and even suppliers to create a better end-to-end supply chain. Organizations need to enable decision making that intersects patient outcomes and total cost to serve for improving population health at sustainable costs, across different diseases. An increase in home-centered care and its associated data streams, further increases the need for integrated digital supply chain solutions.

- **Enabling technologies:** This capability is foundational to support the digital supply chain. Organizations with this capability invest in technology or the connective tissue among technologies to make better decisions. This includes a common ERP platform, analytics and reporting tools, as well as strategic use of systems of differentiation and innovation that give better visibility and end-to-end response. Connectivity across stakeholders is critical, ideally extending upstream to research and development (R&D). For providers, it includes a common ERP system that intersects with electronic health records (EHRs) and other technology platforms to measure service and make trade-off decisions between improving patient care and reducing total costs.

- **Innovative culture:** This capability involves creating a supply chain culture that focuses on optimizing functional areas and looks for innovative ways to solve problems. Risk taking and developing empowered team members beyond senior leadership are markers of this capability. Enabling innovative capabilities also includes a defined funding process for supply chain improvements, and mechanisms for identifying and harvesting the best ideas.

Patient Focus

- **Cost, quality and outcomes (CQO) alignment**: We expanded our view of patient focus to include not only products in a clinical setting, and care and outcome for the patient, but also the interrelationship between CQO for supply chain decisions. Assessing how any company in the value chain aligns to this directive is front and center for this capability. The Association for Healthcare Resource & Materials Management (AHRMM) created the concept when it launched the CQO Movement in 2013. [1]

- **New — Clinical integration**: To some extent, this builds on CQO. How organizations see the supply chain role in the clinical workflow varies. More advanced providers make supply chain an extension of the clinical workflow and weave it into the fabric of delivering care. That's becoming the new standard. Think about how supply chain supports a given care pathway by having the right products at the right place at the right time. Think about how supply chain supports that improvement of care and the way clinicians use products and drive outcomes based on the way that they use those products that are delivered to the point of care.

- **New — Home care and/or virtual care**: This section used to be care continuum, a moniker that for most systems meant expanding the physician office. In most cases, this capability is now at maturity. For most health systems, home care and virtual care are not. Matching a supply chain response to the growing need to think about expansion of care outside the acute care environment is a new frontier. Some health systems do this well, but most do not. Think about the patient preadmission and postdischarge, all the way through a course of care. Determine how the supply chain can support that patient with the products and services they need in the home, or the products and services to match a virtual experience without physical clinicians. This is an area for differentiation among health systems.

Collaboration

■ **Sustainable, end-to-end relationships:** We revised this description to add sustainability and the end-to-end relationship for the new model. Demonstrating an intentional connection from manufacturer through distribution to the patient is an advanced capability that we believe needs continued development. Building systemic capability versus one-off projects is the next step in this evolution. Trailblazers here are also able to sustain the collaboration over several years and multiple care pathways. This requires a cross-supply-chain view about what happens to the patient outside the acute care setting, and providing the right product and lower total costs through collaborative efforts. The bottom line is that traditional zero-sum-game negotiation needs to give way to value creation across the entire supply chain.

■ **Joint-value creation:** This involves value creation to the patient in terms of reduced total cost to serve, not just a price and/or volume trade-off indicative of many "collaborative" relationships today. This is achieved by looking at the patient's episode of care, and working together on what resources manufacturers and providers can bring to help the patient most efficiently. Seek initiatives that collaborate aggressively, and don't be afraid to commit to the relationship with volume and best pricing; move quickly beyond this to share information that improves care and efficiency.

■ **New — Environmental, social and governance (ESG):** For many years, the global Top 25 has had a corporate social responsibility (CSR) metric, and now that metric is ESG. Ahead of incorporating a quantitative metric in the Healthcare Supply Chain Top 25 methodology, we are formalizing "running an ethical and sustainable supply chain" as a criterion for peer and analyst voters. Some organizations have made great strides by using supply chains to economically develop their local communities and think about the health of their populations and the disparities that may exist. The health systems in the study serve all communities, and we've been too slow to represent that reality in our model. We're at the beginning of this development. Significant change will come in the next three to five years. Organizations will embed ESG components into the way that they source and deliver products to the point of care, all the way back through what they expect from their manufacturer and service provider partners.

