Methodology Changes for the 2021 Gartner Healthcare Supply Chain Top 25

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By Analyst(s): Eric O’Daffer

Initiatives: CSCO Strategic Leadership

This research advises supply chain leaders on methodology changes for the 2021 Gartner Healthcare Supply Chain Top 25 ranking. It addresses feedback from the supply chain community, highlights findings from our analysis and communicates plans for evolving the Top 25 methodology for 2021 and beyond.
Overview

Key Findings

- There are three primary reasons why we are moving to an all-healthcare-provider ranking for 2021. First, the healthcare supply chain has made progress, and we desire to add more health systems to our ranking. Second, there is greater recognition of maturing life science manufacturers in our global Supply Chain Top 25 ranking. Third, we want to draw clearer lines between the Healthcare Supply Chain Top 25 and the global Supply Chain Top 25, in terms of companies included and the methodology used to rank them in each study.

- As part of our process, we are including the opportunity for peers and analysts to recognize "healthcare trading partner collaborators in the U.S." Highlighting the interconnected, interdependent nature of the healthcare supply chain is still a primary focus of our efforts. While these manufacturers, distributors and retailers will no longer be formally ranked, we will be more directly highlighting those organizations that collaboratively support the mission of "improving human life while lowering the total cost of care."

- With the change to an all-U.S. Health System ranking, our perspective on the financial metrics has evolved as well. As the impact on the quality of patient care has never been stronger, we will include more health systems this year and will weight the quality of care metric at 20% — up from 15% in past years. The bond rating will remain the same.

- To align with the global Supply Chain Top 25, we would like to add an environmental, social and governance (ESG) metric to our methodology in 2022. Including important supply chain metrics regarding ESG ramifications in the healthcare supply chain is overdue, and this will be an area we seek a metric for in coming years.

Recommendations

Healthcare chief supply chain officers (CSCOs) and supply chains leaders can learn from the strategy and leadership of the top U.S. supply chains by taking these steps:

- Use the Healthcare Supply Chain Top 25 program and process to learn from leaders, to drive better business performance through adoption and to highlight your integrated delivery network’s (IDN’s) maturity advancements to attract and retain talent.
Analysis

Methodology Changes for 2021

After reflecting on the feedback gathered from the supply chain community over the past several years, we are charting a new path for Gartner's Healthcare Supply Chain Top 25.

History and Purpose of the Healthcare Supply Chain Top 25

In 2009, when Gartner launched the global Supply Chain Top 25, healthcare was underrepresented. Only one healthcare company — Johnson & Johnson — ranked in the global Top 25. Life science companies were viewed as being behind in the supply chain practice. Health systems were mostly not public companies and considered service companies, so they did not even qualify. We launched the Healthcare Supply Chain Top 25 to arguably take the least mature industry and highlight organizations across the supply chain with a focus on healthcare. The goal: to highlight what good leadership looks like and shine a light on what positive things were happening in a fragmented industry (see Figure 1).
When you spotlight mature healthcare supply chains, you learn that these supply chains, which provide patient care, are interconnected in serving patients’ health — all the way to the healthcare providers, the manufacturers, the distributors and U.S. retail pharmacies.

Much has been revealed since we’ve decided to showcase what good looks like and highlight what leaders are doing. Within the provider community, but also within manufacturing, there’s a big disparity between those companies that are most and least mature. In the U.S. alone, there are 300 health systems (systems of two or more hospitals and associated clinics). This model created a framework of connection and collaboration. How we thought of health systems was limited. In 2009, for example, we didn’t know what financial metrics to use, so we just used the peer vote and mirrored the global Supply Chain Top 25 metrics in terms of return on assets and inventory.

The original 2009 Value in Healthcare Model (see Figure 2), which focuses on high-quality patient care at optimal cost, was used as a guiding light for peer voters that ranked healthcare companies. However, it showed some limitations in this early iteration.

Figure 2. Value in Healthcare 2009 Model

Graphic shows value in healthcare
Healthcare was, and is still, the only industry within Gartner that has its own independent Top 25 from the global Supply Chain Top 25. Along the way, we expanded to Life Sciences Top 10 research beyond the global Top 25, but also kept the independent healthcare version that included all the constituents. We reviewed it every year and each year we determined, “This has value and we need to keep doing it.” As we considered the evolution of healthcare, we made the evaluation model specific to healthcare organizations. We thought about the patient outcome, lowering costs and how all the companies in the healthcare supply chain are connected to lowering costs.

