HEALTHCARE SupplyChain COLLABORATIVE

Allocations:

Best Practices For Conserving Medical Supplies During Shortages

Health Industry Distributors Association | HIDA.org

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Contributor Recognition

Thank you to the Allocation Workgroup members who contributed their time and expertise to develop this resource. Workgroups provide opportunities for supply chain executives from across the industry – from manufacturers to distributors to IDNs to GPOs – to network with partners while also delivering guidance on industry pain points that drive resources and initiatives. The companies that have contributed to this effort include:

- 3M Health Care
- B. Braun Medical
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- Henry Schein
- Mayo Clinic
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- Medline Industries
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- Premier
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- Sempermed USA
- UAB Medicine
- Vizient

About The Healthcare Supply Chain Collaborative

The Allocation Workgroup and this resulting white paper are part of the work of HIDA's Healthcare Supply Chain Collaborative. The Collaborative addresses end-to-end supply chain challenges including supply chain resilience, pricing accuracy, and product information management, and works to advance best practices for processes and data.

About HIDA

The Health Industry Distributors Association (HIDA) represents the country's medical product distributors – the nation's essential link between manufacturers and patient caregivers. HIDA members offer critical services increasing the efficiency of U.S. healthcare providers, including hospitals, nursing homes, laboratories, home care, and physician practices. For more information, please visit HIDA.org.

Introduction

Allocation processes aim to distribute a fair proportion of available medical supplies among healthcare providers when there are shortages. However, crises like the COVID-19 pandemic have demonstrated disconnects and shortcomings in healthcare product allocation processes. Manufacturers, group purchasing organizations, distributors, and providers have learned that the process is usually highly manual and lacks standard practices.

In 2021, the Health Industry Distributors Association created a workgroup to develop an industry best practice resource for managing medical supply allocations. This white paper is the result of this group's work. It addresses best allocation management practices with key steps specific to manufacturers, distributors, GPOs, and providers related to:

- Transparency
- Information sharing
- Allocation calculations and processes
- Specific challenges in allocation management

When supplies are limited, allocation:

Preserves

Allocation preserves inventory for customers as long as possible during a shortage. For example, providers might be limited to receiving only 110% of their usual orders rather than the 125% they want.

Ensures

Allocation ensures that customers receive some portion of a limited supply at previously agreed upon prices, usually by limiting orders to a percentage of the customer's previous order volumes.

Prevents

Allocation prevents hoarding that diverts products from the front lines to the back shelf. It also makes it more difficult for opportunistic brokers to buy up limited supplies and resell them to the highest bidder.

Two examples of allocation in action:

Supply-Driven Allocation

In 2017, Hurricane Maria and plant closures caused a shortage of specialty IV Solutions. Allocations made it possible for customers to continue to receive IV Solutions, although not as many as they may have requested. Allocation is different than a back order, which is the term typically used when a product is out of stock.

Demand-Driven Allocation

In 2020, the COVID-19 pandemic caused demand for personal protective equipment (PPE) to surge much faster than manufacturers could increase production. Allocations were used to preserve supplies so products remained available.

Industry Standards

Transparency

- Transparency between trading partners is critical. Manufacturers, distributors, healthcare providers, and group purchasing organizations (GPOs) should openly communicate information about product availability, allocations, and needs.
- Manufacturers and distributors must proactively share bad news as well as good news. Overly optimistic information on how much product will be allocated, when it will be shipped, or when shortages are likely to end hinder the customer's ability to make informed business decisions.

Information Sharing Standards

When and who to notify customers:

- The manufacturer should announce the allocation to distributor partners first. Allow distributor 48 hours to prepare before announcing the allocation to customers and GPOs.
  - Advance notice allows the distributor to put ordering limits in place to prevent the over-ordering and hoarding that often occurs during a shortage.
- After 48 hours, manufacturer should announce the allocation to customers and GPOs.
- Manufacturer should direct customers and GPOs to the distributor for allocation details and questions.
- Guidance on whom to notify within the organization should be determined by all parties involved.
- Trading partners should determine who the right person is to receive information at beginning of the disruption.

Consistency and frequency of communication between trading partners:

- At the beginning of a disruption, all parties should determine how often to communicate and decide the best format for their communications.
  - Recommended best practice is that information related to primary products (critical items that will slow or stop end user testing and/or operations) should be discussed with all parties involved on a weekly basis.
  - Information related to secondary products (those easily substituted or replaced by other methods) should be discussed with all parties involved on a monthly basis at a minimum.
- The format of communication should be kept consistent.

Allocation Calculations And Processes

Allocation control:

- Manufacturers that use distribution should establish allocations for their distributors, and allow their distributors to establish allocations for customers. This best practice will help to prevent having customers receive conflicting information from their manufacturer and distributor partners.
  - The manufacturer's allocation decisions should take into account its manufacturing capabilities, projected increases and/or bottlenecks, and projected changes in demand due to factors such as seasonality.
- In establishing allocations for customers, the distributor should mirror the manufacturer's allocation percentage. (For example, if the distributor receives a 90% allocation, then customers should receive 90% allocations based on their purchase history.)
- The distributor's ability to mirror the manufacturer's allocation depends on receiving its full allocation from the manufacturer. Therefore, the manufacturer must set its allocation percentage based on a realistic projection of product availability, and provide accurate allocation information to the distributor.

