

# RAND

The Next Chapter

# OBJECTIVE

To offer a perspective of where the US blood industry is today, and where it might go...

# SAMPLES

	RAND*	BOB
BLOOD CENTERS	9	34
HOSPITALS	8	40
SUPPLIERS	4	0

## Limitations\*\*

“convenience sample”

“This focus on three existing groups of stakeholders might also overemphasize the perspectives of organizations with an interest in maintaining the status quo.”

“We did not obtain the perspective of all stakeholders”

# Blood Center Viability

- 79% of blood centers believe that centers across the country will struggle to remain financially viable over the next 3 years,
- But 68% report that their center has sufficient margins to remain viable.

# Blood Supply

- 77% of blood centers surveyed do not think there is an oversupply of blood products in the U.S. today.
- 98% of hospitals surveyed report that they either do not experience shortages or that occasional shortages are manageable and do not affect patient care.

# Pricing for Blood Products

- In the past 3 years, 41% of hospitals report that prices either decreased or remained flat.
  - Only 7% reported a “significant” increase
- 95% are satisfied or very satisfied with the prices they pay for blood products.
- Over the next 3 years, 32% expect either a decrease in pricing or no increase
- 63% expect a “modest” increase
- 5% expect a “significant increase

# Service

- 56% of blood centers have not reduced services
- 62% of hospitals report that blood centers have not reduced services in past 3 years.

# Demand for blood products

- 78% of hospitals surveyed report that over the past 3 years, demand either declined or was flat.
- 80% of hospitals surveyed expect that demand will either decline or remain flat over the next 3 years.



# Blood Center Margins 2012 - 2015

	2012	2015
Median Margin	4.3%	0.1%
<0%	22%	47%

# RAND summary of the current landscape

“While demand for blood has fallen, the number of blood centers collecting, processing and distributing blood has largely remained the same, and the resulting competition among blood centers has led to falling prices, which slice into blood center’s already thin margins.”

# ALTERNATIVES

- "Let the U.S. blood system continue to function as it has"
- "Let the government play a more active role"
- "Let the government assume complete responsibility"

# Stakeholder choices

- 91% of hospitals surveyed responded that “government control/regulation should remain about the same as it is today.”
- Blood centers willing to share information in return for changes in how blood is reimbursed – but overwhelmingly do not support government control of inventory
  - 85% do not believe government should determine national inventory
  - 88% do not believe government should manage supply in emergency

# RAND RECOMMENDATION...

”The researchers {recommended} alternative 2 – the **middle ground** alternative in which the blood system remains privatized but with some government intervention....” (emphasis added)

- Develop and disseminate a vision for appropriate levels of **surge capacity**
- Build relationships with blood brokers and other entities to form a blood safety net
- Implement emergency use authorization and contingency planning

# Historical response to surge in demand

- “U.S. hospitals and first responders have not yet experienced a critical shortage of blood in the immediate aftermath of a mass casualty event”
- “This... can be attributed to **a finely tuned national distribution system** that enables regional surplus to be transported into areas of greatest need.”

# Why should government take over management of supply in a crisis?

- “There are unlikely but possible scenarios in which the supply of blood would be disrupted.”

# RAND RECOMMENDATION...

“The researchers {recommended} alternative 2 – the **middle ground** alternative in which the blood system remains privatized but with some government intervention...” (emphasis added)

“Under this approach, the government’s role would be to facilitate the **evolution of the current blood system** into a more sustainable future system.” (emphasis added)