One big change we had to make involved the financial metrics that we used to evaluate health systems. For manufacturers, distributors and retailers, we could use the return on assets and inventory turns like we did for the global ranking. For health systems, these metrics did not work. To address this, we added bond rating as a proxy for financial health and IBM Watson Health 15 Top Health Systems Study ranking that recognizes health systems that are driving good patient outcomes. Over time, we used only the top 70 health systems in the IBM Watson Health 15 Top Health Systems Study, reflecting a size and complexity over $1.75 billion in operating expenses and limiting our universe to only the top 60% of performers. The rationale: A good operational supply chain that does not support a minimal level of patient care is not enough to make the Top 25.

We used a common group of analysts and peer voters in a wisdom of crowds methodology to assess which companies across the healthcare supply chain were demonstrating maturity in our model. (See Healthcare Supply Chain Top 25 Capabilities Model: Changing Focus to Health Systems.)

For the last 12 years, we've looked at this as a way to shine a light on the interconnected, interdependent healthcare life science supply chain. We've purposely been comparing apples and oranges. For example, comparing a global manufacturing business, such as Johnson & Johnson, with a regional healthcare provider and a retail pharmacy has some challenges.

Changes for the Healthcare Supply Chain Top 25
For 2021, the biggest change is that we are removing the manufacturers, distributors and retailers from the study. It's going to be a healthcare provider in the U.S.-only ranking for 2021. Second, we are expanding the list from roughly 72 health systems to 171 health systems. This means that we are including all of the health systems in the IBM Watson Health 15 Top Health Systems Study that have over $2 billion in operating expenses. Quality of care, as an entry point, will no longer limit a health system for being considered by peer and Gartner voters. However, we're also going to increase the weight of the IBM Watson Health 15 Top Health Systems Study ranking from 15% to 20% as a quantitative metric.

**Reasons for Making These Changes**

We are making these changes for a number of reasons, including:

1. There is confusion with the global Supply Chain Top 25. In 2009, when this ranking launched, there was one company in the global Supply Chain Top 25 from the life science industry. In 2021, there were four, so we've quadrupled the number of organizations from life sciences that are being recognized as some of the top supply chains in the world. Because there are more healthcare organizations that have been able to participate in the global Top 25, the different rankings can be confusing in healthcare versus globally. As a result, it's been difficult for organizations to reconcile these differences.

2. It's hard to delineate what life science manufacturers are doing on a global basis versus a comparative study for the Healthcare Supply Chain Top 25 that's U.S.-centric. We're viewing most of the health systems as U.S.-centric entities. With that in mind, it's almost impossible to fairly evaluate large multinational global companies since our view of these companies was from the standpoint of their U.S. operations. This was simply just too difficult for peer and analyst judges to do.

3. Health system supply chains have matured in the past 12 years. There have been significant mergers and acquisitions, resulting in many $10 billion-plus organizations with inspiring and mature supply chains. While the maturity still hasn't caught up with other industries in aggregate, there are leaders that are demonstrating tremendous innovation in delivery models, processes and tools. These leaders represent more than the dozen that we could recognize when we have a combined Healthcare Supply Chain Top 25.
4. People struggle to compare apples and oranges in healthcare. They say, “How are you comparing a healthcare provider with a distributor with a retail pharmacy?” We still believe that they are interconnected and there's value in highlighting the collaboration that’s occurring, but we recognize that this comparison can be confusing. We’re making this change for clarity and to reduce confusion. We’re also doing this to recognize the difference between global manufacturers and country-specific healthcare providers, and to recognize that there has been changes and maturity on both sides.

To retain the collaborative spirit and the interconnected, interdependent supply chain concept, we are providing a way for peer and analyst voters to recognize collaborative trading partners. Many manufacturers and distributors are collaborative partners with healthcare providers. These manufacturers and distributors won't be ranked within this process, but we will recognize a number of organizations each year that are clearly identified by their peers as good collaborative partners.

**Methodology Changes for the Healthcare Supply Chain Top 25**

The following are specific methodology changes:

- Our focus will be 100% on health systems in the U.S. Manufacturers, distributors and retailers with above $12 billion in revenue will still feature in our global Supply Chain Ranking (see [The Gartner Supply Chain Top 25 for 2021: Masters, Top 25 and Industry Leaders](#)).

- We are expanding the group of healthcare providers in the ranking from 72 to 171 by removing the qualification that a health system has to be in the top three quintiles of IBM Watson Health 15 Top Health Systems Study. We will keep a minimum operating expense target of $2 billion for the health systems. Overall, this allows more health systems to be ranked.

