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HEALTHCARE PURCHASING NEWS

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NEW TECHNOLOGY

Federal oversight of compliance at 340B contract pharmacies needs improvement

The 340B Drug Pricing Program (340B Program), which is administered by the U.S. Department of Health and Human Services' (HHS) Health Resources and Services Administration (HRSA), requires drug manufacturers to sell outpatient drugs at a discount to covered entities so that their drugs can be covered by Medicaid. Covered entities include certain hospitals and federal grantees (such as federally qualified health centers).

About one-third of the more than 12,000 covered entities contract with outside pharmacies — contract pharmacies — to dispense drugs on their behalf. The Government Accountability Office's (GAO) review of 30 contracts found that all but one contract included provisions for the covered entity to pay the contract pharmacy a flat fee for each eligible prescription. The flat fees generally ranged from $6 to $15 per prescription, but varied by several factors, including the type of drug or patient's insurance status. Some covered entities also agreed to pay pharmacies a percentage of revenue generated by each prescription.

Thirty of the 55 covered entities GAO reviewed reported providing low-income, uninsured patients discounts on 340B drugs at some or all of their contract pharmacies.

Of the 30 covered entities that provided discounts, 23 indicated that they pass on the full 340B discount to patients, resulting in patients paying the 340B price or less for drugs. Additionally, 14 of the 30 covered entities said they determined patients' eligibility for discounts based on whether their income was below a specified level, 11 reported providing discounts to all patients, and 5 determined eligibility for discounts on a case-by-case basis.

GAO found weaknesses in HRSA's oversight that impede its ability to ensure compliance with 340B Program requirements at contract pharmacies, such as:

HRSA audits do not fully assess compliance with the 340B Program prohibition on duplicate discounts for drugs prescribed to Medicaid beneficiaries. Specifically, manufacturers cannot be required to provide both the 340B discount and a rebate through the Medicaid Drug Rebate Program. However, HRSA only assesses the potential for duplicate discounts in Medicaid fee-for-service and not Medicaid managed care. As a result, it cannot ensure compliance with this requirement for the majority of Medicaid prescriptions, which occur under managed care.

HRSA requires covered entities that have noncompliance issues identified during an audit to assess the full extent of noncompliance. However, because HRSA does not require all the covered entities to explain the methodology they used for determining the extent of the noncompliance, it does not know the scope of the assessments and whether they are effective at identifying the full extent of noncompliance.

PRODUCTS & SERVICES

The great freight debate

Should freight-shipping strategies be aligned with distribution, inventory strategies?

by Rick Dana Barlow

For Supply Chain, overseeing freight and shipping costs seems a bit like the crazy uncle assigned to bring the ice-filled beverage and meat coolers to the family summer picnic every year.

The family tolerates and relies on him but typically takes him for granted until he fails to show up one year when the temperature hits the triple digits.

In healthcare organizations, freight and shipping remains a necessary tactic. How else would Supply Chain get the stuff clinicians need — or demand — quickly? Where it gets costly, however, is when the high price for convenience or lack of planning somehow morphs into acceptable operating procedure, and everyone looks the other way when the charges surface at budget time.

Some Supply Chain experts argue that freight and shipping practices should be treated similarly to distribution. Both involve the movement of products between two or more locations. But higher freight and shipping costs may indicate a deeper problem.

"Shipping methods can be an indicator of inventory issues," said John Freund, founder and CEO, Jump Technologies. "If items are being routinely shipped using some sort of express freight option, it can point to an inventory problem. A high number of overnight or express shipments can be an indication that a hospital isn't managing its inventory effectively. For example, many hospitals will look at inventory today for procedures scheduled tomorrow. If they are short on a item and they don't get from a distributor, they will often have it shipped via next day early delivery. If there is a large number of overnight packages coming daily and the orders are for the same items, it points to an inventory issue. Understanding your inventory velocity and forecasting demand within procedural areas (most procedures are scheduled weeks in advance), a hospital can avoid having to rush items in for a procedure scheduled for tomorrow."


John Freund

Jump's JumpStock product enables end users to track the retail costs of their UPS and FedEx shipments, according to Freund, recording the data in reports that helps them adjust their order levels and frequency as necessary.

