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# A BETTER OUTCOME

Solid partnerships the key to efficiency in healthcare logistics

BY JULIA KUZELJEVICH

In the world of healthcare logistics, collaboration is on the increase as diagnostic companies and pharma are creating partnerships, health systems are sharing information, and payors and manufacturers aim to create solutions around cost and outcome management.

With the pace of innovation being on the rise, medical research, product R&D, health information systems, personalized medicine and technology in healthcare are also contributing to health advances, efficiencies and rising costs, even as new entrants disrupt the healthcare industry and pressures increase throughout the system.

Increasing regulatory complexity is a top concern among supply chain professionals.

Concerns about product safety and tampering have increased. New GDP (Good Distribution Practices) regulations for supply chain have been introduced in Europe, China, and Canada.

Median age is on the rise around the world and an aging population is a global phenomenon.

The increase in the number of people requiring healthcare services puts pressure on cost. A shift from acute to chronic diseases increases ambulatory care vs. hospital care. Channel strategy emerges as a new requirement for delivering ambulatory service.

On the manufacturing side, manufacturers are changing portfolios with some pharma brand companies creating generic businesses

and vice versa. While some look to manage product life cycle from brand to consumer, others are choosing to specialize in specific therapy areas.

As a result, M&A activity focused on specialization has ramped up, with 2013 - 2014 activity being the highest in 30 years.

Medical device companies have concentrated their product lines around therapy areas.

Payors, grappling with increased demand, innovation, and limited budgets, are adopting strategies such as limiting access, higher consumer involvement in decisions, consolidation of payor organizations, shift of healthcare from institutions to the community and home, formation of health networks, and increasing competition.

The top trends affecting healthcare shippers in Canada are cost, counterfeiting, handoffs SOPs, sourcing, longer supply chains, and cold chain transportation.

"Everyone is looking for a way to reduce costs," said SCI Logistics' healthcare logistics expert Brent Hodgson.

"The provinces are looking at the consolidation of infrastructure and the initial wave of procurement changes has hit the upper level. What's next? On the one hand you have hospitals saying, we can't spend any more so you need to give me a price decrease. The manufacturers are saying, we have to be healthy as well, have to invest in R&D and manufacturing. You're getting into discussions between

trading partners on both sides. They are starting to say why don't we collaborate to look at more effective ways to deliver sustainable shipping, reduced costs to the provider side. There's a lot more activity happening with that. The other trend across healthcare is the ever changing regulatory and quality environments. There is pressure from Health Canada and the FDA around how the product is being protected," he said.

That is challenging in a country like Canada with multiple climate zones, and a limited network of capacity in the transportation environment.

A shift to care in the home or "ambulatory care" complicates this further.

To achieve success, manufacturers and suppliers are building networks of collaboration, creating nimbleness in the supply chain.

The following case study between SCI Logistics and 3SO demonstrates a supply chain solution that represents a slight departure from other models in the third party healthcare logistics market.

3SO, a not for profit organization providing shared services to member hospitals, and supply chain partner SCI Logistics were nominated as one of six finalists for the Supply Chain Innovation Award, which was established in 2005 by CSCMP's Research Strategies Committee and SupplyChainBrain to highlight and recognize the top players in the supply chain industry when it comes to innovative programs, projects, and collaboration.

3SO was formed in 2008 and struck a relationship with SCI in 2009.

3SO is a shared services organization for a group of member hospitals in southeast Ontario. They were set up to help hospitals in areas where they didn't feel they had core competency, allowing the hospital to focus on patient outcomes.

"They were taking a look at better, more effective distribution of services to hospitals.

Hospitals have somewhat of a fixed footprint, and they are always looking at newer, better ways of providing services.

SCI came in with 3SO to design a hub and spoke distribution system for the region, with SCI providing order fulfilment and distribution capabilities, i.e. the execution of distribution, transportation, inventory supply and demand planning.

The partnership enables 3SO to decrease operating costs and free up resources for the member hospitals. 3SO manages the procurement of the surgical and medical products and SCI takes ownership of the majority of the stock inventory and manages all fulfillment activities to and from the central regional warehouse to each of the member hospitals. This gives 3SO flexibility regarding the range of products they wish to order and full visibility on their component costs while, at the same time, leveraging the consolidated demand from the hospitals for improved regional pricing for members' products.

During the design process, there were some challenges recognized around the ability to share and problem solve with regard to the data. For example, there was a lot of inventory in various categories.

The aim was to see some improvement in the use of assets such as inventory, and improvement in order fulfilment, specifically improving the availability of primary products for nurses and doctors. They also wanted to improve hospital services considering the levels of risk associated with service outcomes, Hodgson noted.

A lot of analytics were gathered around spend, and IT data.

It was a couple of years before all the member hospitals were incorporated into the 3SO distribution model. It's been fully operational for 3SO and the member hospitals for four years now.

"Now that we've gone beyond implementation, we are looking to improve the use of working capital. Looking at continuous cost improvements, we've been able to look at supply chain execution models that reduce cost. 3SO can now leverage some of what they've done to improve the supply chain model.

"It's been a little bit of preventive maintenance on continuous improvement toward the reduction of cost, and towards improved service goals," Hodgson said.

In terms of strategies going forward, he said that as the relationship with 3SO continues to progress, "we're continuing to challenge one another in a formalized continuous improvement structure. We take a look at interaction from an execution model not only with their products but the inbound side of medical products," he said.

"Through the collaborative improvement efforts the team has put forward, you're looking at the supply chain in its entirety. The team has really taken a view where they're looking at supply chain working in harmony from a procurement and execution standpoint. There's been a shift in the management paradigm: procurement, logistics, and distribution collaborate to produce a better outcome. When we started to get a view of the data, with product moving into our facility, it was evident that hospitals were overserved by the manufacturer, with product delivered whether they needed it or not. Right sizing the inbound supply chain was a priority right away."

On the IT side it improved visibility of how many SKUs were being delivered.

"Once they started to implement their data streams with SAP, they quickly realized they had similar products from multiple manufacturers. A lot of these things are not unique but they take a significant amount of improvement to be done," Hodgson said.

In the drug environment, there is a lot of focus on stability testing of the upper and lower limits on their drugs, and on extreme heat and cold.

Scientifically can they prove that the molecules are safe at other temperatures for a period of so many days? If they have the ability to go back to Health Canada and restate a label condition this could change the shipping requirement, Hodgson noted.

"When a company needs to interline, and pass off to other carriers, ensuring integrity of the service model is easier said than done. Because of the population density, in some cases you have one truck going into a community whether it meets the conditions or not. It's a risk evaluation—will you continue to do business with them? Typically the outsourced service provider is qualified and service contracts are longer term in healthcare. It's certainly a longer term agreement in the outsourced management world. It takes a significant effort to establish you as a service provider. The last thing anyone wants to do in this world is harm their brand, where the supply chain was not under control," Hodgson said. ☺



**Editor Julia Kuzeljevich** has been writing about transportation issues for 15 years. Her articles have garnered several transportation and Canadian Business Press writing awards.