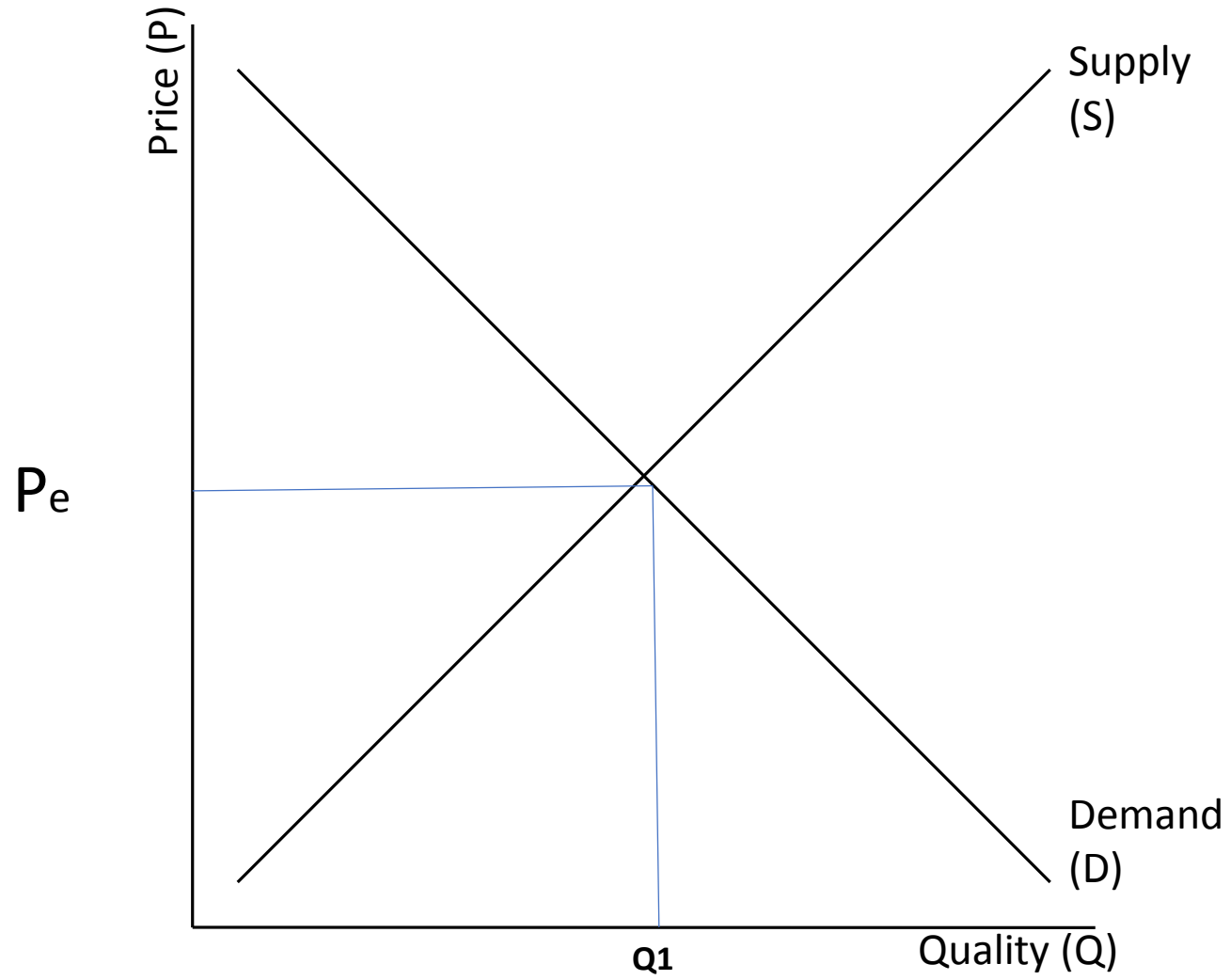


# EVOLUTION OF THE CURRENT BLOOD SYSTEM

# RAND summary of the current landscape