As healthcare organizations have centralized their contracting, purchasing and distribution operations, so should they centralize their shipping and transportation management, according to Bill Denbigh, Director, Business Development and Marketing, TECSYS.


Bill Denbigh

"For a health system [the] outbound shipping of supply chain goods is a very small percentage of the total transportation budget, often less than 20 percent," Denbigh acknowledged. "In many leading health systems such as Mercy Health or Intermountain the supply chain transportation team have taken on responsibility for the entire transportation network including all the clinical service goods — often referred to as courier — along with the in hospital transportation."

Such a "total transportation" approach for outbound freight and shipping can improve customer service and reduce costs, he added.

"Transportation as a total is up in the 20 percent to 25 percent of the total cost of supply chain these days," Denbigh continued. "A health system can reduce their outbound shipping costs by a significant percentage and also provide better quality of service to their customers and patients by taking transportation out of the hands of the departments and centralizing it. Other than the lack of transportation experience in the health system and 'protectionism' within the departments not wanting to lose control I'd say it's more a question of why would you not?"

More acute scrutiny of freight and shipping expenses via a centralized and total program can shed light on issues otherwise hidden or misunderstood, according to Gerry Romanelli, Chief Commercial Officer, TRIOSE Inc.

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Romanelli points to vendor compliance and "free freight" as two examples where price becomes a factor.

Gerry Romanelli

"Hospital Supply Chain leaders and freight management companies will often focus on the rate they are paying with the carrier for inbound and outbound shipping," he said. "A lower rate may increase savings on an individual shipment but a strong inbound vendor management program will deliver much more saving as a percent of total spend. For example, a 50 percent savings on one $10 package is $5. A 45 percent savings on $10,000 in freight [spending] is $4,500.

"Free Freight is also a frequently misunderstood term," Romanelli continued. "While it sounds appealing it often has stipulations in the fine print that make it difficult to realize. It depends on the vendor but some provide on certain day and time frames; others require a particular mix of product or spend."

Three-legged stool

Freight and shipping issues extend beyond receiving goods (inbound) and sending goods (outbound). In fact, the third area can be toxic to budgets, particularly in an integrated delivery network or multi-hospital system. It's moving goods between facilities that can add to total costs.

"VPL has found that health systems are becoming more proficient in tracking the total landed cost of products on the first leg of the delivery into their network," said Don Carroll, Vice President, Business Development, Vantage Point Logistics, Inc. "Once it enters their network, they tend to lose visibility to the movement of the product, and therefore have no idea what the true final landed cost might be. With ever-expanding points of care, such as ambulatory sites, physicians' clinics, home health, etc., made even more complex with the accelerating [merger-and-acquisition] activity across the industry, health systems are having to move an increasing amount of product to various locations within their own networks. In fact, the latest estimates indicate that up to two-thirds of all health system freight costs occur within their systems' networks. These freight costs include local and regional carriers, local couriers, small parcel carriers, etc."

Don Carroll

As a result, VPL is developing a product that will allow its customers to follow and track a product from the original shipper into their network and then track it until it arrives at the final point of patient care, according to Carroll. This technology will provide its customers with the ability to calculate the true landed cost of any product, regardless of the number of times it moves from location to location, he added.

Jake Crampton, Founder and CEO, MedSpeed LLC, concurs that Supply Chain may skip scrutinizing of the entire journey of a shipment, which affects calculations of the total cost of ownership.

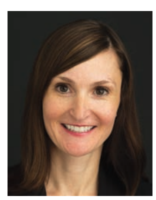
Jake Crampton

"Beyond the [expense] of freight moving into the healthcare system, the costs of moving items between health system facilities — known as intra-company logistics — can be overlooked," he indicated. "Intra-company logistics costs are often buried in line items in many departments throughout the organization, managed by a number of resources and fragmented/overlapping. Waste within intra-company logistics translates into a higher overall logistics total cost of ownership."

Crampton points out that the freight expense of supplies delivered directly to non-acute facilities can be overlooked.

"Often, the freight expense for these items is bundled into the cost of goods, instead of separated as independent line items," he noted. "Compounding the confusion, items are typically shipped directly to the facilities via a third-party freight company that provides little visibility into the shipping mode, making tracking freight costs and creating strategies to reduce them a challenging task."

