



Mitigating tariff impact on US Healthcare supply chain



Tariff Policies' Impacts on the US Healthcare industry

The consistent uncertainty of tariff policies forces healthcare executives to be proactively prepared for new disruptions and focused on tariffs' impacts on costs and overall operations. KPMG predicts current tariff policies could increase healthcare organization operating expenses by 9-15%, which would decrease operating margin by about 2-4%. Additional healthcare impacts executives should consider are:

Cost increases

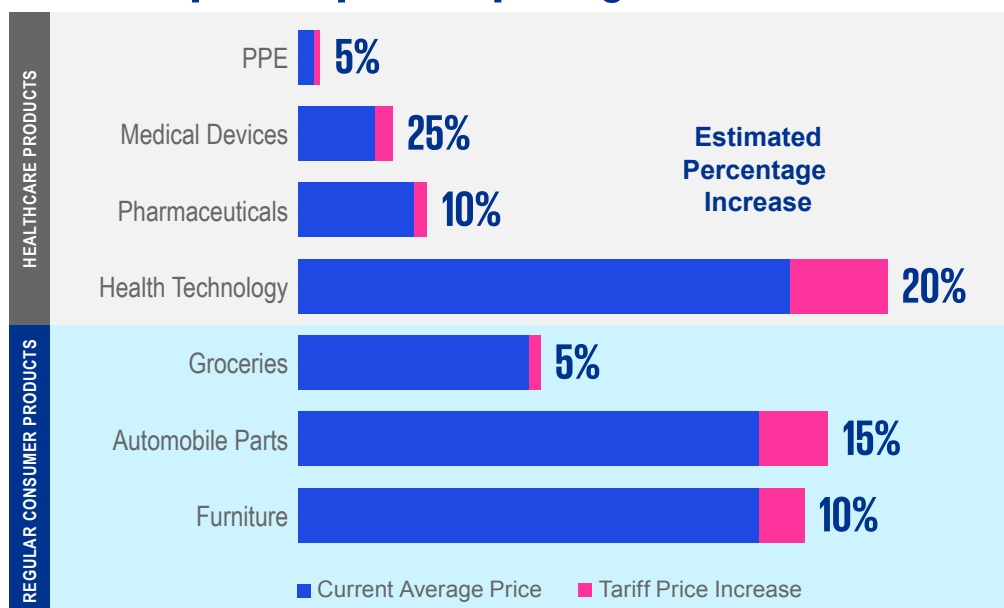
Medical Device Price Increases: Almost two-thirds of all medical devices used in the United States are manufactured in other countries, like Mexico and Japan¹. Economists estimate medical device prices will increase anywhere between 20-30% based on current tariffs².

High-End Technology Price Increases: Less than 10% of high-end medical technology, such as X-Ray, CT, and MRI machines are made in the United States, meaning prices are expected to increase at least 40% from tariffs³.

Pharmaceutical Drug Increases: Roughly 30% of active pharmaceutical ingredients (APIs), a key component of generic pharmaceuticals, is produced in China⁴, leading to increases of at least 10% by year's end⁵.

PPE Price Increases: Ever since the COVID-19 pandemic, China has been the main exporter of PPE, with almost 70% of US PPE imports coming from China. N95 masks, disposable face masks, plastic gloves, and other PPE are currently impacted by the Chinese product tariffs⁶.

Tariffs' impact on product pricing



While total price impacts from tariffs are still to be determined, most economists expect healthcare price increases in line with regular consumer product increases.

Organizational considerations

Procurement Disruptions: A Becker's Hospital Review survey of healthcare executives found that 90% believe tariffs will limit suppliers' ability to properly execute contracts in an effective and efficient timeframe⁵.

Vendor Disbursement of Costs: Vendors may look to share the cost burden of tariffs through additional invoice line items, such as "tariff" or "freight" surcharges, to have healthcare organizations share the tariffs' costs.

Future Provider Contract Increases: Based on the United States health insurance landscape, most suppliers are contractually obligated to maintain their contracted pricing through the end of 2025. But, health services providers

are expected to help mitigate tariff pricing with significant increases in 2026⁸.

Equipment and Technology Upgrade Delays: A Becker's Hospital Review survey of healthcare executives found that 94% will delay equipment and technology upgrades to better prepare for potential tariffs and impacts from those tariffs⁵.

Potential Hospital Shutdowns or Sales: According to a 2024 NIH report, roughly 40% of US hospitals have not financially recovered from the COVID-19 pandemic⁹. Additional strains on operating costs could be fatal.

