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Get ^{on} the move!



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By Robert Handfield, Ph.D.

Editor's note: The research cited throughout this article is based on a survey of IDNs as well as in-depth interviews with executives and providers, which were conducted by Robert Handfield, Ph.D., from the Supply Chain Resource Cooperative at North Carolina State University.

Every day, a great many items – including laboratory specimens, pharmaceuticals, patient records and other medically critical and administrative materials – are transported between facilities of integrated delivery networks. Too often, contracting executives do not give this category of spend a second thought, as it is viewed as a non-strategic, low-volume spend category. However, transportation not only has the potential for cost savings, but it is also strategic to the overall mission of patient care and safety.

Historically, many IDNs have focused their management efforts on clinical spending categories and in the process, have disregarded the area of purchased services, which constitutes over 30 percent of total spend. Approximately 85 percent of functions showed a fragmented approach to transportation, with some ad hoc combination of internal and multiple third-party courier services. Decisions are often made at the department level, with little consideration to evaluating the IDN's overall approach to transportation. Perhaps most significantly, almost all of the IDNs surveyed (87 percent) have never performed a formal in-source/outsource analysis of transportation. This mixed picture suggests many IDNs lack a well-developed, formal strategy around transportation.

Still, explaining transportation's positioning is not quite so simple. In the survey, 83 percent of supply chain executives responded that transportation is a critical component of their IDN's supply chain operations. These executives emphasized that transportation has an important impact on an average of 10 different stakeholder groups (lab services, clinics, physicians, nurses, etc.) that rely

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on the timely transfer and security of patient records, specimens and other elements.

Perceptions vs. facts

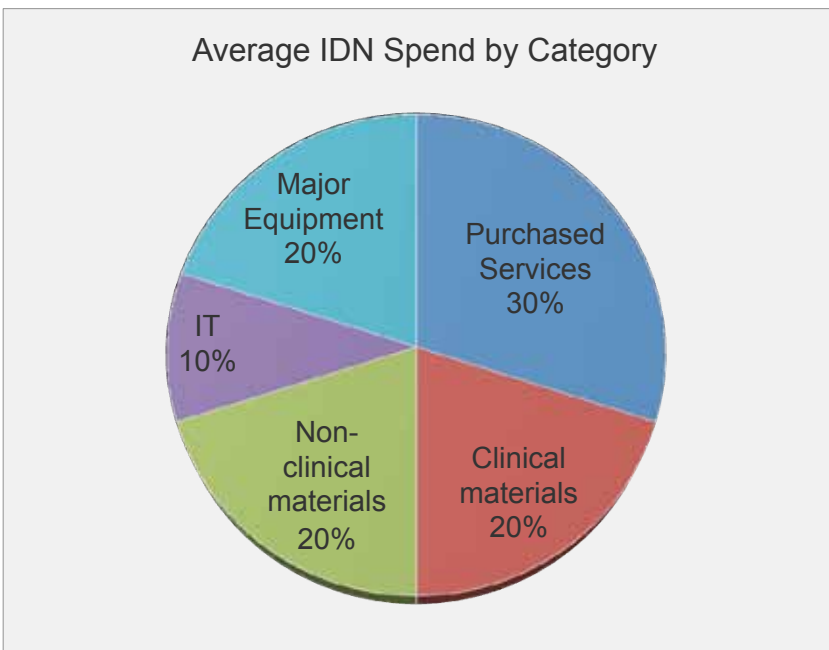
Many supply chain executives believe transportation merely involves "moving things from point A to point B," and that the provid-

ers of these services are plentiful and undifferentiated. They believe they have many options, either internal or external, in the form of general messenger services that can transport materials between locations.

What's more, survey results show that many supply chain executives view transportation as low value. They believe that the overall spend on transportation is small relative to other categories. However, separate studies have shown that internal transportation, courier services and freight movement can constitute about 10 percent of purchased services spend, or approximately 3 percent of total hospital operating costs. These dollars are missed by many managers, because services are often fragmented, and formal mechanisms for identifying all transportation activity in the network are usually lacking.

Many supply chain executives also view transportation as low risk. They fail to appreciate the potential consequences of losing or mishandling human specimens, the resulting confusion and delays in patient care, and the potential liability issues. In fact, none of the providers surveyed have an established mechanism to measure the total-cost-of-ownership implications of non-performance of their transportation network providers.

A final common belief is that transportation is easily insourced or outsourced through a standard commodity bid process. The result is that insourcing decisions fail to account for the total cost of ownership or resource requirements. Conversely, an underdeveloped approach to selecting third-party service providers may lead supply chain executives to overlook the unique requirements of healthcare transportation, such as scalability, reliability, tracking technology and analytical support.



A common myth is that transportation spend is proportional to organizational size, with no opportunity for efficiencies to be captured through scale or solution design. More than 85 percent of participants surveyed lack contracts that offer formulas for scalability due to growth or contraction of their transportation route network. In reality, the number of pickup and delivery points constantly changes as an IDN expands or contracts, and transportation providers can increase efficiencies through route optimization, network redesign, and changes in clinical requirements.

