

What Does “Allocation” Mean In The Healthcare Supply Chain?

al·lo·ca·tion *noun*: a system that aims to distribute a fair proportion of available medical supplies among healthcare providers when there are shortages

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.

Allocation is one way distributors help healthcare providers navigate supply chain challenges.