Supply Chain should pay closer attention to courier-direct, local and same-day shipments, too, emphasized Melissa Laber, Senior Vice President and General Manager, OptiFreight Logistics, Cardinal Health.



Melissa Laber

"When there's a lot of focus and energy placed on inbound and outbound freight management, Supply Chain often overlooks same-day/local courier transportation," Laber said. "This segment of transportation touches distribution, but it is also mission critical for many other departments and clinical areas across the health system. Ownership and management of same-day shipments are usually shared or spread across many parts of an organization, and there are typically multiple third-party couriers performing the work, adding to the complexity. What's important to note is that same-day spend is estimated to be about half of a health system's total freight spend and is an important component to manage."

Consequently, Laber calls for a unified view of everything being shipped, including small parcel, large freight and same-day transportation expenses. "A holistic view of a health system's transportation spend supports the ability to get closer to a 'one truck' concept," she noted. "Layering all movement within a network can have a compounding impact when managing costs. Working with a singular partner to align, audit, and drive change management through all these elements will reduce cost and streamline operations."

She further encourages managing freight and inventory together for products shipped direct. "If you know how much inventory you have, where you have it, and when it expires (as appropriate), would it better inform you about the decisions you make about shipping? Absolutely," she added.

Supply Chain simply needs transparency in its freight and shipping/transportation operations, according to Daniel Gagnon, Vice President, Global Healthcare Logistics Strategy, UPS.

Daniel Gagnon

"Visibility tools track shipments, notify recipients of transit details and often easily integrate into existing purchasing systems," Gagnon said. "Status alerts let users know when supplies are in transit. That advance knowledge can help with inventory planning, and may help logistics staff troubleshoot delivery issues before they have an impact."

But Gagnon urges Supply Chain to pursue a more holistic approach, too, that includes the types of product shipped and the condition in which they need to be shipped in order to remain safe to use.

"Regulatory support is critical as requirements are growing in complexity," he said. "Regulations, like the Drug Supply Chain Security Act (DSCSA), are requiring a single system of federal electronic, unit-level traceability of drugs and will require investments across the supply chain. While the FDA has delayed preliminary requirements for serialization, they plan to begin enforcement in November 2018. Additional FDA process requirements may ramp up from there.

"Temperature control in relation to product-specific packaging and time-in-transit must be carefully considered to minimize supply chain costs," Gagnon continued. "Innovative packaging solutions are increasingly important. With the aid of packaging experts, industry leaders look to standardize product kits and quantities. This can help reduce waste and improve the patient experience." HPN

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You might think it sounds risky to transition from your full-service freight management program to one you manage yourself, but nothing could be further from the truth.

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Defining 'priority' a flexible point of view

by Rick Dana Barlow

Back in the late 1970s, freight and shipping procedures seemed so complicated that only the seasoned postal executives in the mailroom apparently could handle it.

At least one of the market leading shipping companies wanted to burst the stereotype and turned to television commercials to do it.

"A lot of people think using Federal Express is complicated," the commercial begins, "but really, it's so simple, even a [insert executive title here] can do it." Then you see a succession of executives — from a young vice president with a chiseled smile to the stuffy president to the crotchety old chairman of the board — demonstrating how easy it is to send a package somewhere overnight.

Federal Express (now known as the more simplified and catchy FedEx) then closed with one of the more popular slogans in the freight and shipping business: "When it absolutely, positively has to be there overnight."

From that memorable commercial, two blossoming business challenges emerged.

1. Anybody in an organization really could send anything they wanted anywhere they wanted … overnight.
2. Somehow the determination and discipline of what precisely needed to be sent somewhere overnight became foggy, fuzzy, gray and murky, not unlike handing a teenager a credit card with an available balance and instructing him to be responsible as he leaves the house with his friends.

Not surprisingly, Federal Express profits increased, along with shipping costs, and by the early 1980s, FedEx wisely switched to the fast-talking "Motormouth" John Moschitta Jr. as its new spokesman to help businesses keep up with the "fast-moving, high-pressure, get-it-done-yesterday world." FedEx, along with the U.S. Postal Service, declined to speak with *Healthcare Purchasing News* on general freight and shipping trends for healthcare organizations.

