

## Examining the Health Care Supply Chain with John Pritchard – Hospitals In Focus Podcast

Speaker 1 ([00:11](#)):

Welcome to Hospitals In Focus from the Federation of American Hospitals. Here's your host, Chip Kahn.

Chip Kahn ([00:18](#)):

Almost overnight hospitals and healthcare workers across the country, and for that matter the world, have had to dramatically increase their on-hand supplies to meet the challenge of COVID for their patients and frontline staff. And unfortunately many reported significant challenges in stocking up on PPE to protect caregivers and on assuring enough ventilators for severely ill patients.

Chip Kahn ([00:50](#)):

As our leaders focused on this situation and the media began to cover it, you started to hear a lot about healthcare supply chain. What is the supply chain? Why did it falter and how well is it working today? And frankly, is it prepped for the potential surge of COVID this fall? To answer these questions and more, I think our conversation with John Pritchard will be both informative and illuminating. Before we start our session, I want to ask you to take a minute to rate, review, and subscribe to Hospitals In Focus. Rating us five stars will help us keep creating content, which I hope you find informative and worth your time.

Chip Kahn ([01:35](#)):

As I said, joining me today is John Pritchard. He is the President and CEO of Share Moving Media and is an acclaimed all around expert on the healthcare supply chain.

John Pritchard ([01:48](#)):

Thanks for having me, Chip.

Chip Kahn ([01:50](#)):

Before we cascade across America's healthcare supply chain, John, will you tell us a bit about yourself and your firm Share Moving Media?

John Pritchard ([02:01](#)):

Sure, Chip. Thanks for asking. I really appreciate you having me on. Share Moving Media is the name of our company. It's also our brand promise. We help suppliers engage in the healthcare supply chain and hope we help them gain some market share. We do it through information, communication and education. We have magazines, associations, we have a daily e-newsletter that goes out and I published a book called Muddy Waters. You can learn more about any of that at [sharemovingmedia.com](http://sharemovingmedia.com).

Chip Kahn ([02:28](#)):

Well, John, that surely qualifies you to talk about our subject matter today. John, pre COVID, how did the supply chain work and what role did the concept of in time inventory play in supplying America's hospitals?

John Pritchard ([02:45](#)):

Yeah, it's a great question. And I've spent over the last 20 years observing that, and I've had a front row seat to the supply chain. The last 20 years or so, supply chain... Or I'm sorry, supply chain executives and hospitals and health systems have really worked tirelessly to reduce costs. They've really gone from

buyers of product and supplies and services to strategic sources and part and parcel to that has been reducing the cost of what they spend. And part of that is reducing inventory. And the economics of why they want to reduce cost is why it's such a high priority. And I'll give you a real simple illustration if I could, Chip.

John Pritchard ([03:26](#)):

A typical hospital, say it has \$2 billion in revenue and a 2% margin, and you can kind of play with the numbers on your own. But for our illustration, I'll use a \$2 billion hospital makes 2% margin, so it has net income of about \$40 million. Now supplies and services they procure is the second largest expense of a hospital behind labor. So let's assume it's 30% of their patient revenue or about \$600 million. If they're supply chain leaders removed just 5% of their supply chain costs, that's a \$30 million savings. If you can save \$30 million and put that to the bottom line, that's only 40 million, that's a really significant enhancement to the operations of these facilities. And that's why they've worked tirelessly to do that. And it's frankly why they didn't have a lot of inventory going into this crisis.

Chip Kahn ([04:21](#)):

John, who guides this process? Who are the primary stakeholders in the supply chain and what are group purchasing organizations and what is their role here?

John Pritchard ([04:31](#)):

You could argue everywhere from the patient to the manufacturer, and all those steps in between are the key stakeholders. The group purchasing organizations are a pretty interesting organization if you haven't spent much time looking at them. There's basically four national ones that comprise the vast majority of volume, and they are literally and figuratively owned by the hospitals and they contract for goods and services on behalf of their membership. And their membership is oftentimes different owners of our nation's hospitals.

John Pritchard ([05:02](#)):

And simply put, they try to aggregate the volume of their membership to enjoy cost savings. They do a little bit more than that too. A little bit more than contracting. They add value to their membership, oftentimes being a convener of thought and their hospitals, whether it's benchmarking or sharing best practices, it's one of the few places to go to, to try and really figure out how to go about managing their supply chain the best they can.

