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IDN Supply Chain Benchmarking Data: 2 Key Opportunities



Introduction

Managing supply chain metrics within an Integrated Delivery Network (IDN) is challenging. Benchmarking supply chain data with other IDNs on an E2E basis is even harder. Gartner benchmarking data outlines opportunities for IDNs, such as expanding span of control and optimizing inventory turns.

The IDN benchmarking data reveals that IDN supply chain leaders need to build a set of E2E reporting capabilities that reflect the impact on patient outcomes and total cost to serve. Aligning supply chain costs and educating IDN leaders about the value of supply chain are critical, especially when considering the people, processes and technology that support the delivery of products and services.

Analysis of the IDN benchmarking data highlights two key initial opportunities for healthcare providers. Explore the opportunities and learn how IDN supply chain leaders can drive performance improvement through Gartner IDN Supply Chain Benchmarking.



Analysis 1

Optimize Supply Chain Costs as a Percentage of IDN Operating Costs

Most existing supply chain benchmarks underestimate how large expenses factor into operating costs. The full expense for all products purchased from a third party and the infrastructure costs of the people, processes and technology to manage those expenses are typically captured in siloed budgets for personnel or IT expenses.

Calculating the total E2E cost of supply chain per an activity metric and dividing by the total cost of patient care for the same activity metric equals an average cost of supply chain of 37.3%.

For most IDNs, the costs that make up supply chain belong within these categories:

- Direct supply chain labor
- Supplies
- Services
- Technology costs for supply chain
- Inventory holding costs, including loss/expired/obsolete products
- Other, which can total more than \$1 billion for some IDNs. (Legacy financial reporting and loose governance cause this huge area of spend to be undercounted for IDNs, meaning that the supply chain organization is usually not involved in the management of this spend.)

It is crucial that supply chain leaders and hospital executives realize the importance of making trade-offs between patient care, the total cost of patient care and the total cost of supply chain.

Table 1: Benchmark Metrics for Total Cost of Patient Care and Total Supply Chain Cost

Metric	Median (\$)	Range
Total Cost of Patient Care	\$9,314	\$7,508 to \$15,709
Total Supply Chain Cost	\$3,478	\$2,101 to \$4,412

Note: Based on Gartner supply chain benchmark data of 20 IDNs as of March 2020.

Source: Gartner

Recommendations

IDN supply chain leaders should consider the following steps to optimize supply chain costs as a percentage of IDN operating costs:



Calculate full supply chain costs. [Participate in the IDN benchmarking program](#), and do the hard work to determine total E2E supply chain costs. Identify the process and see if it can be streamlined and/or simplified in the future so this exercise can occur more frequently and easily.



Communicate strategy and results. Highlight the total cost of supply chain as part of a three- to five-year supply chain strategy. Unwind the siloed approach to managing individual expenses to evolve to a more comprehensive approach.



Expand the span of control for supply chain. Play an integral role in managing all the areas of third-party costs; Listen to end users, set specifications, source, deliver and report back how compliant the IDN is in relation to decisions made.

Analysis 2

Use Sourcing Metrics Like Span of Control and Contracting Ratio to Increase Focus and Investment on Supply Chain

Sourcing has always been a primary focus for supply chains. While metrics often tell a broader story of the relationship of supply chain to patient care, service and capital management, some of the metrics focus on optimizing the sourcing capability specifically. Our data shows that IDNs have great variance on two key components. As part of the value-adding process, understanding the amount of the third-party spend under the control of supply chain and the number of people employed to manage that spend can directly impact performance.

Span of control averages 77.4% of the third-party spend for the IDNs in our benchmark group, with a low of 61.4% and a high of 95%.

This means that, on average, almost 9% of the total cost of patient care does not go through a professional process of listening to end users, setting specifications for a product or service, or sourcing, delivering and measuring results.

The contracting costs metric is more direct. This metric measures the amount of spend under the control of supply chain divided by the number of sourcing people (not purchasing or order processing but people who negotiate with suppliers).

The average IDN sourcing person in our benchmark study manages \$40.2 million, with a range of \$17.1 million to \$73.3 million — so roughly, 50% of the average spend or two times the amount of spend.

Rules of thumb say a professional sourcing person has a return of eight to 12 times on the investment in that resource.

Table 2: Benchmark Metrics for Span of Control and Contracting Costs

Metric	Median	Range
Span of Control	77.4%	61.4% to 95%
Contracting Costs	\$40.2 million:1	17.3 million:1 to \$73.3 million:1

Note: Based on Gartner supply chain benchmark data of 20 IDNs as of March 2020.

Source: Gartner

Recommendations

Healthcare supply chain leaders can enhance the effectiveness of their sourcing teams by leveraging benchmark data to:



Motivate senior leadership to give governance over an expanded percentage of the third-party spend. Handling greater than 50% of the plan (listen to end users and set specifications), source, deliver and report functions is enough to count as in the span of control.



Target 90% as the amount of nonlabor third-party spend managed by sourcing teams. Deliver value to the organization in cost reductions and service to continue to make the case for additional span of control.



Calculate the spend managed by sourcing specialists and compare to Gartner's benchmark. Make a conscious decision based on the size of the IDN in terms of revenue and geography on how to make the case for the right number of people to drive savings and service gains.

Actionable, objective insight

Position your supply chain organization for success. Explore these additional complimentary resources and tools for healthcare supply chain leaders:



Research

The Gartner Healthcare Supply Chain Top 25

Learn from leading organizations how to build stronger supply chains, improve patient outcomes and control costs.

[Download Research](#)



Research

Strategic Planning for Supply Chain

Put key elements of supply chain strategy on one page to gain support of key stakeholders.

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Research

Healthcare Supply Chain Strategy Do's and Don'ts

Explore four simple steps to enable strategic planning in the healthcare supply chain.

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Case Study

Low-Cost Patient Engagement: A Supply Chain Case Study

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