But *HPN* wanted to explore just how far hospitals have progressed in the "Next Day Air" and "Priority Overnight" craze within the last nearly four decades since those commercials aired on free TV. Rather than ask seven logistics executives about how fiscally responsible hospitals were operating in this area, *HPN* added some caveats to gauge progress with more pinpoint precision.

For a hospital that may be effectively and efficiently managing its freight and shipping expenses, what percent of its shipments should be Next Day Air or Priority Overnight? Ideally, *HPN* was looking for a number, or even a percentage of expenses or even a percentage range.

Instead, *HPN* received a range of viewpoints that made this more of a squishy exercise than anticipated.

Several were direct and to the point.

"In MedSpeed's world of intra-company logistics," said Jake Crampton, Founder and CEO, MedSpeed, LLC, "less than 15 percent of [spending] should be on urgent or on-demand services. The majority of intra-company logistics can often be conducted on a predictable scheduled basis, which produces the best balance of quality and cost effectiveness."

Gerry Romanelli, Chief Commercial Officer, TRIOSE Inc., responded a bit more conservatively. "Ideally, less than 10 percent of shipments in a system should be sent/received via a premium service level like Next Day Air or Priority overnight," he insisted. "This can vary especially when considering the location of a system, but the goal should always be to plan for the most cost-efficient shipping. Surgery schedules are considered to be a big driver of early a.m. priority services for inbound freight. but surprisingly, administrative functions are the biggest culprit as the super utilizers of the premium outbound service levels when sending documents. In both cases education, planning and shipping system controls can quickly reduce the percent of priority shipments."

So last-minute paperwork issues can trump panicked demands for different-sized implants for surgery the next morning?

"Yes, typically, the administrative roles are allowed to select the level of service without consideration of the cost," he said. "We have worked with many healthcare systems where the administrative departments have selected Next Day Air service to send documents to a building in the same county or city."

Really?

"It is usually just a lack of education," he continued. "Regardless of the industry, if you give someone shipping options they will often select the highest level of service if they are not educated on the cost impact. I had a bank that was sending Next Day Air packages to different floors in the same building."

Foggy bottoms

Others declined to estimate a percentage or even percentage range due to so many variables that can influence decisions.

"In our experience, this depends on many variables, including but not limited to agreed-upon service levels, product mix and/or shelf-life, and the balance between supply and demand," noted Norman Brouillette, Vice President & General Manager of Technology and Healthcare, Ryder Systems Inc. "Each network is analyzed to determine the critical design parameters [that] drive service level mix, while also enabling visibility to continuous improvement opportunities to drive out waste."

Norman Brouillette

Nancy L. Pakieser, Senior Director, Industry Development, TECSYS, echoed the complexity in decision-making because it "covers so many factors, [such as] overall supply chain expertise and maturity, volumes of procedures, geographic locations/demographic mix, organizational size, etc., that there is no 'magic target' number. However, leveraging data is a step toward better performance in this area," she said.

Nancy L. Pakieser

"As organizations begin to expand supply chain into a serious collaborative role with clinicians, they will adopt more mature supply chain practices [that] will, in turn, enable them to address the generally high Next Day Air or Priority overnight burden they carry," Paskieser continued. "By leveraging consumption data, generally collected at the point of use, they can start to apply an analytic approach to measure various factors that impact performance. One area they can look at are their planning cycles and demand generation/forecasting by service line or clinician. In this way they can determine if there are outliers in the cost incurred to support the delivery of care, such as inbound freight costs, and take a proactive approach in addressing it.

"Understanding the environment they are working in and the root cause for the higher cost will empower them to identify appropriate mitigation tactics," she added. "The needs of a large, 400-bed metropolitan, Level 1 trauma center in a densely populated

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area with high violence and the immediate device needs to support this constituency will be very different from a small, rural, geographically remote hospital."

Bill Denbigh, Director, Business Development and Marketing, TECSYS, didn't think anything quantitative could be estimated outside of healthcare either. (TECSYS also works with customers in other industries outside of healthcare.)

"There are very few parts of the hospital supply chain that are planned, so [just-in-time] [may] require Next Day Air," he said. "Using Air services are most often due to causes far deeper than just transportation. How is the forecast accuracy? Are the right goods in stock? Why is the schedule changing at the last minute? Is this a substitution issue? And so on…"

Melissa Laber, Senior Vice President and General Manager, OptiFreight Logistics, Cardinal Health, emphasized the variability as well.

