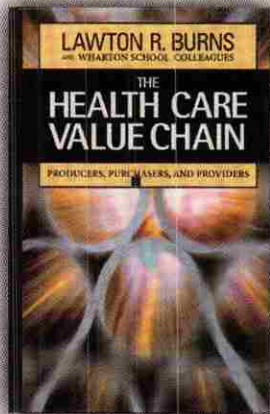


Book Review

REVIEWED BY DEE DONATELLI



The Health Care Value Chain: Producers, Purchasers, and Providers,
by Lawton R. Burns et al.
Published by Jossey-Bass, 2002.
Hardcover, 464 pages, \$55.

Cracking the Supply-Chain Quandary

A Wharton School study shows why the health care industry's supply chain is broken and what may repair it.

The health care supply chain may not be rocket science, but the complexities of value-chain operations are more than most executives care to understand. Fortunately, University of Pennsylvania professor Lawton Burns and his colleagues have done an outstanding job of breaking down the critical elements of the complex health care supply chain and describing why it is dysfunctional. *The Health Care Value Chain* is a culmination of the Wharton School study that focuses on the major segments within the chain: manufacturers that make the products, group purchasing organizations (GPOs) that buy products in bulk on behalf of hospitals, distributors who take title to them and deliver them, and providers who consume them in the course of delivering patient care. The study was a three-year research initiative underwritten by an industry-university consortium, the Center for Health Management Research, and was funded by the National Science Foundation.

Several excellent explanations for the health care indus-

try's shortcomings as a value chain are detailed. First, product demand is based on physician or clinical preference, not on cost-benefit or budgetary constraint. Second, professional training in procurement and logistics has never been a hallmark among hospitals, which assume that departments, or cost centers, will lose money—rather than trying to keep them to a budget. Third, fragmentation makes it difficult for one large, leading firm to catalyze the rest of the industry by changing the business mode (as Wal-Mart did). Finally, providers have historically made their technological investments in patient care instead of information systems and infrastructure. Procurement and other functions are based in dated legacy systems, which result in a lot of inaccurate data and errors in business transactions.

Perhaps the most important point in this book is that there is a lack of consensus regarding the health care value chain. GPOs and wholesalers have gone to great lengths to document their contribution to supply-chain management as well as the need for greater efficiencies in procurement processes. Producers, on the other hand, are most interested in market share. To the

extent that they focus on supply chains, their attention is upstream (sourcing their own supply inputs) rather than downstream (distributing finished products to providers). Producers regard GPOs and wholesalers as influencers, order takers and information channels—not as customers. Providers are most interested in reducing costs to satisfy managed care reimbursement constraints, improving quality to satisfy patients and attracting physicians to increase utilization rates.

This book is a must-have for health care professionals. It is a sound and accurate account of the current health care supply chain. It describes the new era of e-commerce and point-of-use technology, suggesting that improvement in the health care value chain will occur when hospitals employ information systems to capture product information and when these products have a unified numbering system. Only then will value-chain players be able to locate, analyze and forecast demand for their services and initiate cost efficiencies along the length of the chain. ■

Dee Donatelli is a senior manager with Cap Gemini Ernst & Young. She can be reached in Newton, Kan., at (316) 284-0046 or by e-mail at dee.donatelli@us.cgey.com.