Three-step process

As with any high-impact, high-complexity spending category, transportation sourcing should be approached with a process. The three-step process developed below combines the best practices adopted in many other segments with consideration for the requirements and safeguards germane to transportation.

STEP 1 - Establish stakeholder requirements and develop a scorecard

The first step in making an informed sourcing decision is establishing criteria and building a scorecard to measure against them. To begin, sourcing executives should examine three areas: spend analysis, current transportation activities, and stakeholder requirements.

Spend analysis. Identify all the providers of third-party transportation services (including delivery services, distributors, overnight carriers and others), as well as internal resources used to transport patient and business-critical materials throughout the health system.

Current transportation activities. Examining all of the current transportation activities across the IDN will almost certainly be a process of discovery. In one case, an IDN performing this analysis discovered it was using 33 different third-party transportation and courier services including FedEx, UPS, Cardinal Health, and others.

Stakeholder requirements. Perform stakeholder interviews to gain a comprehensive perspective of needs. Some of the important stakeholder groups

staff also value service predictability, so they can respond confidently to patient inquiries regarding lab result timing. Staff also demand immediate access to delivery status and other details of the item's journey – so necessary given today's litigious healthcare environment.

- Finally, C-suite and senior leadership are concerned about cost and scalability. They want to improve operating margins, increase productivity, avoid unnecessary future costs and find cost

reductions. They also value any transportation provider that can increase or decrease scale seamlessly and cost-effectively.

Filling in the scorecard

Having examined these three areas, the supply chain executive should refine this information into a scorecard, which becomes the basis for

Healthcare Transportation: Perceptions & Realities

Perception

- ROUTINE – many potential providers
- LOW VALUE – spend is low compared to other categories
- LOW RISK – minimal impact on hospital operations
- STATIC – little change in transportation network
- INSOURCE – can easily be performed with internal resources
- OUTSOURCING – can be bid out to multiple general 3rd party services to drive down price

Reality

- STRATEGIC ASSET – few 3rd parties have the capability to fulfill critical stakeholder requirements
- HIGH VALUE – when considering total cost, impact on margins is significant
- HIGH RISK – big potential impact on patients and clinical staff
- DYNAMIC – network is actually constantly changing with different requirements
- INSOURCE – not a core competence for most IDN's
- OUTSOURCING – specialized requirements limit choices

and their requirements are clinicians, office staff and administrators, and C-suite and senior leadership. Some considerations to keep in mind:

- Physicians and nurses depend on transportation to provide care to patients. They know that errors can necessitate expensive repeat specimen collections or loss of irreplaceable specimens. They also require that the transportation provider have a documented, standard process that performs in a consistent, replicable manner.
- Office staff and administrators, meanwhile, develop relationships with transportation individuals. It is important that those individuals be courteous, reliable, and professional. Office

evaluating all potential transportation options. As shown in the sample scorecard below, the criteria may be grouped into the major categories of economic value, operational effectiveness and strategic impact, and weighted according to the organization's requirements.

Economic value. The first major category, economic value, should include all relevant components of cost. For example, hard dollar savings are important to CFOs and COOs, but soft cost savings associated with improved performance and fewer delays are important to clinical staff. Supply chain managers are cognizant of the value of cost avoidances, and executive leadership is attuned to the

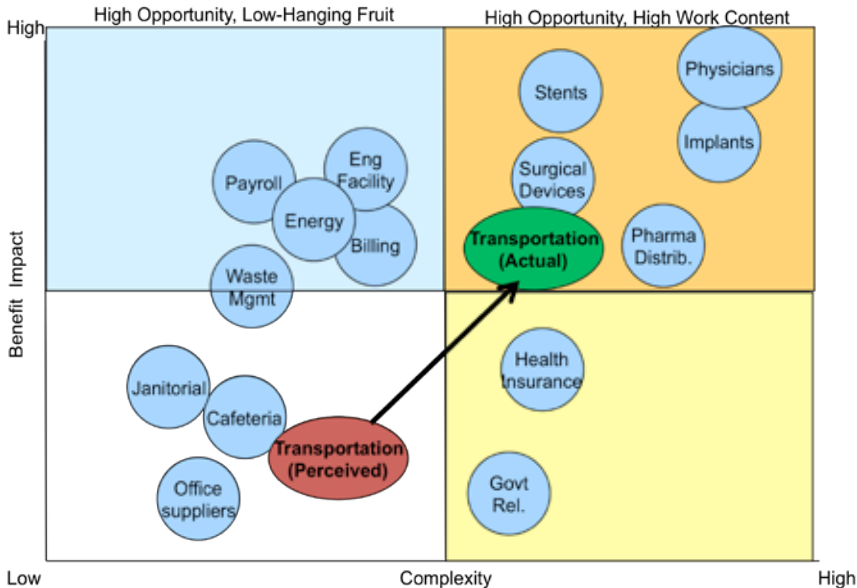
need for continuous cost savings as the network evolves. As all of these components are important, 35 percent of the total sample score should be assigned to economic value.

