

The Role Of Distributors In The U.S. Healthcare Supply Chain



Today's Topics

- What distributors do
- How manufacturers partner with U.S. distributors
- How Covid-19 has impacted distribution
- Plus a few ideas about entering the U.S. market





The Medical Products Supply Chain Is Global



But In The US, It's Also Local



- Hundreds of distribution centers within a 50-mile radius of most urban centers
- Same-day or next-day delivery to providers
- Shipments by their own trucks or carriers

Most Healthcare Providers Rely On Distributors For Their Supplies



Thousands Of Manufacturers Worldwide



Hundreds Of US Distributors



6,000 Hospitals



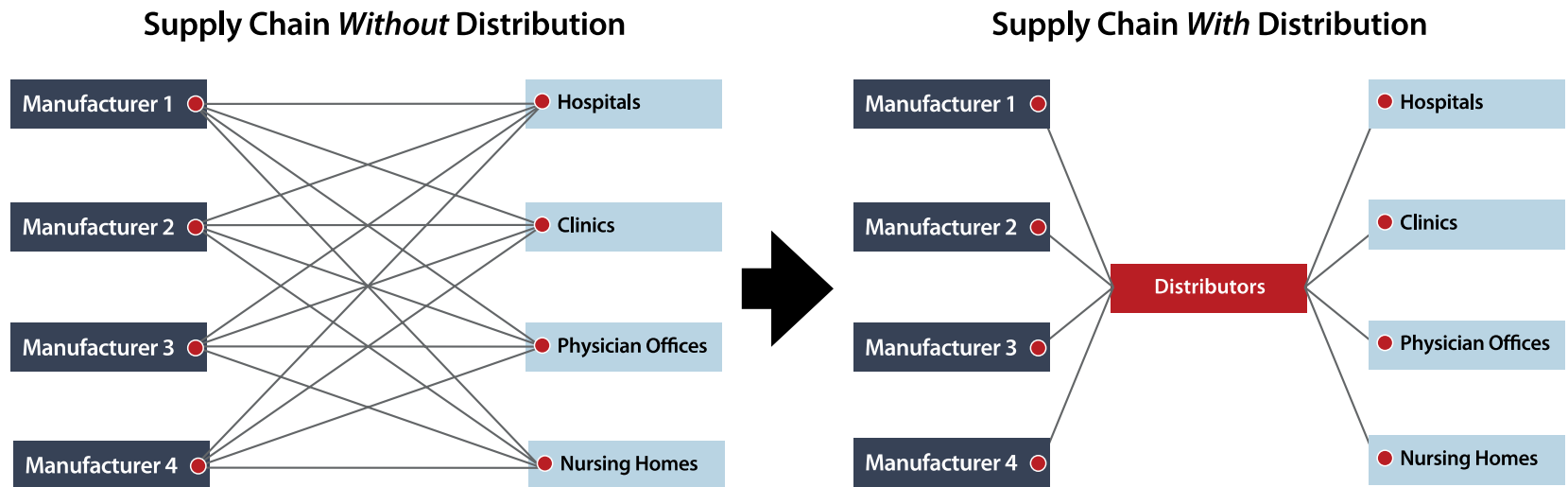
44,500 Nursing Homes And Assisted Living Facilities



230,000 Physician Offices And Clinics

Distributors Simplify The Supply Chain For Both Providers And Manufacturers

... Saving Them Time And Money



Contracts Typically Specify Margins And Service Levels

[illegible]