"Supply chain and sourcing strategies look different for every health system and are influenced by factors such as the geography of the health system, supplier/sourcing strategies, the geographic location of selected suppliers, and the types and mix of clinical services provided within the health system," Laber said. "Due to these factors, it's hard to have an exact rule for mix of Next Day Air/Priority vs. ground shipments. Overall, the mix of shipments average about 40 percent express and 60 percent ground. However, depending on your hospitals'/IDNs' services and geography, we have seen a ground service mix as high as 80 percent for lower-cost day-definite vs. time-definite service.

"Service mix has a significant impact on total transportation management costs — same day (courier) should also be considered in the mix," Laber continued. "The ability to control transportation costs is optimized when both carrier (UPS, DHL, FedEx) and courier options are evaluated together."

Laber called for a comprehensive strategy to manage this costly process.

"As Supply Chain makes decisions about how to source different products and who to source them from, they need to ensure that the implications of those strategies on other supply chain and logistics processes — transportation, receiving, inventory management, etc. — are understood and rationalized," she said. "Once a plan is in place, the audit process and other reviews need to be performed to ensure the plan is being executed as designed and, of course, there may periodically be needs or opportunities for changes/improvements. Make sure to include your shipment mode targets when aligning reorder point and stock keeping levels to allow for working capital optimization and shipping cost reduction through proper planning."

Healthcare organizations might rely on their third-party logistics company to advise them on fiscal discipline and etiquette around responsible use of Next Day Air and Priority Overnight services.

"VPL's goal is to shift as many orders to ground delivery as is possible while still maintaining the delivery requirements of the customers," said Don Carroll, Vice President, Business Development, Vantage Point Logistics Inc. "Our healthcare benchmark is 61 percent ground shipments with some of our best-in-class customers exceeding 70 percent. We attempt to keep Priority Overnight and Standard Overnight shipments to a combined total of less than 18 percent of a customer's total inbound shipments."

Of course, there might be some valid reasons why the costly shipping services are used more frequently.

"A significant number of suppliers will automatically default their shipments to Priority Overnight," Carroll admitted. "This is especially true with life science suppliers that ship temperature-controlled items on dry ice. VPL helps our customers focus on these suppliers to have the default shipping service level changed to Standard Overnight and sometimes even 2-Day delivery. Most of the packaging that these deliveries use will maintain the proper temperature for up to 48 hours, so Priority Overnight delivery is not generally a necessity to maintain the quality of the product being shipped."

But don't presume the default decision is motivated by profit, according to Carroll.

"VPL believes a supplier defaulting to Priority Overnight is motivated less by profit and more by the assurance the shipper believes it provides in delivering the product in a timeframe that will maintain the appropriate temperature of the product while in transit," he noted. "This is particularly true of shipments packed in dry ice. These deliveries make up less than 5 percent of a managed program, but they tend to be heavier than average, and when you add in the dry ice fee assessed by the carriers these deliveries can become quite expensive. We have yet to see a small parcel carrier attempt to adjust service-level pricing to compensate for any shifts away from Priority Overnight to either Standard Overnight or even 2-Day service options.

"Most competent third-party freight management programs can provide their customers with a complete accounting of which suppliers would be good opportunities to change default shipping service levels," Carroll added. "VPL prefers to work directly with a customer's contract managers — or their GPOs — to help them negotiate the appropriate freight and shipping terms." **HPN**

Freight-shipping indicators to track and trace

Healthcare Purchasing News asked seven logistics executives for the key indicators Supply Chain should monitor when it comes to freight/shipping expenses, including total freight cost, cost per shipment, service level shipped, frequency of products ordered. Here's what they shared.

Norman Brouillette, Ryder Systems, Inc.

- Total freight cost, per-shipment costs, service levels, and frequency of orders/order patterns are all basic key indicators. The true health of the supply chain typically rests on further indicators by measuring cost-per-cube/pound/unit/mile depending on the customer's product profile, combined with mode mix, against goals derived from network baseline & design analysis
- Out-of-sphere related costs in networks with many shipping nodes helps identify inventory repositioning opportunities and reduced transportation costs.
- Normalizing year-over-year costs, regardless of key performance indicators (KPI) monitored, is critical to truly understanding year-over-year cost deltas. If not normalized, KPIs can be skewed depending on shifting network parameters (length of haul, product mix driving changes in weight or cube profiles, customer ordering patterns, etc.)