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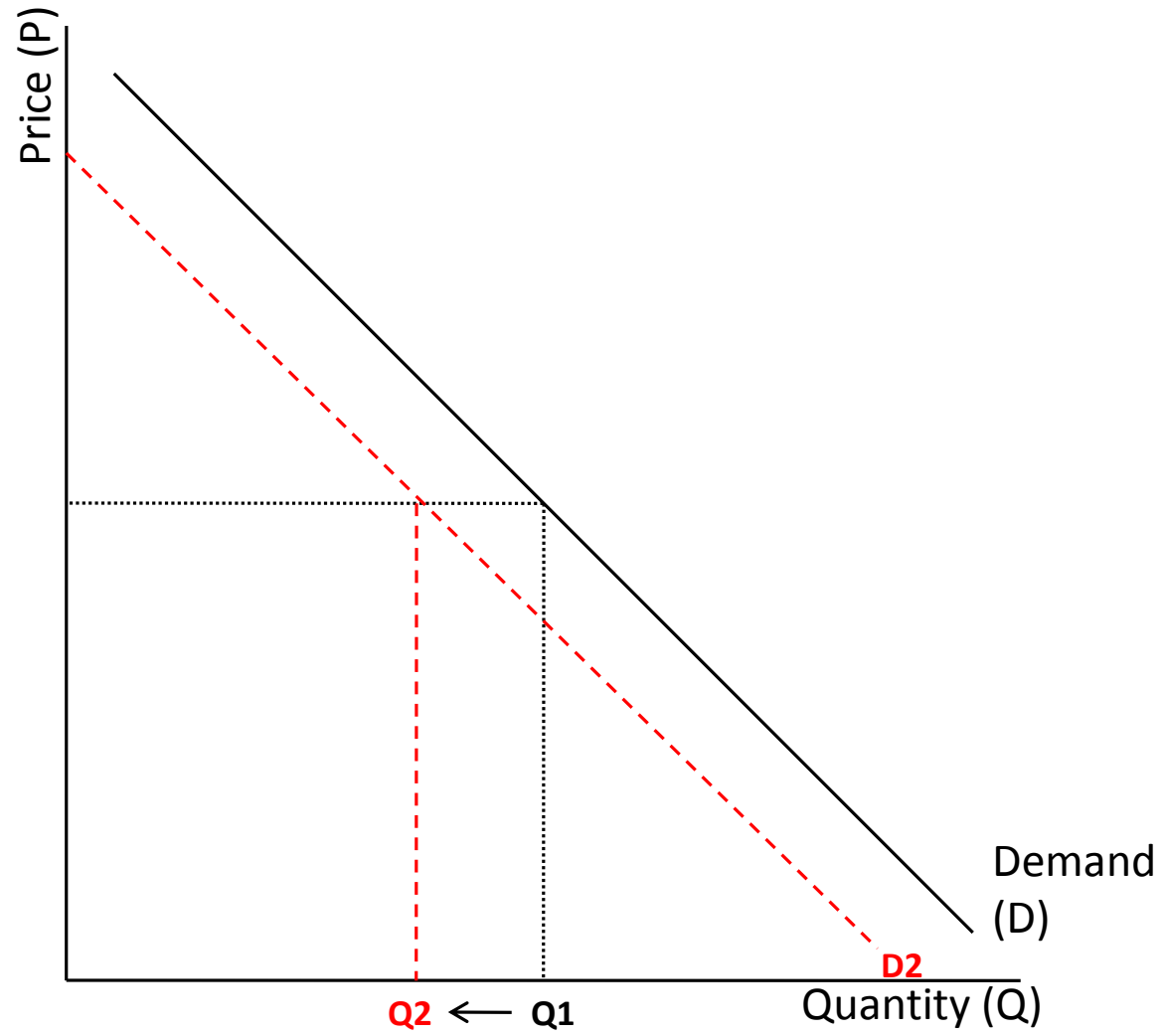
# SUPPLY & DEMAND



