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Products & Services

Effective freight management delivers the total package

by Jeannie Akridge

If freight management is not already on your list of potential cost saving projects, maybe it should be. Driven by economic pressures, increased awareness of savings opportunities and the complex nature of freight management, healthcare facilities are ramping up their freight management activities, oftentimes through the use of a third party logistics company (3PL) or outsourced freight management services.

"Healthcare is probably one of the last industries to come on board in understanding the impact of reducing overall transportation and logistics costs," said Joe Roeder, president, logistics & distribution for NFI, a nationwide 3PL providing integrated supply chain solutions for a variety of industries.

As senior director of contract services for [Novation LLC](#), Travis Johnson has seen "increased interest in providers wanting to take control of their freight expense. Providers are expecting more transparency into freight costs and look at freight as a component of the total cost of a product. I believe the increased interest in freight management has been a component of the rapid rise in raw materials we saw in Q3 of last year, and the current economy has driven providers to look for additional cost savings over the cost of the medical device."



Photo courtesy UPS

Said John Vinarsky, MT (ASCP), MBA, vice president, executive resources & office solutions for [Amerinet](#), "I know a lot of facilities are looking at opportunities to reduce their costs that they probably wouldn't have considered a couple of years ago before the economy had such a drastic change."

According to [HLS MedFreight](#) CEO Rick Bayer, "What you're starting to see more and more – the GPOs and our customers are driving freight management contractually. There are many providers that are doing this today and they're asking their GPO partners to help make this part of their contract negotiations."

Sources estimated that freight expenses make up 3 to 6 percent of product costs, with hospitals spending on average \$1,000 per bed in freight each year. While 15 to 20 percent of freight costs are for outbound shipping, 80 to 85 percent involves inbound shipments, creating the biggest opportunity for cost reduction. Depending on the level of service provided and commitment to the program, many 3PLs tout

New Technology

GTRI is developing protocols for testing effects of RFID systems on medical devices

The Georgia Tech Research Institute (GTRI) recently began developing testing protocols for RFID technology in the healthcare setting. The test protocol development is being overseen by AIM Global, the international trade association representing automatic identification and mobility technology solution providers, and also includes MET Laboratories, a company that provides testing and certification services for medical devices.

"A comprehensive set of test protocols, which are sufficiently precise to permit repeatable results, is required to understand if there is an interaction between various types of RFID systems and active implantable medical devices, electronic medical equipment, in vitro diagnostic equipment and biologics. Only after the protocols are developed will we be able to investigate the cause of any interactions, the result of any interactions, and ways manufacturers might eliminate or mitigate interactions," said Craig K. Harmon, president and CEO of Q.E.D. Systems and chairman of AIM Global's RFID Experts Group. This group is overseeing the healthcare Initiative and includes representatives from 40 organizations in the United States, Europe and Asia.

GTRI researchers will test how RFID systems affect the function of implantable and wearable medical devices, such as pacemakers, implantable cardioverter defibrillators, neurostimulators, implantable infusion pumps and cardiac monitors.

The researchers will test whether radio frequency-emitting devices cause any negative effects on the medical devices, and under what conditions these effects might occur. Testing will also determine whether specific medical devices are particularly susceptible to certain radio frequency identification characteristics and if any corrective actions can be taken to mitigate such susceptibility.

Medical device testing is not new for GTRI, which established its Medical Device Test Center more

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savings ranging from 15 to 40 percent.

"Customers are starting to see true savings from a freight management perspective," commented Doug Schwieger, director of marketing and product development for [OptiFreight Logistics](#). "Healthcare facilities see a very rapid, positive ROI with minimal investments of time and resources [when] using a freight management company."

"This is an easy way to reduce costs for the provider because they don't have to make any clinical changes," added Bayer.

Often, cost savings opportunities associated with freight management are not clearly evident, acknowledged Vinarsky, "and it's complicated to understand for somebody who is usually not involved in the details when it comes to managing freight."

Ira Tauber, COO for [TRIOSE Inc.](#), a full-service logistics company focused solely on the healthcare market, noted that, "Historically freight has been an unmanaged expense line for these health facilities. They really don't have the resources for the internal processes or expertise to manage this. It's not just about making a contact with a vendor and telling them to ship and bill it to a UPS or FedEx account number. The real key is the ongoing management of the vendor compliance and then really managing the next level of complexity in terms of improving and optimizing the logistics process."