- **Industry leadership:** This section formally reflects our thinking that willingness to share progress is one of the healthcare industry's biggest assets. Organizations should be rewarded for collaboration in the spirit of raising the industry's expectation for the value that supply chains can deliver. It is an important part of the Healthcare Supply Chain Top 25, and organizations that hide their capabilities are not contributing to the greater good.

Network Visibility

- **Demand:** The ability to effectively forecast demand remains at the top of our revised model. As an industry, healthcare is weak at this point where organizations capture, predict and share demand signals across the value chain. Change has been slow, and capability development is halting here. Everyone recognizes the importance of good demand sensing for an efficient supply chain, but the work needed across fragmented trading partners remains daunting.

- **Revised and increased emphasis — Resiliency and/or risk management:** We've included risk management since 2016, but it was lower in the model (having less emphasis). This reflected the maturity of what organizations could do, but risk management has expanded and matured. We've watched it iterate from risk management for local weather-related emergencies to thinking about business continuity and what happens when a whole region is impacted, or there's a global trade issue. Thinking about preparedness and resiliency in the face of a catastrophic global supply challenge, such as the COVID-19 pandemic, we concluded that organizations and providers shouldn't just think of it as risk management. They should expand their thought to think about how resilient their supply chain is in a number of different scenarios. We're expanding it and thinking about it on multiple levels. In many cases, organizations are adding the function, and in other cases they are adding physical capabilities, better partnerships or data capabilities to provide the tools to demonstrate resilience across a number of different product categories.

- **Inventory:** Inventory continues to be a focus. It is a core area of bloated costs and pain in the industry. Providers' ability to understand inventory holding costs, beyond cost of capital, is the first step. The second step includes the cost of loss and/or expiration of products, along with how SKU redundancy impacts performance. Getting control of costly "unofficial inventory" across the value chain is a formidable task.

- **New — Service measurement**: This relates to the capability to do demand planning, manage inventory and be resilient. We're calling it out here individually because it's such a miss for many health systems across the three primary product supply chains of medical surgical, medical device and pharmaceuticals. We're adding it because we think it's a differentiator for health systems that have the capability to know what their service level is at the point of use, versus those systems that do not have that capability. We don't know how organizations can get to resiliency, demand planning, or even a better inventory management capability without the ability to measure service somewhere close to the point of use. It's still an underdeveloped capability at most health systems, especially at scale.

- **Alignment to revenue**: This additional category reflects a less pure operational view of demand. Our Healthcare Supply Chain Top 25 research shows that a growing number of organizations are thinking about the new revenue models (e.g., value-based healthcare and accountable care organizations [ACOs]), bundled payments, aligned health plan and/or provider organizations, the trade-offs that can be made between product and/or supply chain costs, and the total cost and quality of patient care. In many new reimbursement models, the procedure-based payment model gives way to an aggregated payment that reflects payment for a longer course of patient care or even a covered life. The payment is the demand signal, and not a "fee-for-service" or procedure-based payment, and supply chain needs to work together with clinical to be a more important part of the care pathway. Health systems must build responses to optimize reduction in the total cost of care or even avoidance of care if patients remain healthy.

Cost to Serve

Our cost-to-serve capability reflects our overall health system focus and the improved recognition of the interrelationship between product and/or service selection, sourcing and utilization management in getting the most value from supply chain.

- **Moved — Variation reduction:** This is tied to foundational capabilities of data and analytics, and having information to make optimal decisions for cost and patient outcomes on products and services. This is an added area for the revised model to recognize that "user preference" adds unnecessary cost to the healthcare supply chain, and advanced organizations must make strides to reduce it. Bundled payment models and growing insurer businesses at many providers make this a core capability for organizations to process the data, and choose products that maintain or improve quality while lowering total cost. All areas of supply chain can and should focus on reducing complexity through standardization and the efficiencies that this brings. It involves communicating in a different way with clinicians and trading partners. This is done, for example, to ensure that new product introductions do not simply proliferate for economic reasons, but also improve total cost to serve and patient outcomes.

- **New — Sourcing excellence:** This is the cleanest reflection of the change to an all-healthcare provider system. We recognize in this cost-to-serve model that there are different levels of sourcing excellence at health systems. This includes organizations that rely on their group purchasing organization (GPO) and do not have a lot of their own sourcing capabilities. This also includes organizations that have either become their own GPO, or have their own primary sourcing team and are effectively playing that role as their system has expanded. There have been many mergers and acquisitions in the last five years, and higher variability because we source everything that we use. Providers are not manufacturers. Everything that we use in supply chain is bought from a third party. Therefore, being good at sourcing — not just at the lowest cost, but at the best value and centralized across the organization — is an important component.