# RAND summary of the current landscape

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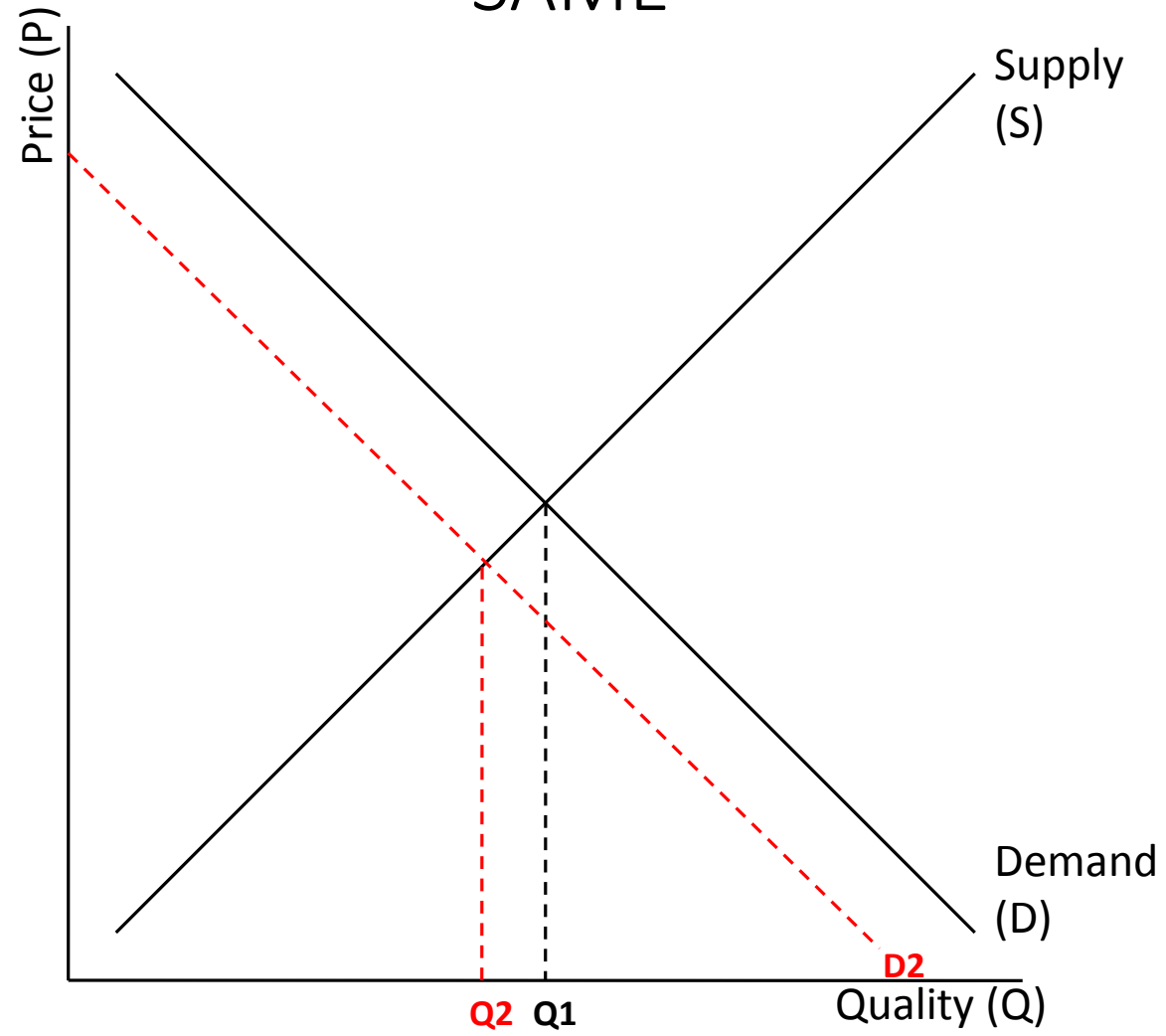
# FALLING DEMAND