"Shipping is not a primary focus for a healthcare organization," said Deron Jett, president, [Onsite Management Group](#) (OMG, LLC). "A department may research one year, get a great price and never look at it again. Often the departments within a facility have different arrangements with one or more freight vendors."

Maximizing opportunities

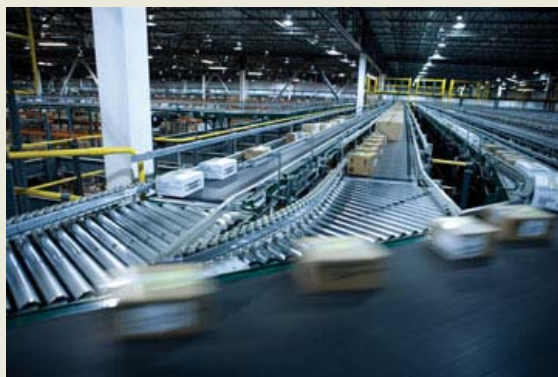


Photo courtesy OptiFreight

Most healthcare facilities lack the resources to properly quantify their current total freight spend – if it's measured at all. When it comes to managing transportation and logistics, "getting your arms around the data is sometimes the most difficult thing," indicated NFI's Roeder.

"One of the things that healthcare facilities struggle with is the difficulty of identifying their true freight costs and managing them appropriately," shared Schwieger. "Oftentimes, healthcare facilities focus only on supply costs, without truly understanding the cost to receive and ship supplies. They might not also have the necessary resources and capabilities to manage their own freight"

"Many healthcare facilities have difficulty telling you how much freight they spend in total," said Bayer, HLS MedFreight. "It's even more difficult for them to tell you what they spend on inbound vs. outbound. Getting to a level of detail beyond that is where we excel."

"If a healthcare facility wants to maximize its savings from a freight management standpoint, it really gets beyond discounts," Schwieger advised. "You need to create a freight management discipline. This can be accomplished by creating capabilities in managing vendors, impacting behavior and analyzing data."

Many group purchasing organizations (GPOs), such as Amerinet, Novation and [MedAssets](#), offer resources to help facilities manage freight costs. For example, Amerinet has contracts in place with freight management outsourcing companies and shipping companies, as well as access to consultants who can help facilities make the initial decision of whether to build their own freight management system or outsource.

Consultants can help facilities grasp the extent of the manpower and hours necessary to properly manage such a system, offered Amerinet's Vinarsky. "If you don't have the manpower and you don't have the

than 14 years ago. The facility was created to enable manufacturers of implantable cardiac pacemakers and defibrillators to work with providers of electronic article surveillance (EAS) systems, used by retailers, libraries and other establishments to prevent theft and track inventory.

To test the effects of RFID systems on medical devices, the researchers simulate real-world conditions by placing a medical device in a tank of saline solution that simulates the electrical characteristics of body tissue and fluid. The medical device is then exposed to different RFID technologies. Several tests are performed with the device placed in different orientations to represent how people typically interact with the emissions. The test protocols developed by GTRI will be submitted to the U.S. Food and Drug Administration for concurrence, after which a worldwide certification program will be launched and other testing facilities will be invited to participate. <http://gtrresearchnews.gatech.edu/newsrelease/rfid-medical.htm>

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expertise the best way to reduce your cost would be to look at the outsourcing piece," he said, adding that some freight management companies are flexible in offering hybrid solutions for facilities that want to maintain control over certain aspects of the process.

"The way to achieve optimum savings is not simply by taking advantage of a discounted shipping rate, "it's really the total package," Vinarsky added. Channel optimization that puts control over shipping mechanisms into the hands of the healthcare facility versus depending on suppliers to ship through their own channels yields the most significant long term savings, he noted.

Explained Tauber, "To achieve the higher level of savings you really have to make process changes or improvements. You look at how to lower the cost while maintaining or improving service levels.

"Aside from the rates savings, a key component is the audit and visibility piece," he continued. "There are a lot of errors that can occur in the shipping process. It's our job to catch them and mitigate them. Between rate savings and monitoring you can get that first level of savings. Then the next level of savings is taking the data and the information that you've garnered from managing this process and making informed decisions to change and improve the process."

TRIOSE draws on its consultative background in the area of logistics to provide robust business reviews to report back customer results and to determine, "where's the next area of focus to drive cost savings, and what are the priorities?" said Tauber.

OptiFreight Logistics, supported by its parent company Cardinal Health, offers a full-service freight management program with solutions tailored to meet the individual needs of healthcare facilities. "We proactively implement and manage the program and continuously consult with customers on savings opportunities through our account managers," described Schwieger.