Melissa Laber, Cardinal Health

- *Frequency and quantities of products ordered/shipped* — This can have a significant effect on freight expenses. Instead of shipping multiple small parcel shipments more frequently, it is often more cost-efficient to bundle and send in less-frequent larger shipments. It's important to balance freight expense for frequency of shipments against other supply chain costs (purchasing costs, inventory carrying costs, etc.) to quantify best procedures for your needs.
- *Mode and service levels used by suppliers* — This also has a huge impact on the freight costs. For example, if a supplier is filling an order for a commodity product that is not critical to patient care, and the health system is ordering with plenty of lead time to get by on safety stock, a supplier should not be selecting costly air/express service options, but ship ground.

- *Standard contract language* — It is important to review supplier contracts and incorporate language on desired freight terms, specific to product requirements. It is important to then continuously audit the supplier's shipping habits to ensure they are complying with these terms.

Bill Denbigh, TECSYS

- In addition to the ones mentioned earlier, I would add "Shipping as a percentage of costs of goods sold." This data is generally available from the ERP system — how much did the item land for and how much is the pro-rated shipping? It certainly is a core aspect of the TECSYS DMS system.

Gerry Romanelli, TRIOSE, Inc.

- There are many factors to consider when reviewing a supplier's freight expense, ultimately it comes down to ordering practices and the type of product the hospital is sourcing.
- One of the biggest drivers of freight expense is physician preference items that are ordered outside of the normal procurement process. Freight Management companies like TRIOSE focus on a few key areas. We are referring to items that are ordered off-contact or rush order, which requires expedited shipping.
- Cost per shipment and service level are good indicators to manage visible supply chain cost but routing compliance, vendor shipping requirements and "free freight' are ultimate drivers of hidden expense which impact hospitals transportation costs.

Daniel Gagnon, UPS

- The healthcare sector overall is confronting a wave of disruptive trends. A few that come to mind include pressure to demonstrate positive patient outcomes, declining reimbursement from payers, and an empowered patient with more options. To modernize operations, industry leaders are evaluating new supply chain strategies and equipment.
- Traditional KPIs include total transportation charges, cost per shipment, service level utilization and on-time delivery performance. However, leaders in supply chain are seeking data-driven insights to help improve inventory management, data collection and their regulatory compliance to reduce expense.

Don Carroll, Vantage Point Logistics, Inc.

- Suppliers have been remarkably consistent in their shipping preferences and methodology. The most significant changes impacting pricing have been occurring on the carrier side. Both FedEx and UPS have been adjusting their non-freight costs; specifically, by altering their dimensional weight calculations and adding to, or changing, their accessorial fee calculations.
- When reviewing total freight costs by supplier we generally look beyond just the delivery service level and weight. We pay particular attention to the size of the boxes being used to ship the product and any additional charges the carriers might be charging that could easily be avoidable by either the buyer or supplier.

Freight-shipping audit frequency tips

While the term "audit" may seem attractive to a microcosm of organizations and professionals (such as those "profiting" from them), many recognize their need to keep organizations and professionals ethical and honest, first and foremost, accurate and organized next. The area of freight and shipping among healthcare provider organizations remains no exception. Healthcare Purchasing News asked seven logistics executives for auditing frequency of inbound and outbound freight and shipping costs. The views were mixed and spanned the spectrum.

"VPL's philosophy and practice is that every single shipping charge, both managed and unmanaged, should be subjected to audits for legitimacy and pricing. Each managed and unmanaged freight charge is subjected to up to several dozen unique audits to ensure the shipment is appropriate for the customer and is priced according the customer's relationship with both the carrier and the shipping supplier.

"VPL's advanced auditing technology allows us to subject each individual shipping charge to a variety of audits, just a few of which include ensuring the appropriate carrier pricing has been applied, auditing against double freight charges, ensuring only acceptable handling fees are added to the order and, most importantly, validating that the supplier is applying the appropriate contract freight terms on each order. For example, if a customer is contractually allowed to receive delivered pricing or 'free freight' on standard orders, VPL can audit that charge to ensure it meets the contracted terms. If not, we can block that shipping charge before the customer would see or pay it."