Baseline period:

- In order for customer allocation to be determined, the supplier will look at the same quarter from prior year.
- If quarterly is not possible, the baseline period should be mutually agreed upon with all trading partners.

Allocation cycle and adjustments:

- The optimal allocation cycle (frequency with which the supplier revisits allocation amounts) depends on how critical the product item is.
  - Allocations for primary products should be reviewed weekly.
  - Secondary products should be reviewed monthly at a minimum.
- In reviewing allocations, the supplier should take into account current demand compared to current and projected product availability.
- The manufacturer should review its own recent fill rates to distributors. If these are low, the manufacturer should adjust its allocation percentage downward.

Units versus percentages:

- When communicating allocation amounts to trading partners, the supplier should lead with units so that the customer knows precisely how much product to expect.

Calculating days on hand:

- Days on hand should be calculated based on the customer's current utilization, not historical demand.

Managing Specific Challenges

Channel shifts:

- When a customer changes distributors, the customer's purchase history should follow them to a new distributor so they don't lose their allocation.
- Information should shift at the end of the month.

Unfulfilled allocations or incomplete shipments:

- A purchase order should remain open for 3 months. After 3 months, the manufacturer and/or distributor will cancel the purchase order.

Unused allocations:

- Customers have the option to receive their allocation, or miss the opportunity. In the latter case, their allocation will be moved to another customer, not set aside for the original customer's future use.

SKU consolidations:

- Consolidation of stock-keeping units should be managed carefully to ensure that customers continue to get appropriate allocations.
- Manufacturer should be transparent with distributor and provide clear information through a report including, but not limited to:
  - Specific products/SKUs being consolidated
  - Distributor/customer allocation being consolidated
  - Regulatory information related to the transitioning products
  - Estimated timeframe in which the consolidation will occur

Substitutions:

- When a manufacturer substitutes one product for another due to a backorder or shortage, complete information is required.
- Manufacturer should provide a report including, but not limited to, the following information:
  - » SKU for original product and substitute
  - » Unit of measure
  - » Clinical application information
  - » Is the substitute an exact match or alternative
  - » Does the alternative need clinical/technical support
  - » Product substitution details to communicate to customer including any different specs
  - » Quantities of new product available
- Substitutions need to be vetted by the end customer. The ideal state is for the supplier and the customer to develop a pre-approved substitutions list.
- If the best substitute for a backordered item is another manufacturer's product, manufacturers should share that recommendation.

New product without history:

- New products without purchase history can be used to fill the gaps in allocations and support customers without historical usage. (For example, the manufacturer introduces a new face protection product, or the distributor takes on a new brand not previously sold in the U.S.)
- If the new product is expected to be in high demand, trading partners should work together to establish appropriate customer quantity restrictions.
- Manufacturer and distributor should use a similar product (if one exists) to calculate allocation for the new product without history.
- Customers should provide manufacturer and distributor as much information as possible on their forecast product demand.

New customer without history:

- It is important to include flexibility in allocation processes, since customers with no purchase history may have a real need for a product (for example, nursing homes needed N95s for the first time ever during the pandemic).
- At the same time, suppliers have an obligation to meet the expectations and contractual demands of current customers.
- Manufacturer and distributor should address the needs of new customers with an exception based process. The exception will be defined by the situation.

Stockpiles:

- During a shortage, customers who order significantly more product than they currently need, in order to build up stockpiles, can exacerbate the shortage. This can make it even harder for suppliers to meet the needs of other customers, including those with no purchase history.
- Providers should build their stockpile before or after the shortage.

Standard Definitions

Allocation:

(1) A process aimed at distributing a fair proportion of available medical supplies among healthcare providers when there are shortages, achieving by setting limits on purchases of the shortage product (definition for this report).

(2) Also used to describe the amount of product a buyer is told to expect.

Allocation cycle:

Frequency with which the supplier revisits allocation amounts.

Backorder:

An order for a good or service that cannot be filled at the current time due to a lack of available supply.

Baseline period:

Specified historical time period on which an allocation calculation is based.

Channel shift:

(1) End user organization changes distributor or distribution model

(2) Also used to describe shifts in market demand from one provider setting to another

Days inventory on hand (DIOH or DOH):

The amount of inventory in stock at a given location, calculated based on an average day's usage during a given historical time period. It's important to clarify if the DOH figure is calculated based on normal or crisis-level usage.

Distributor-controlled allocation:

The manufacturer allocates product to its distributors or specific distribution centers, usually based on historical purchases, and allows the distributor to make customer-level allocation decisions. This method is the least restrictive.

Drop ship:

The manufacturer ships products directly to end user. Often used to describe shipments made by manufacturers who use distribution, but in certain instances bypass the distributor warehouse to speed product to customer.

Manufacturer-controlled allocation:

The manufacturer determines customer-level allocations for the distributor to implement.

(1) Eligibility by customer: Manufacturers restrict allocations to eligible end-users established by manufacturer.

(2) With or without specified quantities or percentages: Manufacturer establishes the eligible end-users and the specific monthly allocation quantities available to each eligible end-user. This method imposes the highest level of allocation restriction.

Primary products:

Critical items that will slow or stop end user testing and/or operations.

Secondary products:

Less critical items or those easily substituted or replaced by other methods.

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