Vendor management is one of the keys to any successful freight management program he noted, "What we do from an OptiFreight perspective is manage the process to engage with the vendors, ask them to participate, and then manage that relationship. It is a continuous management process that ensures deep vendor compliance.

"Impacting behavior within the healthcare organization is another key to optimizing freight management," he continued. "What we focus on is making sure the customer champion and all of the necessary stakeholders are educated on the program. A big part of change management is continuous follow up on program utilization, so we have account managers that will proactively follow up with customers."

"If someone is brand new to using a freight management program, what we stress right out of the gate is program utilization. A freight discount has minimal value until vendors and healthcare facilities participate and use the program," added Schwieger.

"The third key component of being successful in managing freight is being able to analyze and interpret what the data means," he said. "We analyze freight for our customers and help interpret the results. We also create savings action plans to help coach and motivate our customers to generate further savings."

Bayer described how HLS MedFreight's Information Advantage program helps facilities achieve higher returns. "Rate savings are important, but once achieved, the longer term goal is to control and manage the information that helps them drive substantially more savings."

Among resources available to HLS MedFreight customers is HLSMedfreight.com. Not only are there a variety of reports that customers can access 24/7 and drill down into, but they can also easily schedule outbound shipments through the company's ShipPro 1-Step that identifies the various service levels available, estimated delivery dates, and actual delivery costs. "By shipping on our website we make it simpler and easier, with features built-in to help them reduce costs," said Bayer.

With HLS MedFreight's proprietary Supplier Certification Technology, "our suppliers can go to our website, HLSMedFreight.com, and set up new hospital customers, and they can also perform quality assurance, which helps ensure all of the volume is flowing through the model," Bayer explained. HLS' 3rd generation proprietary billing software features over 100 audits to ensure accuracy of pricing, etc.

NFI's Roeder advised that finding the right 3PL provider is key to optimal

success. "If you have a significant supply chain spend, you need to have a provider with bandwidth. We have over 9,000 trucks on the road and relationships with a couple of thousand carriers, so chances are we're going to be able to pick the right carrier for the right area and make sure that product is delivered on a timely basis."

He noted that these could be regional or specialty carriers, such as those offering refrigerated transport solutions.

NFI offers its customers a wide variety of tracking and reporting solutions that can be as sophisticated as allowing 24/7 real-time Web-based tracking of inbound and outbound shipments.

Roeder added that NFI can help facilities maximize JIT inventory systems by ensuring products are available when needed. "A lot of times, it's a little bit deeper than freight management. There are probably some other opportunities on the supply chain side of it where healthcare facilities could be saving," he said.

With a primary focus on mail, imaging, shipping and courier/logistics services, OMG LLC "can observe a broader picture of the true needs of various non-core departments by strategically looking at the client's business plan model and budget goals," said Jett. "One of OMG's strengths is staying abreast of the market and the competitors to provide the best solution for our client. It is by continuous monitoring of pricing and services offered by vendors that OMG can assist a company in maintaining the best service and pricing."

"OMG believes in forming strategic partnerships with vendors who can give our client exactly what they need to assist with cost savings and efficiencies," added Jett. "One of our partners, Advanced Supply Chain Solutions, works to reduce freight expenditures via implementation of web-based freight optimization (WITS Tracking System) technology that includes the internal receiving/delivery process or information acquired (electronic POD-Proof of Delivery) to the internal consignee in a single/centralized database."

OMG has also partnered with Guardian Medical Logistics who focuses its 30+ years of experience in providing nationwide logistic services for laboratories of all disciplines and sizes that require mission-critical specimens to be consistently picked up and tendered for processing on-time and intact. OMG's sister company, Zip Express provides a wide range of courier, transportation, storage and logistics services with a major focus in the healthcare industry.

"Our business partners are vital to our process and recommendations regarding logistics. It is all of us working in sync that make a total package in providing non-core services for healthcare organizations," said Jett.

[MedSpeed LLC](#), a provider of integrated transportation services to the healthcare industry, helps its customers transform their often fragmented and overlapping transportation operations into a single streamlined and centralized network.

"Outsourcing transportation decreases liability and allows health systems to move from a fixed to a variable cost model to accommodate changing needs," described Jake Crampton, CEO, MedSpeed.

"MedSpeed carries virtually everything that moves same day between facilities that make up an IDN, between a clinical laboratory and its outreach customers and between blood bank donor sites, production facilities and hospital customers," said Crampton. These can include specimens, infectious materials, medical records, radiology reports, pharmaceuticals, blood products, laundry and equipment.