Chip Kahn ([05:28](#)):

Frankly, the arrangements you have described clearly were not made for a pandemic of the size and scope of COVID. From your view as an expert, what happened to the supply chain with the advent of COVID? Why did the supply chain come up short, frankly, regarding PPE, ventilators and other key supplies at the beginning of the national crisis?

John Pritchard ([05:54](#)):

Wow, Chip, it really was the perfect storm. Almost overnight demand went through the roof. Many hospitals changed their requirement and their orders for those products, especially the PPE, the consumable stuff for requesting from their supplier partners a one month supply to literally a two year supply. And as you know, most of the stuff is sourced out of China and it came right on the tail end of

the Chinese New Year when factories were shut down and quieted for the national holiday. And then right after that, the virus hit China and shut the factories down even longer.

John Pritchard ([06:33](#)):

So it's the perfect storm where demand goes way up and supply isn't being fulfilled and it is oftentimes closed. And then you put on top of that, there starts to be a little bit of a hoarding mentality going on. And it just was really a bad scene that they've worked hard to get their way through. I would even argue just a little bit that maybe the supply chain didn't come up short in fact, but it actually operated exactly how it was designed, unfortunately. And so, our nation and the supply chain was really kind of caught on their heels when demand went through the roof and supply wasn't able to satisfy it.

Chip Kahn ([07:13](#)):

So how did we catch up and what role did the government play in all of this?

John Pritchard ([07:18](#)):

Yeah, it's interesting. I don't know that we are caught up. In fact, I was talking to a pretty famous supply chain leader this morning and kind of the illustration he drew for me was he was always two steps ahead of the bear. They never ran out, but boy, that bear was right behind them. But we're getting there and it's through a lot of coordinated efforts, whether it's distributors and suppliers allocating what supply they did have and then hospitals and health system rationalizing what they had to make do with. And oftentimes as the hotspots became clear, they are able to start to share with each other and make sure a lot of the product that was so dearly needed to protect our patients and our workers was redirected to the hotspots.

John Pritchard ([08:05](#)):

The question of what government did, boy, it was interesting to watch. I've never watched so much live news in my life, trying to stay abreast of what the government was doing. But one of the most notable things was the air bridge they provided where they were providing transportation to China to pick up PPE of product that was there and on the ground to bring it back. And I think, if I remember correctly, a lot of the time, what they would do for the distributors is allow the distributors to move half of that product where they wanted to and the other half had to go to the hotspots which were all very well documented. I think there were countless efforts by local government too, to try and coordinate between cities and states and communities. I think those stories will be fair to doubt for a long time to come.

Chip Kahn ([08:52](#)):

Do you think that most of that coordination worked?

John Pritchard ([08:55](#)):

You know, Chip, I worry about it, to be honest with you. I think it's real easy in a time of crisis to be critical of anyone. But I thought sometimes the local agencies and governments were a little bit slow to react when they did find product and literally didn't know how to quickly procure product. I almost liken it to one of my kids trying to teach their grandparents how to use eBay. Whereas commercial companies, for-profit companies probably know how to almost live and thrive in an auction-like atmosphere for raw materials or other inputs of good. But the government agencies, I think probably in

hindsight, wish they would have been a little bit more agile and capable of vetting, securing and procuring things a little faster.

John Pritchard ([09:41](#)):

And one thing I do think did not work is oftentimes these government agencies that were trying to procure whether it was the state level, states competing against states, they created an irrational market where now the price was going up. I got to tell you, I do observe that. I am going to kind of allude, the next question was probably how could they have done it better? Because I really don't know. I don't know what the answer would be.

Chip Kahn ([10:06](#)):

Do you think they overpaid?

John Pritchard ([10:08](#)):

Yeah, I think they do. I'm worried they do. And I think we're going to hear a lot of those stories. I also think they probably got scammed a lot. I was talking to another supply chain leader today that said that people came out of the woodwork with product all of a sudden, supposedly, and the organizations that are out there offering it. And I mean, now more than ever, the brand trust is so important to a brand to be able to sell product. You saw the dust-up the president had with 3M. You think about going into this, what more American brand was there than 3M before they had troubles with the president. The president came off of his comments about them, but it was real interesting to see, and it kind of refortifies why healthcare brands need to be great brands and tell their value and be trusted. So when we have times of crisis, they know they're working hard and they're in it together for our nation's hospitals and patients.