Operational effectiveness. The second major category for scorecard performance, operational effectiveness, includes quality management, reliable delivery, predictability, visibility of information and ability to track

the transportation sourcing decision should be an important component of the team’s sourcing plan. The ability of an insourced resource or outsourced provider to deal with future changes in the transportation environment is critical. Scalable contracts, continuous improvement requirements and alignment with global organizational initiatives can provide supply chain managers and C-suite executives with

confidence that the network can adapt to a dynamic environment. For these reasons, this category merits 30 percent weighting in the sample scorecard.

IDN Portfolio Analysis



Step 2 - Evaluate internal and external options

Armed with the spend analysis, transportation network data, and scorecard, the transportation sourcing team can now evaluate three options: an insourced operation, a general delivery service, and a healthcare transportation specialist.

locations. Less than 15 percent of IDNs consider these components in their transportation RFPs/RFQs, and most lack structured contracts specifying a baseline level of performance. Consequently, they ignore the cost of poor quality and the loss to brand image of unprofessional drivers. To correct against this common omission, 35 percent of the sample scorecard should assess the capabilities of the provider.

Strategic impact. Finally, the strategic impact of

- An **insourced operation** uses internal staff and company-owned vehicles. Building an internal function to satisfy all stakeholder requirements calls for an investment in startup costs and the on-going costs of network optimization, establishment of ISO-certifiable procedures and processes, hiring and training of personnel, technology investments, and continuous improvement methodologies. Additionally, the insourced option requires significant investment in management supervision. However,

Category	Criteria	Weight	Stakeholder	Explanation
Economic Value	Hard cost savings	15%	CFO, COO	Initial hard cost savings drive margin growth
	Soft cost savings	5%	Physicians, Nurses	Increased loyalty to IDN
	Cost avoidance	5%	SC Managers	More resources to direct towards achieving incentives
	Future savings	10%	Board of Directors	Metrics, governance, budgeting
Sub-Total		35%		
Operational Effectiveness	Quality Management	15%	Nurses	Process thoroughness, low error rate
	Reliable Performance	10%	Office workers, Nurses	Timeliness and consistency of service
	Tracking and Risk Reduction	10%	Clinicians and Office Workers	Item and data security, inquiry responsiveness
Sub-Total		35%		
Strategic Impact	Ability to drive change	10%	Supply Chain Managers	Working as a team to drive recognition of SCM initiatives
	Consulting/Analyst Support	5%	Facilities, logistics	Ability to optimize routes and performance
	Strategic Focus	5%	Supply Chain Managers	Ability to focus on core competencies / patient care
	Scalability	10%	Supply Chain Managers	Ability to focus efforts on other cost savings initiatives
Sub-Total		30%		
Scorecard Total		100%		

a well-built internal function offers organizational alignment and direct control.

- A **general delivery service** transports materials for multiple customer groups, such as banks, law firms, auto repair shops, etc, at a fixed point-

to-point mileage rate. While operational offerings do certainly vary within this category, they generally include an independent contractor HR model featuring driver-owned vehicles and significant driver autonomy. The benefits of this

model are low unit cost, easy access to service and a variable cost model allowing for expansion and retraction. However, there are often shortcomings regarding process control, application of technology and, ultimately, predictability of operational results.

- A **healthcare transportation specialist** is set up quite differently from the generalist. The specialist is fully focused on healthcare, believing that healthcare is different and requires an operational offering built to its unique needs. This system

service provider can be rated on a level of 1 to 5, where 1 = poor performance, 3 = average performance, and 5 = world-class performance.

Step 3 - Contracting and relationship management

Selecting a provider – while clearly a critical piece – is not the end of the sourcing process. Contracting and relationship management are vital to assuring that the good work done in the selection process is carried forward. To this point, it is important to ensure that the value points built into the scorecard are used to de-

The key is to establish measurable criteria around each of the scorecard's categories and quantify the performance standard on each of these measures that constitutes success.

can carry some added unit costs, and contracting with such a provider typically requires a higher level of commitment. However, the specialist offers an employee-based HR model, extensive process development, a broad technology offering, and significant oversight and management. Furthermore, the analytical processes deployed can deliver lower long-term costs and maximum support of organizational initiatives.

When evaluating these options, the supply chain executive should base scores on observations and discussions with several stakeholders in the IDN. The performance of each potential

velop the contract with a third-party or set up a process with an internal provider. The key is to establish measurable criteria around each of the scorecard's categories and quantify the performance standard on each of these measures that constitutes success.

These same criteria and metrics become the basis for ongoing relationship management. This living scorecard should be used in a governance process featuring regular reporting, quarterly performance reviews, and established continuous improvement goals. In addition, the supply chain executive should periodically recheck stakeholder requirements to ensure that the scorecard and contractual success criteria remain up to date. **JHC**

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