According to Crampton, key factors driving interest in integrated transportation services include, "hospital consolidation and the related growth in IDNs, coupled with the desire of those IDNs to leverage their scale through centralized solutions (i.e. central labs and pharmacies) that require a logistical backbone to link those centralized solutions with a diverse and geographically dispersed 'customer' set."

Delivery tracking systems that include mobile computing solutions not only play a beneficial role in freight management, but also help improve inventory management. "You can get as sophisticated as – if it's connected to your inventory management system, and you set par levels – when you hit that par level it

automatically generates an order through the system to the supplier and then they ship it through your freight management system," said Vinarsky, Amerinet. "Not only can it trigger electronic payment that's handled without having to generate a PO and have it go through finance, the ultimate would be that no one would have a manual interface with that system except for exceptions. All of the routine stuff would take care of itself automatically."

Honeywell's suite of mobility solutions, such as the feature-rich, industrial-grade Dolphin 9900 enable real-time wireless connectivity, provide GPS capabilities, integrated adaptive imaging for decoding of bar codes and taking pictures, automated signature capture, and serve as a mobile platform for running inventory management systems. An extra-long battery life supports "full-shift operations".



Honeywell Dolphin 9900
Mobile Computer

"Our devices can be used to manage and keep track of goods all the way across the supply chain from distribution centers, in transit, and then delivery back to the end-user," said Greg Payne, product marketing manager, Honeywell Scanning & Mobility Solutions.

Honeywell's mobile computing devices can also help improve visibility and provide a pedigree for tracking time-sensitive materials such as specimen collections.

Providence Health & Services in Rhode Island improved efficiencies and experienced a 40% time savings through the use of Honeywell handheld mobile computers equipped with Lawson software applications. By automatically tracking packages and capturing signatures, the organization reduces time spent on inventory processing, reduces the number of lost orders and helps ensure that materials are available when needed at the point of care.

Savings delivered

When Illinois-based Rockford Health System enlisted TRIOSE in July 2008 to help manage their freight expense, they were surprised to learn their true freight costs. "Our initial estimate of what our annual spend was came out to 40 percent of what we actually spent. We needed a lot of work to get back to reality," recalled Chip Geiger, purchasing manager. "We were inconsistent in how we entered freight costs into our system, so our first task was to standardize our internal process to collect accurate and complete costs. Then TRIOSE was able to take our baseline, and work to present an implementation plan."

"The most important benefit is that we now have access to our spend, our suppliers and who is in compliance, and a resource to work other freight issues, such as tack-on costs, capital goods shipments, and any other issues related to incoming or outgoing package movement," Geiger explained.

The payoff? "In the past 12 months, we have documented savings of \$59,050 on a total spend of \$385,490, a savings of 15%. Our savings will grow as we are able to move our suppliers over to our program, which doesn't happen overnight. But we are seeing a steady growth of our freight spend moving from Rockford Health System paid, to TRIOSE-managed, which gives us the advantage of their negotiated rates. Once you are able to track and monitor the costs, you can get on the path of continuous improvement," added Geiger.

Renown Health, Reno, NV, began working with TRIOSE in May 2006, and last fiscal year realized savings of more than \$100,000. Sharon McClure, purchasing supervisor, explained, "TRIOSE has the team and ability to provide special reporting so we can charge the freight expense to various departments. We are contacted when an opportunity is found, i.e. excessive next day air charges from a specific vendor."

Aurora Health Care (Milwaukee, WI) – which encompasses 13 hospitals,

clinics, 110 regional pharmacies and Wisconsin's largest visiting nurse association – was one of HLS MedFreight's original customers. According to Stuart Wooster, manager, corporate purchasing, "Like most health systems, Aurora wasn't measuring freight costs as well as we could have. If you don't measure it, you can't control it."

"In healthcare, many rely on the concept, 'we never had to pay for freight before'. That kind of thinking really needs to change," cautioned Wooster. "Freight has been absorbed into the cost of goods or prepaid and added to the invoice at the supplier's rate," he said. "Most organizations rely on the overall vendor community to control their freight cost and are often not well served by the 'free freight' offered by the seller. Just because the seller includes 'free freight', does not mean there is no cost – that cost is going to be covered somewhere. We're not just buying trocars, we're buying delivered trocars."