Don Carroll, Vantage Point Logistics, Inc.

"While a full audit may not be necessary very often, a report of the expenses with a comparison to the previous month should be available monthly in order to measure the effectiveness of the freight program and monitor changes in ordering behavior. The most successful way to manage expenses is to attack it from both sides. First, by working with your shipping/freight partners to ensure that the level of service matches your true need. Second, by monitoring the activities of your team to validate that they are selecting the most appropriate shipping method for the need."

Jake Crampton, MedSpeed, LLC

"For best results, the audit process needs to be continuous across all modes of transportation. Ideally, this means audit activities are performed each time a carrier/courier invoice is received. Because of the multiple parties involved in the supply chain that touch freight — employees, suppliers, carriers, etc. — information can constantly be changing. Any time a new location, new supplier, new contract, new shipper is introduced — there is an opportunity for misalignment to occur. Audits are not only important to ensure carrier/courier charges are accurate, but also play a critical role in understanding internal behaviors about the use of transportation options by team members across the organization. The benefit of a perpetual and routine audit allows for any changes, additional charges, or misalignments to be corrected.

"This is where a 3rd party freight management company can help. They can remove the often-manual work from your team and audit all carrier/courier invoices to help ensure accuracy, resolve discrepancies and make recommendations on how to improve.

"Audit savings can drive significant cost control. An unaudited program can realize up to 10 percent of savings on transportation costs and accessorial controls."

Melissa Laber, Cardinal Health

"Our best-in-class partners meet quarterly to review recent supply chain performance and discuss suggestions for improving outcomes and reducing costs. Depending on the time of year, different performance indicators may surface as the priority. Ongoing collaboration and open communication with your provider is the key to a successful partnership."

Daniel Gagnon, UPS

"Never. I am not a huge fan of audits. A provider should have a shipping solution that constantly provides strategic information about your shipping costs, activity, performance and compliance. This should be updated daily and be used to spot negative trends early, before they become major issues.

"TECSYS recommends our users have a weekly or monthly report that demonstrates the trends of activity, cost, compliance and performance of their transportation network. This shows them how they are doing and how their network is trending over a 6-to-12-month period. The only area that remains is where they are doing well overall, but in a very specific part of the network they are underperforming.This could be in a specific region, a specific service of a specific type of customer. Regardless, the analytics need

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to be drilled into somewhat to ensure this does not occur."

Bill Denbigh, TECSYS

"The frequency of an internal audit by a supply chain team really depends on how they are managing their freight [spending]. If the system is aligned with a reputable freight management provider who is handling shipments outside of the distribution network their freight management partner should be completing quarterly reviews of system spend and shipping patterns with supply chain. Similarly, health systems should expect the same level of review commitment from their distribution partner which further helps in providing an overall view of the freight spend of the system. A reputable freight company reviews/audits carrier spending to ensure accuracy for the healthcare system. The overall spending information is reviewed quarterly with the system."

Gerry Romanelli, TRIOSE, Inc.

"It's critical for shippers to have visibility to their costs close to real time to enable and establish a cadence for network cost monitoring. Examples vary.

Daily: Actively manage the supply chain to mitigate unnecessary costs.

Weekly: Review trends to drive week over week decision making on incremental improvements to service and cost.

Monthly: Robust actual (executed) versus budget performance metrics.

Quarterly/Bi-Annually: Market benchmarking to surgically refine carrier solution.

Annually: Defined RFP strategies tied to understanding of market conditions."

Norman Brouillette, Ryder Systems, Inc.

Winning in the freight escape

Healthcare Purchasing News asked logistics executives to share any success stories of cost effectiveness by customers managing their freight and shipping operations well.

"One of our customers consolidated their total outbound transportation delivery network into a single, well-planned fleet, and they now have drivers that arrive at hospitals or clinics and provide up to 25 transportation services in a single visit. When these services were planned at the departmental level that would have meant there were an additional 24 drivers on the road, one for each service. As you can imagine that is a very significant reduction in cost.