Distributors Secure, Store, And Deliver Thousands Of Types Of Products



20–30 Day Supply

Diagnostics



Infection Prevention



Personal Protection



Treatment Products



Healthcare Providers Aren't In the Logistics Business



Managing inventory is expensive and takes up space

Products must be handled and stored properly to ensure quality and security



Large inventories risk expiration, damage, and obsolescence



Providers need to optimize space for patient care

Distributors Are Logistics Experts



Dedicated warehouse space



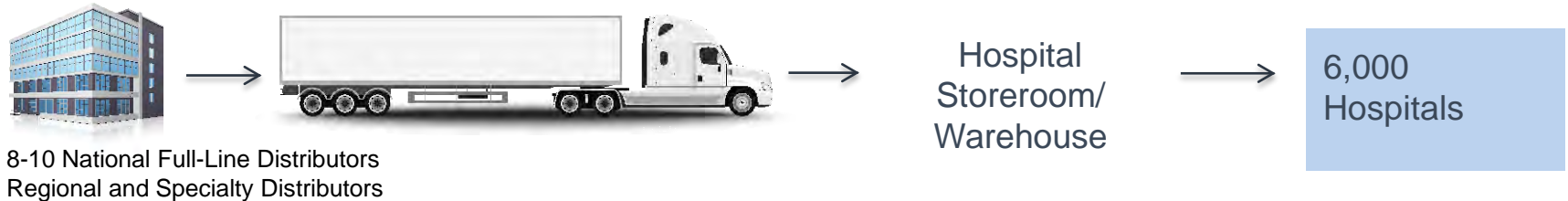
Formulary support and data services



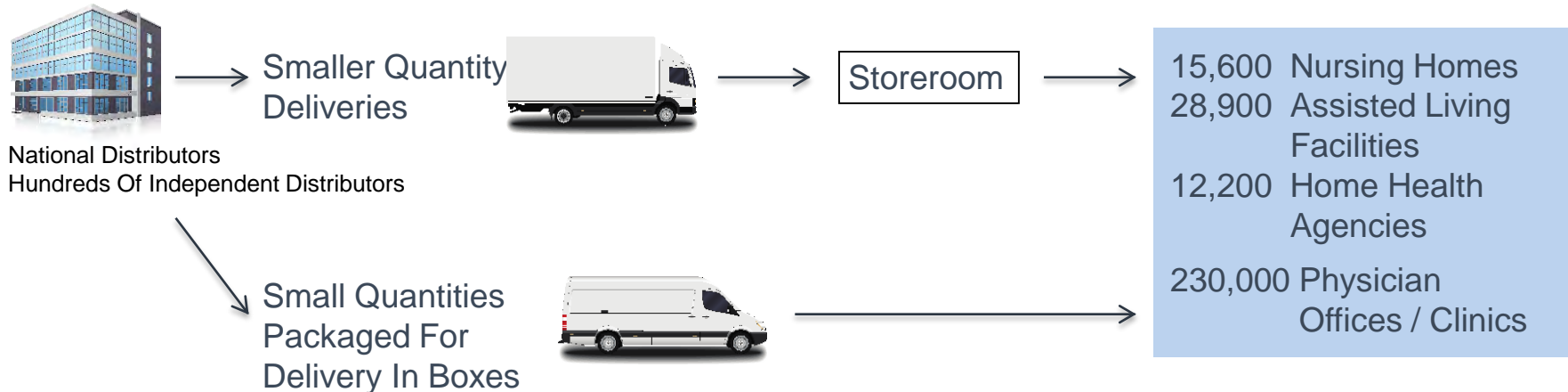
Low-unit-of-measure programs

Distribution Varies By Provider Setting

Hospital Distributors



Nursing Homes, Physicians' Offices Distributors



Each Distributor Is Unique

- Some companies are both manufacturers and distributors
- Some sell both medical products and pharmaceuticals
 - Medical supply and pharma supply chains are mostly separate



How Manufacturers Partner With Distributors

Target Distributors That Fit Your Needs

- Market focus: hospital, physician, long term care, lab, etc.
- Size: national vs. “independent”
- Product line breadth: full line vs. specialty
- Business model: for example, field sales vs. 100% e-commerce



Distributors Have Many Vendors Competing For Their Support

Number of Manufacturers Inventoried

Hospital

- 25th Percentile 315
- Average 1,145
- 75th Percentile 1,400
- SKUs: 7,500-67,500

Long Term Care

- 25th Percentile 82
- Average 175
- 75th Percentile 285
- SKUs: 2,400 – 6,500

Physician

- 25th Percentile 225
- Average 435
- 75th Percentile 2,200
- SKUs: 1,350 – 129,000

Large Distributors

- 25th Percentile 400
- Average 1,650
- 75th Percentile 2,300
- SKUs: 24,500 - 149,200

Source: HIDA Distributor Financial Performance Survey, 2016

Right-Size Your Expectations

Full-line Distributors Typically Provide Active Sales Support To A Small Subset Of The Manufacturers They Represent



- Distributors margins correlate to level of sales support require
- Many offer marketing programs for “focus” vendors
- Actual face-to-face time with purchasing decision-makers is a precious commodity