- **New — Utilization analytics:** Because this is cost to serve, the way that organizations think about this varies greatly. This builds on sourcing excellence. With sourcing excellence, you're sourcing an item, thinking about it and considering what the price is for an item (a widget or a SKU) that you're buying. In healthcare, we know that there's also a component of how much of that product or service that you use, and there's variability across the system. There's variability in cost depending on how much of that product you use, or even if you use that product or service at all in some cases. We think utilization analytics, in terms of importance, is underrepresented at most healthcare systems. Those organizations that do it, understand it and broadly share it will be better able to manage it. It's a way to think about variability reduction in a way that isn't just standardizing on a product. It's thinking about more standardization around how or if we utilize a product or service.

Change Management

If organizational design and talent are the most important foundational capabilities, the ability to manage change is the most important structural column for the healthcare supply chain. Change management, in close alignment with patient focus, supports the evolving goal of improving human life at sustainable costs.

- **Increased emphasis — Alignment to strategy:** Much like governance, this is a movement upward in focus in our Capabilities Model. After reviewing 50 supply chain strategy documents and doing dozens of workshops on strategy, this is the most important component of this change management section. If you're aligned to the organization's strategy and you're communicating this, it is more important than leadership, span of control or the metrics that you use to do it. It is the foundational, key move. Getting good governance by having a strategy that aligns to the strategy of the organization that you're communicating well, has to be a top priority within change management. It's the most effective tool that a supply chain leader has. Siloed supply chain goals run the risk of being misaligned to corporate goals and the needs of patients. Supply chain needs to understand and clearly support the company's strategy. Most organizations have a patient care mission in parallel to a profit imperative.

- **Leadership:** In many ways, leaders in supply chain must view their roles to be similar to those of startup CEOs, who are more visionary leaders than operators. Even more importantly, they have to build a value proposition for supply chain to support growth, profit and improve human lives to best perform in the Healthcare Supply Chain Top 25. Many healthcare organizations don't intuitively understand this role that supply chain can play, so the capability to build it and communicate this value is mission-critical for all.

- **Span of control:** This is one of the most important top-level metrics for healthcare supply chain effectiveness. There are major disconnects in what areas a connected supply chain can impact, and siloed behavior still persists. Leaders are effectively addressing this issue on all fronts. A healthcare provider CSCO who manages only source and deliver for medical surgical and medical device products is not optimizing the total supply chain. For providers, quick questions for an area under management are, "Is it spend with a third party?" and "Is that spend variable in price or utilization?" If so, supply chain should manage it.

- **Guiding metrics:** Leading companies use metrics strategically (see The Hierarchy of Healthcare Supply Chain Metrics for IDNs and The Hierarchy of Supply Chain Metrics: Diagnosing Your Supply Chain Health). Leaders know how to make profitable trade-offs around the metrics to accomplish their goals.

This revised model is a guide to both peer and analyst voters as they consider companies to select for the annual Healthcare Supply Chain Top 25 ranking. It reflects the many changes in the healthcare supply chain that have occurred in the past five years, our movement to a new health-system-only ranking and what Gartner believes is necessary to be successful in the next five years. One thing remains constant — organizations receiving the most recognition combine strong foundational capabilities with targeted progress in all of the areas outlined above.

Although following our model in developing supply chain capabilities cannot ensure success in execution, the industry overall recognizes that the path to improving human lives can benefit from the principles captured in our model. Wherever a company sits in the value chain, this model can be used to frame and set parameters to supply chain strategic goals.

Evidence

[1] Cost, Quality and Outcomes (CQO) Movement, The Association for Health Care Resource & Materials Management (AHRMM).

Document Revision History

Healthcare Supply Chain Top 25 Capabilities Model: Improving Human Life at Sustainable Costs - 17 August 2016

Recommended by the Author

Some documents may not be available as part of your current Gartner subscription.

Methodology Changes for the 2021 Gartner Healthcare Supply Chain Top 25

The Healthcare Supply Chain Top 25 for 2020

Healthcare Supply Chain Top 25 Capabilities Model: Improving Human Life at Sustainable Costs

2020 Healthcare Provider Supply Chain Organization Structure Report

Ignition Guide for Creating a Healthcare Provider Supply Chain Strategy