# RAND summary of the current landscape

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# THE NUMBER OF SUPPLIERS HAS STAYED THE SAME

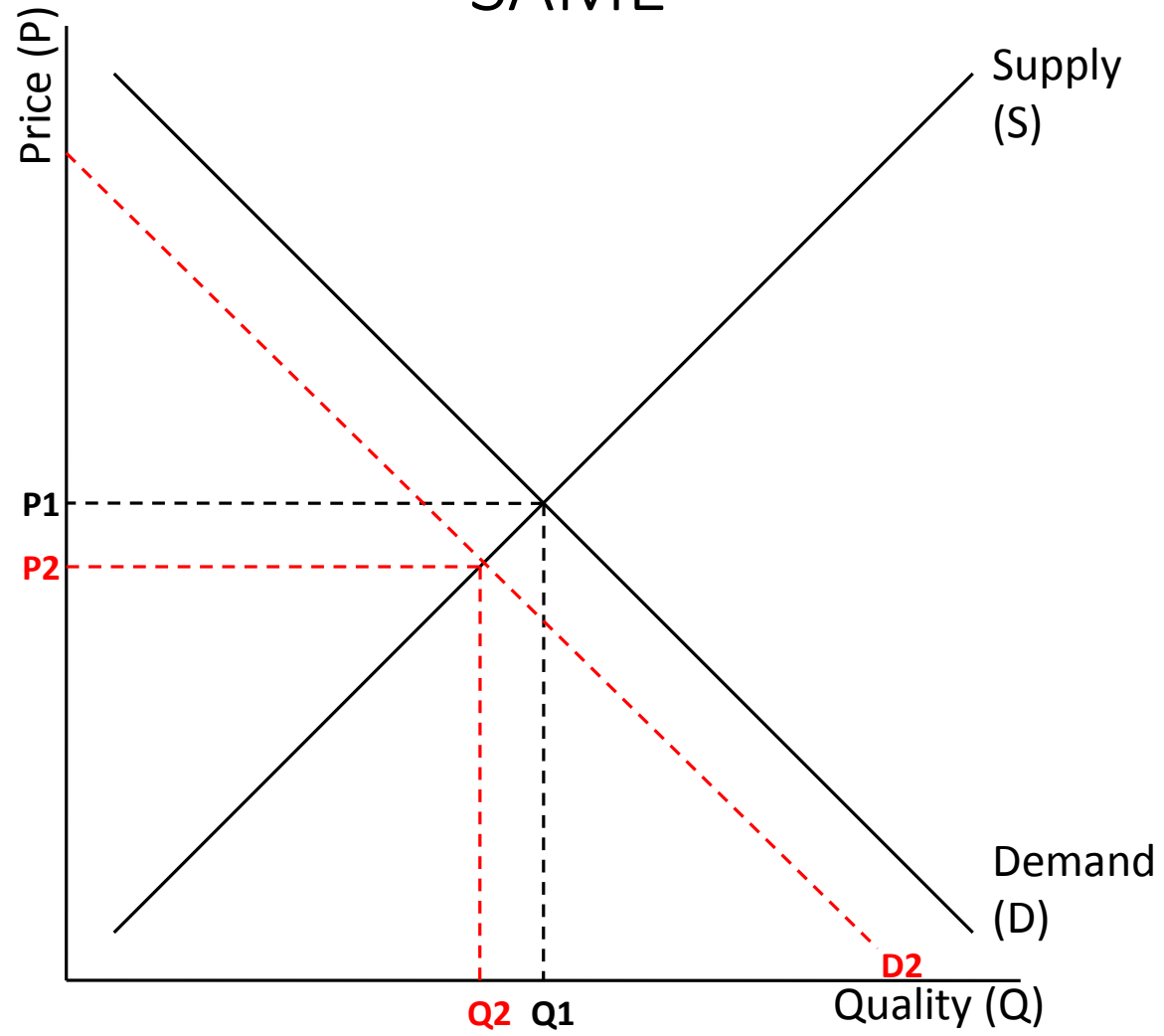


# RAND summary of the current landscape

“While demand for blood has fallen, the number of blood centers collecting, processing and distributing blood has largely remained the same, and the **resulting competition among blood centers has led to falling prices, which slice into blood center’s already thin margins.**”



# THE NUMBER OF SUPPLIERS HAS STAYED THE SAME



# FOOD FOR THOUGHT...

- If oversupply isn't the problem, what is?

# Food for Thought

- Government facilitate evolution of industry, or
- Market forces continue to drive evolution of industry

# Rand Recommendation

“Subsidize blood centers’ ability to maintain surge capacity.”

# Lessons from Farm Subsidies

What does the wheat industry teach us?



INTERNATIONAL  
FOOD POLICY  
RESEARCH  
INSTITUTE

**IFPRI**

**IFPRI Discussion Paper 01543**

July 2016

**United States Agricultural Policy  
Its Evolution and Impact**

**Joseph W. Glauber**

**Anne Effland**

# Brief history

- Beginning around 1929 wheat farmers were feeling price pressure from an excess supply.
- Concerns that some would go under and nation would face a wheat shortage caused government to provide subsidies to continue to over-produce.
- But the over-production simply shifted the supply curve further down and to the left resulting in continued decrease in prices.
  - The laws of supply and demand were not suspended