How Covid-19 Impacted Distribution

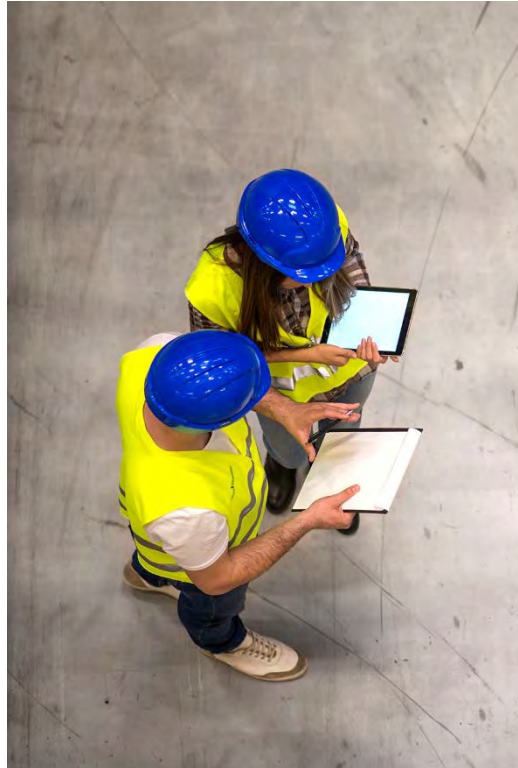
Distributors Responded To COVID-19 Quickly



Vetted and onboarded
new suppliers



Expedited shipping and
delivery to hotspots to all
healthcare provider
settings



Coordinated with current
suppliers to ramp up
production



Identified appropriate
product substitutions



Helped healthcare providers
determine supply availability
and delivery dates

COVID-Driven Demand Created Supply Problems That Challenged The Supply Chain

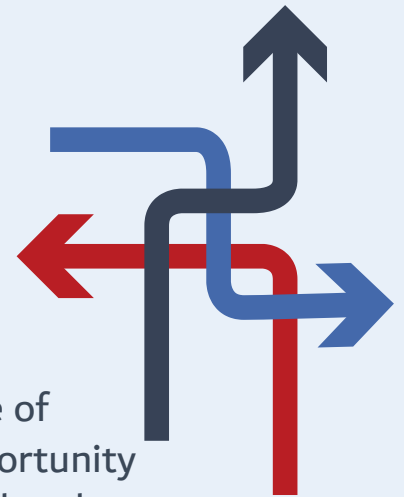


- Huge and fast: Up to 17x from hospitals
- Worldwide
- New and non-traditional buyers entered the market



COVID-19 originated in a major PPE manufacturing center causing extended regional closures

Entry Of Brokers
Created A “Wild West”
Marketplace



Rise of
opportunity
marketplace
where brokers with no
healthcare experience
engaged in fraud and
profiteering

Brokers Aren't Distributors



Price

Brokers

One-time deals for the highest price

Distributors

Prices based on long-term relationships and contracts with manufacturers and healthcare providers



Safety

No guarantee that manufacturers were vetted or that broker has experience in healthcare supply

Sourced from vetted and FDA-approved manufacturers



Quality

Only negotiate, no guarantees of product delivery or condition

Take possession of products and deliver to healthcare provider

A Few Ideas On Entering The U.S. Market

Prerequisites And Success Factors

- Assurance of supply
 - Distributors want long-term partners who can provide assurance of their ability to meet demand
 - One-off deals during pandemic aren't sustainable
- Approvals
 - Your products must meet regulatory requirements
 - Find an expert if you need one
- U.S. presence
 - For long-term partnerships, most organizations want a U.S. contact
 - Consider partnership or license agreement with U.S. manufacturer or finding a U.S. representative
- Differentiation
 - Distributors and providers look for a clear value proposition not “me too”
 - A slight price advantage is often not enough



Group Purchasing Organizations (GPOs)

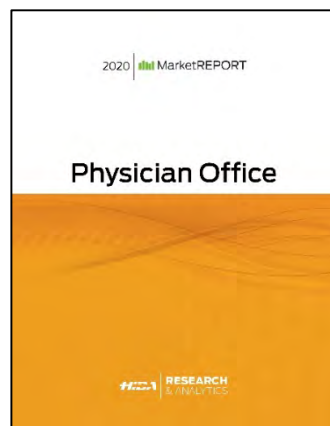
- GPOs allow healthcare providers to “aggregate” their purchases to get better prices from suppliers
- For the manufacturer, a GPO contract allows much greater access to healthcare providers, who usually want to buy from contracted suppliers
- Contract pricing typically involves multiple tiers based on volume or share



Trade Association Participation Can Help Speed And Facilitate Those Connections

Resources include:

- U.S. market intelligence
- Networking events
- Government insights





WHERE THE
INDUSTRY
RECONNECTS



HIDA

STREAMLINING HEALTHCARE
EXPO & BUSINESS EXCHANGE
SEPTEMBER 21–23, 2021 • CHICAGO, ILLINOIS

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