- We will increase the weight of the IBM Watson Health 15 Top Health Systems Study ranking, based on our increasing belief in the connection of the supply chain to the quality of care. IBM Watson Health 15 Top Health Systems Study ranking will rise from a 15% weight to 20% for 2021. Offsetting this increase will be a small decrease in the peer and analyst opinion component to 32.5%, respectively.
As shown in Table 1, the Healthcare Supply Chain Top 25 ranking continues to be based on a combination of quantitative data and opinion data. The quantitative data gives us an objective basis, on top of which we place the community peer vote component. This table reflects the 2021 criteria for ranking.

We have made a number of changes to the Healthcare Supply Chain Capabilities Model (see Healthcare Supply Chain Top 25 Capabilities Model: Changing Focus to Health Systems and Figure 3) that guides our peer and analyst opinion. This model was last revised in 2016. It’s a good time to reflect on any changes. The focus has narrowed to health systems, and there are areas where we made additions or weighted certain capabilities differently.
We are changing the face of the peer voters. Historically, we had 42% manufacturers, 34% health systems, 10% distributors/retailers, and 14% experts and/or academics. Reflecting our health system focus, we will change the composition to roughly 60% healthcare providers, 25% manufacturers and distributors, and 15% experts and/or academics.

We’re going to provide a broader opportunity to brief Gartner. We’ve had a supply chain research information packet Supply Chain Research Information Packet (SCRIP) process that we’ve used for the last decade. Organizations can now opt in to provide a one-hour briefing to Gartner. We’ll facilitate that. We can use that information in our data. It’s usually a 30-minute presentation, with 15 minutes for questions.
Anticipated Changes for the Future

We're exploring the addition of a financial metric that represents supply chain costs as a percentage of operating expenses of a health system. Gartner's IDN Supply Chain Benchmarking program indicates that this is higher than 37%. It is often undercounted by senior leadership. We are actively exploring this addition, and are open to ideas and resources that will allow us to capture this data fairly and accurately, knowing it has to be publicly available and auditable.

We want to be consistent with the global Supply Chain Top 25 in recognizing the growing level of ESG capabilities that a supply chain has. We are actively seeking a way to measure that quantitatively, and we'd like to allocate for that in our quantitative metrics. It's reflected in the changes that we've made to our model that guides peer and analyst opinion this year, but we'd like to add a publicly available and auditable metric in the future.

Changes to Take Effect in 2021

Changes will take effect for the 2021 cycle. Our process begins with peer voting, which starts in mid-August, and will apply for our publication of this year's (2021) ranking in mid-November.

How to Participate Most Effectively as a Provider

Gartner's Healthcare Supply Chain Top 25 Ranking is not an opt-in or opt-out program. We are ranking the 171 health systems that meet our criteria. Providers can participate optionally in a couple of ways, one as a peer voter and the other in providing Gartner with specific information on your health system's capabilities.

1. To submit interest to be a peer voter, see The Gartner Healthcare Supply Chain Top 25 landing page for email links.
2. Health systems can submit a SCRIP and also have the opportunity to conduct a 45-minute company briefing with Gartner. The timeline for SCRIPs and briefings are as follows:

- SCRIP information sent to companies or requested from Gartner (late August 2021).
- SCRIP surveys completed (1 September 2021).
- Gartner briefings completed (15 September 2021).

**Evidence**

**2020 Gartner Future of Supply Chain Survey.** From 10 September through 8 November 2020, Gartner Supply Chain Research sent invitations to complete an online survey to Gartner clients, community members and a wider group of practitioners in supply chain, and other functions globally. We received 1,346 completed responses during the survey period for this 2020 Future of Supply Chain Survey.

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**Recommended by the Author**

Some documents may not be available as part of your current Gartner subscription.

- Healthcare Supply Chain Top 25 Capabilities Model: Changing Focus to Health Systems
- The Healthcare Supply Chain Top 25 for 2020
- Healthcare Supply Chain Top 25 Capabilities Model: Improving Human Life at Sustainable Costs
- 2020 Healthcare Provider Supply Chain Organization Structure Report
- Ignition Guide for Creating a Healthcare Provider Supply Chain Strategy
### Table 1: The Healthcare Supply Chain Top 25 Methodology

<table>
<thead>
<tr>
<th>Category</th>
<th>2021 Measure</th>
<th>Weighting</th>
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<tbody>
<tr>
<td>Quantitative Data (35%)</td>
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<td>Bond Rating</td>
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<td>Community Opinion (65%)</td>
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<tr>
<td></td>
<td>Gartner Opinion</td>
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Source: Gartner