Chip Kahn ([11:02](#)):

Are there other key takeaways for suppliers and providers regarding the supply chain in this crisis so far?

John Pritchard ([11:10](#)):

Yeah, I really, I think there are. I think so much of the lesson we're going to learn from this crisis is yet to be determined. But there are a few that are strikingly obvious, the realization that we simply weren't prepared. I think we're going to see people get a little bit lazy and simple about what the solution is and chant "Made in America, Made in America, Made in America." I just don't think it's going to be that easy or simple. I think it's going to be more strategic sourcing so that there's visible line of sight to where product is. And even all the way through the supply chain to primary suppliers of raw materials and then work in progress, in transit and all of that manufacturing's going to have to be tied to some kind of demand trigger.

John Pritchard ([11:56](#)):

I think the other thing that became incredibly obvious was the national stockpile isn't for national emergency. Chip, you're from the great state of Louisiana that probably growing up, always worried about hurricane season. And that's probably the amount of product we had in the national stockpile was to help a affected geography, be it Puerto Rico or New Orleans or one area. It certainly wasn't there to take care of the whole nation in a time of crisis.

Chip Kahn ([12:26](#)):

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So in light of that, unfortunately, experts expect us to see a surge of not only COVID in the fall, but flu as well. How is the supply chain gearing up for this contingency? How do you think we're going to do?

John Pritchard ([12:41](#)):

I'm nervous like everybody, to be honest with you. I think we'll have to see kind of a data-driven exercise of responsible sourcing so we know how much stuff we have to have on hand, how much we need to have on order and on its way to us. I sure hope so anywhere. I do think it will be more inventory. I think there's going to be more transparency and visibility.

John Pritchard ([13:06](#)):

The really interesting thing, Chip, it wasn't unlike when we went through the reform that was the impetus for the Affordable Care Act, where all of a sudden value is in the equation of the cost of care and people are asking how much does something cost before the care was commenced? I think the new variable that will now be indelibly part of this whole value transaction is reliability. Can I trust my supplier to deliver quality products when I need them and before a problem? And I don't know that that was done before. There was much more a value equation around the cost of what they're buying and then almost an era of commoditization of products. And now reliability will be a major variable in that conversation.

Chip Kahn ([13:51](#)):

Wow. The environment really has changed very rapidly. I hope the payers in the future will accommodate that. I fear we're going forward though, that we always have this problem of fighting the last war. I guess we're still in the midst of this one, but there will be one as we just discussed in the fall. How do you think we're going to prevent in the future, this sort of issue of basically coming up a day late, a dollar short with these kinds of challenges?

John Pritchard ([14:24](#)):

Yeah, it's a great question, Chip, and it's the one that sort of keeps me up at night. And it's interesting you mentioned the payers. We have so many conversations of all the stakeholders and oftentimes the payer's not one brought in to that. And I think it's really important we ask the question, how are we going to finance capacity to take care of our healthcare providers? A professor I really enjoy following, Dr. Eugene Schneller from Arizona State University, I think he's one of the forethought leaders on healthcare supply chain, uses a great analogy of the firehouse. We don't build firehouses in the nation, hoping we have fires. We build them in case we do. And somehow we need to figure out how to build the firehouses of the healthcare supply chain and how are we going to finance that. That's my great hope that we have that new capacity in our supply chain to make sure we're not a day late and a dollar short.

Chip Kahn ([15:22](#)):

John, thanks for your perspective. You provided much food for thought and are an important voice with a message that I hope our policy makers listen to, and I'm sure our listeners deeply appreciate.

John Pritchard ([15:34](#)):

Thanks for having me, Chip.

Speaker 1 ([15:37](#)):

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Thanks for listening to Hospitals In Focus from the Federation of American Hospitals. Learn more at [fah.org](http://fah.org). Follow the Federation on social media at FAH Hospitals, and follow Chip at Chip Kahn. Join us next time for more in depth conversations with healthcare leaders on Hospitals In Focus.