Hospitals should apply the concept of "Activity Based Costing" where freight costs are assigned to the departments that create them, suggested Wooster. "It's easier to manage the cost if it is assigned and visible during the transaction compared to backtracking at the end of a month. Advantages of a good 3PL partner go beyond a good freight rate to include accurate and harmonized invoicing, automated freight expense reporting and consistent benchmarking," said Wooster, adding, "GPO representatives and 3PL suppliers can help provide any needed education and even provide an analysis of your situation. They can help start the process but it is one that we as supply chain leaders must own."

Florida's Orlando Health System has also partnered with HLS MedFreight and was able to log significant savings. Randy Hayas, corporate director of materials management, commented, "I think one of the problems in some systems is that freight is not consolidated. So you don't know how big the freight cost is. One of the things Orlando Health had done a few years earlier was to consolidate inbound freight costs, so we knew how big it was." Starting from a spend of \$893,000 per year, Orlando Health has experienced a savings of about \$272,000, or 30 percent to date with HLS MedFreight.

Explained Paul Vincennie, senior implementation specialist, Orlando Health, "When you're doing freight management by yourself you don't really have any control over what the vendor is going to be doing, how they're going to be shipping it to you, what discounts they're appreciating and you're not. With the HLS way of doing things, it's a third-party billing; we tell the supplier, 'this is the number to charge', and we receive the benefit of discounted freight costs. So we have more control over it."

"We've gone as far as putting it on our POs, and when we go out for an RFP, to make sure that for inbound freight, HLS is in there so they know right from the start that we want to do third-party billing," he added.

MedSpeed partnered with a leading Chicagoland IDN to affect a centralized transportation solution, consolidated operations under a uniform set of service standards, applying technology to track critical materials and measuring success based on established performance standards. "Doing all this, immediate savings were greater than 15%. Additionally, this IDN has grown significantly since the MedSpeed partnership began; new stops costs have been almost 50% below the pre-MedSpeed benchmark," said Crampton.

"To measure the success of managing freight, OptiFreight Logistics focuses on lowering a customer's cost per package," said Schwieger. "This is a metric of the average cost for freight per package that is either received or shipped within a healthcare facility. Those facilities that have the lowest cost per pack are doing most everything that is best in practice from a freight management perspective."

Among those best practices, he offered, "Customers are always actively engaged in the program. They have a strong program sponsor that works with OptiFreight Logistics to help drive compliance. They are proactive in terms of implementing recommendations, activating new vendors and optimizing their freight delivery service through mode and channel optimization."

Schwieger outlined four key areas in which OptiFreight Logistics can help its healthcare facility customers:

- Reduce freight costs through proprietary discounts, mode and channel optimization;

- Accelerate savings through processes such as program implementation, education programs, and vendor management;
- Maximize facilities' time and effort with the program through dedicated account managers
- Measure performance through business reviews and savings action plans.

"The key is to find freight management companies that will help develop a partnership with you to maximize savings and develop long-term permanent cost reduction strategies," said Schwieger.

Tips for success

Johnson, Novation, advised facilities, "The primary step is taking a look under the hood to determine your current freight terms/expense, ordering patterns and technology capabilities. It is important to identify your specific needs that will allow you to match them with a freight partner that is best equipped to meet your facilities' goals."

Recommended McClure, Renown Health, "Have one person as the contact person that will work on the program and be engaged. It is a continual challenge to educate employees and to enforce using this program. Stay involved and work on opportunities as they come up to save on freight."

"When we were first considering a freight management plan, I was concerned that our lack of data would affect how we could get started," admitted Geiger, Rockford Health. "But with the set up assistance provided, and the ongoing reporting, we are able to get in to a program that will realize some savings, and grow as we get more familiar with the plan. Don't worry that you don't have all the facts and figures, the program will progress as your company implements the plan. The tracking data will guide you into your next steps, as you see the trends of internal versus TRIOSE-managed shipping costs. Start measuring, and see where that takes you."

Wooster, Aurora Health, added, "Many people may be thinking that better managing their freight expense will not clear their internal rate of return, but if they never evaluate it they'll never know. They may be getting a decent discount with their freight service provider, but price is only one portion of cost."

Regardless of a facility's current circumstances, freight management is worth putting on the radar, said OMG's Jett. "It is rare that some percentage of savings cannot be achieved by an overall company review of shipping/freight expenditures. Outdated policies need to be reviewed to ensure they still carry the same benefits. OMG can help a company take a broad view of their expenses in their non-core areas including shipping and freight expenses and verify that the savings originally achieved are still present. These analyses can be quantified, compared to prior years, and compared with a fresh look at the market place that exists today."

HPN