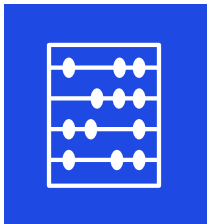
Mitigating tariff's impact on healthcare supply chain

While the current global economic situation can be confusing to predict and navigate, there are steps US healthcare leaders can take now to decrease the impacts on their supply chains:

Mitigation Strategy	Description	Potential Considerations
Petition for Healthcare Good Exemptions	Partner with healthcare lobbyist organizations, such as the American Hospital Association and the Advanced Medical Technology Association, to leverage the "voice" of the healthcare industry and push for healthcare exemptions to the tariff policies.	<ul style="list-style-type: none"> "Voice" is strongest in numbers – multiple systems makes for a stronger message Regional vs national exemptions?
Emphasize Resiliency/ Demand Planning	Leverage technology, robotics, and artificial intelligence to bolster the healthcare organization's analytical outputs and improve the overall visibility of the organization's current and planned inventory.	<ul style="list-style-type: none"> Operational expenses Technology/robotics adoption
Bulk Buys	Conducting bulk buys can allow healthcare provider organizations an opportunity to receive volume discounts that may offset costs associated with tariffs.	<ul style="list-style-type: none"> Warehouse/inventory space Carrying costs
Warehousing/Third-Party Logistics	In parallel with bulk buys, healthcare organizations can build up their reserves of essential items, just like during the COVID-19 pandemic.	<ul style="list-style-type: none"> Warehouse/distribution center needs
Enhance Multi-Source Strategies	Healthcare organizations can diversify their supplier mix to decrease the impact that any single supplier can have on the overall organization.	<ul style="list-style-type: none"> Potential impact on current contracts Availability to expand supplier mix
Leverage GPO Relationships	Collaborate with GPOs to resist price increases and incorporate clauses in their GPO contracts that prohibit vendors from raising prices.	<ul style="list-style-type: none"> Reliant on GPO's willingness to negotiate
Diversify GPO Relationships and Contracts	Organizations that utilize multiple GPOs or create self-GPOs can further decrease the impact of any single supplier on their overall supply chain and help mitigate associated costs.	<ul style="list-style-type: none"> Impact on current GPO contracts Capital considerations related to a self-GPO
Audit Current Contracts	Current contracts that healthcare organizations have with suppliers must be honored regardless of the tariffs. However, proactively reviewing existing contract structures would enable organizations to negotiate adjustments before potential price increases.	<ul style="list-style-type: none"> Negotiating/contracting power of the organization
Prioritize Organizational Optimization	Review and help optimize how the healthcare organization runs their supply chain; focused on all aspects of the supply chain organization from inventory management to operations planning to contract negotiating.	<ul style="list-style-type: none"> Organizational willingness to change
Strategic Repositioning	Evaluate the strategic category management plan and annual savings goals to determine if specific tariffs necessitate rethinking the timing of bid events and other strategic vendor partnerships to better achieve costs savings and maintain operational resilience.	<ul style="list-style-type: none"> Governance structure for monitoring savings and spend progress
Prioritize Domestically Manufactured Purchasing	Opting for domestically manufactured items can help eliminate price increases related to tariffs, provided the goods are made using raw materials sourced within the United States.	<ul style="list-style-type: none"> Most healthcare products are manufactured outside the US Clinical effectiveness of products

How KPMG can help

At KPMG, we understand the challenges of navigating current tariff disruptions while planning for sustained growth and future uncertainties. Our industry expertise and innovative approach have established us as leaders in proactive healthcare supply chain thinking. Contact us for strategic and implementation support to help your organization maintain high-quality patient care and operational efficiency, even amid global supply chain disruptions. Some of the ways KPMG can help you include:



Tariff Impact Assessment and Scenario Planning

Leveraging our deep industry knowledge, we can conduct comprehensive reviews down to the SKU level to determine which products are impacted by current and future tariffs. This detailed analysis allows us to assess the specific challenges each product faces and develop tailored strategies to help mitigate these impacts, ensuring smoother operations and sustained growth amidst tariff disruptions. Further, KPMG has developed a Tariff Modeler that can help you with scenario planning, enabling you to make informed and impactful decisions in real-time.



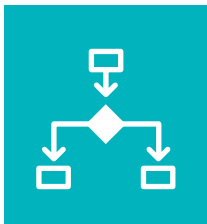
Margin Optimization Strategies and Implementation

We have collaborated with numerous healthcare provider organizations to decrease costs and increase revenues. Specifically for supply chain, our team identifies non-labor cost reduction opportunities and works with clients to prioritize and implement these savings initiatives. Building on the tariff impact assessment, we can help implement savings opportunities, positioning your organization to help reduce the overall impact of potential tariffs.



Group Purchasing Organization Strategies and Implementation

Drawing from our staff's extensive background in healthcare organizations and group purchasing organizations (GPOs), we can support you in re-evaluating your GPO relationship to help optimize value and help mitigate any potential impacts of tariffs. We will assess your existing GPO relationship to determine the best course of action, whether it involves changing Group Purchasing Organizations, adding a secondary GPO, creating a self-GPO, or simply reviewing existing GPO contracts for force majeure clauses that could be activated by the current global economic climate.



Target Operating Model (TOM) Optimization

By leveraging KPMG's six dimensions of a Target Operating Model (TOM), we can help position healthcare provider organizations to improve operations and create a leading-practice, sustainable model for continuous cost reduction. This model can be leveraged to provide the supply chain management operations the right processes, policies, and governance structure to tackle any potential supply chain disruption.



Working Capital Assessment

By evaluating inventory, accounts receivable, and accounts payable, we identify opportunities to help optimize cash flow and enhance overall financial stability, positioning your organization to better absorb the impact of potential tariffs.

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Contact us:



Albert Yu

Managing Director
973-313-7034
albertsyu@kpmg.com



Jen Sturgeon

Managing Director
714-745-4586
jsturgeon@kpmg.com

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