"Instead of 25 [drivers], they have one, and one truck coming to the clinic and performing 25 services. This is obviously an oversimplification since the dwell time at the stop means that one driver takes a lot longer to service the clinic but the savings are still very significant. We have performed ROI analysis on a health system's network and the savings are often in the 60+ percent range if the health system takes on all the transportation to a centralized plan. Usually we see a 30 percent type of savings over their transportation budget since the efficiencies come slowly and change has to be gradual."

Bill Denbigh, Director, TECSYS

"Several of MedSpeed's customers have taken a creative approach to managing non-acute freight spend. Leveraging the fully integrated MedSpeed intra-company logistics networks we have built for each of them, these customers connected MedSpeed with their distributors and encourage collaboration. The result: Instead of costly freight shipping of supplies to each non-acute facility, the distributors drop ship all supplies to the MedSpeed hub. The MedSpeed team then sorts the items and sends them out on routes that are already visiting each facility to pick up lab specimens, drop of pharmaceuticals and more. By integrating the distributor supply movements with these deliveries, the customer is saving significant time and expense."

Jake Crampton, MedSpeed LLC

"As a healthcare solutions company that provides a freight management solution, TRIOSE helps our healthcare partners look at their total freight spend whether it is impactable by our program or not. For one of our largest customers we uncovered more than just savings on what they shipped with us but we also evaluated all their Suppliers that would not participate in a freight management program. Armed with this information the Supply Chain group was able to educate the buying and contracting teams on the importance of considering shipping cost when negotiating agreements. A buyer might save a few dollars on an item but give up more by agreeing to restrictive shipping terms. Ultimately when freight is hidden and included it always costs more. We work with our customers to make sure they understand the total landed cost at the time they contract for the goods."

Gerry Romanelli, TRIOSE Inc.

"VPL is in the process of converting one of the largest health systems in the country from a fully managed freight program to a self-management program using our new cloud based self-management technology platform, "VPL Surpass." After completing this transition, this health system will realize a first-year incremental savings exceeding $3 million.

"Our first customer is one of the largest health systems in the country and has been utilizing a legacy full-service company for just over eight years. The customer has been mostly pleased with its freight management company, although it had been quite some time since it had seen year-over-year growth in incremental savings. This system takes a rather sophisticated approach to supply chain optimization and because of this is always looking for new ways to fund its various initiatives. With several upcoming projects directly related to supply chain logistics, they began to review all of their freight spending looking for ways to repurpose some of those dollars. As part of this exercise, they wanted to calculate what their legacy freight management company was charging for their services — no easy task since the management fees are hidden in the company's margins.

"After looking at millions of shipping records and conducting extensive research on carrier pricing patterns, they could calculate a number… $3.39. Their freight management company was making a profit of $3.39 on every shipment they managed for this customer. Now that number doesn't sound like all that much by itself but this health system had 850,000 managed shipments that year alone. That equates to $2.8 million paid in management fees. The customer wanted to repurpose most of these funds, so a decision was made to transition to a self-managed program.

"Soon they began to realize that was easier said than done. Almost a full year later they were no closer to setting up their self-managed program than the day they made the decision. They quickly realized the complexities involved with managing thousands of vendors, shipping thousands of shipments each week into hospitals located all over the country. They also discovered they had no way to process an average of 16,000 carrier shipping charges each week. They first looked for a comprehensive solution. There wasn't one. Then they looked for a way to cobble a few disparate solutions together into a cohesive system. That wouldn't work with their ERP and accounting systems. They considered building something from scratch but didn't have the right experience. They were quickly running out of options.

"Shortly after we began development on VPL Surpass, we met with this customer to hear more about its requirements. They had parts of a solution but nothing that would function together as a system. Once we properly understood their requirements, we were confident VPL Surpass would be a perfect solution for them. In the nine months since then, and after many more meetings with their various functional areas, it was agreed that they would be the very first customer for VPL Surpass. The experiences of this customer are hardly unique. There are a growing number of health systems seeking a solution for self-management of freight.

"The inbound freight management model has matured to the point where health systems are now looking for ways to effectively eliminate the need to utilize a third-party freight program. These systems would prefer to transition their freight savings initiatives to an in-house, self-managed model that they have complete control over. The challenge facing these health systems is acquiring the subject matter expertise required to design, implement, staff and manage such a program."

Don Carroll, Vantage Point Logistics Inc.