### The Effects of a Producer Subsidy

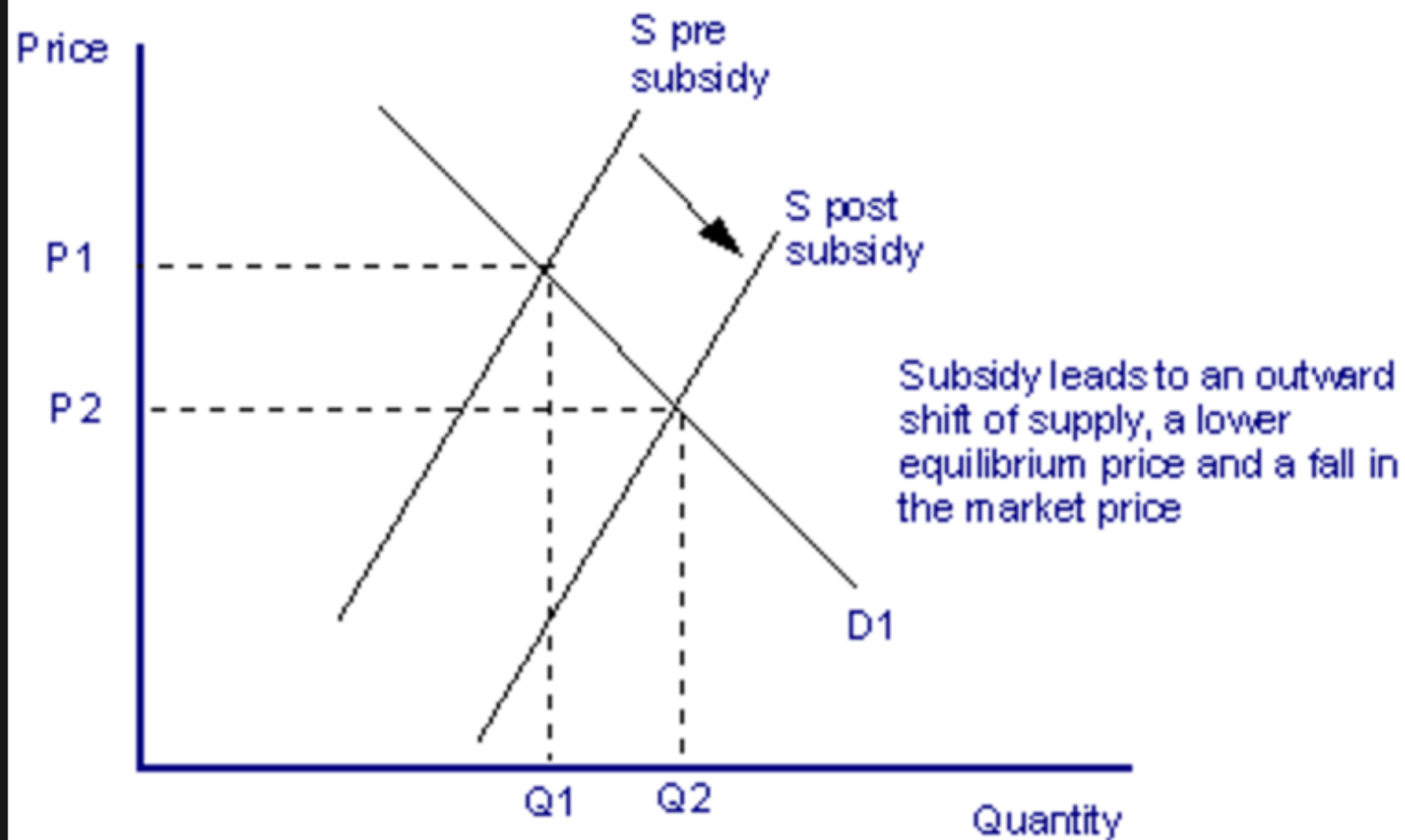
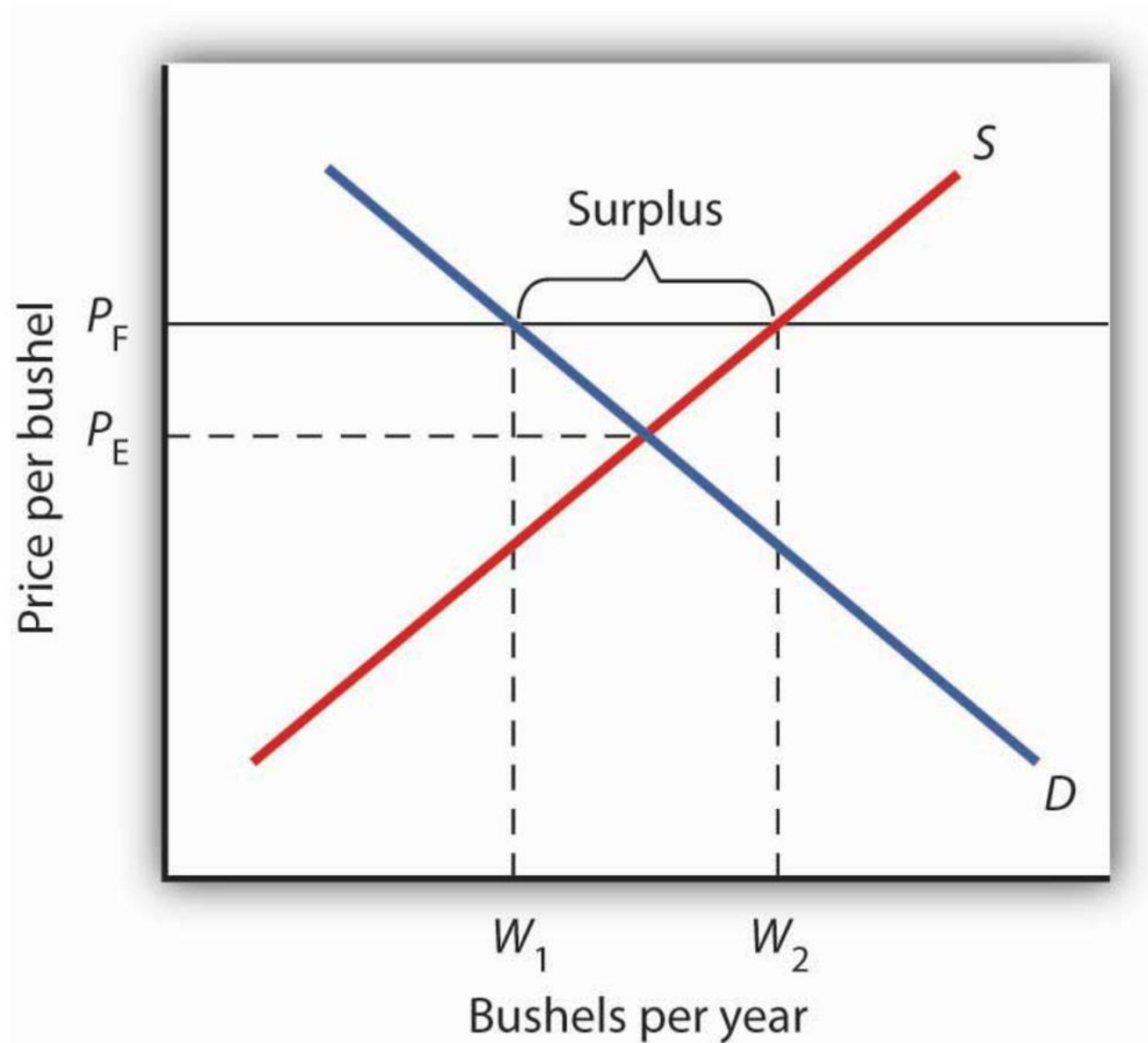




Figure 4.8 Price Floors in Wheat Markets



A price floor for wheat creates a surplus of wheat equal to  $(W_2 - W_1)$  bushels.

**Figure 4.8 Number of farms**



Source: USDA, National Agricultural Statistics Service (2016).

# Key Takeaways

- “The farm subsidies were intended to alleviate farmer poverty and help the family farmer – but the majority of subsidies go to the large commercial farms.”
- “Most research concludes that the sharp decline in farm numbers reflect increased productivity, which favored economies of scale.”

# CHOICE

MARKET ALLOCATION OF  
RESOURCES

GOVERNMENT ALLOCATION OF  
RESOURCES

# RAND OBSERVATIONS:

- “Some blood centers are trying to wait out what is seen as a rough market that will eventually subside while others are changing their business models in response to these market changes.” (114)
- “Across the different business models, some organizations are thinking strategically about how their behavior will affect their status after the excess supply issue has been resolved and they are likely to continue expanding in the future.” (128)
- “Other organizations have been largely reactionary, with little interest in proactively altering the market or with limited ability to engage in proactive planning beyond waiting for prices to rise.” (128)

# CHOICE

MARKET DRIVEN EVOLUTION OF  
THE INDUSTRY

GOVERNMENT FACILITATED  
EVOLUTION OF THE INDUSTRY