

## Using market intelligence to cut shipping costs

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*Third-party supply chain expertise can help medical and pharmaceutical manufacturers negotiate and reduce shipping expenses.*

Manufacturers of medical and pharmaceutical products are in the unique position of being less affected by a declining economy than those in many other industries. This doesn't mean that they aren't looking for new ways to cut costs, particularly when it comes to transportation, which is one of the first areas many companies are now looking to for cost-cutting opportunities that will make a significant impact.

There are several reasons specialized medical and pharmaceutical companies are somewhat isolated from economic recession. One of the more prominent reasons has to do with the aging baby boomers requiring more medical attention--and more implantable devices in particular

Another reason for their isolation has to do with health insurance. It's true that layoffs and a lack of jobs nationwide caused people to lose their benefits, but the impact this has had on medical device makers has not yet been significant. An article published last September by *The Boston Globe* said that "while there may be less surgeries incorporating medical devices being performed as a function of layoffs leaving people without healthcare solutions it will not have as great an impact on the device companies as overall the layoffs will not displace the healthcare system." In other words, layoffs occurring in other industries aren't having nearly the impact on medical and pharmaceutical manufacturers as layoffs within the healthcare system are anticipated to do.

Why then, if medical device makers aren't yet being significantly impacted by the economic recession, are so many of them going out of their way to cut shipping costs now?

For one thing, even though baby boomers are requiring more medical attention, they are having less elective procedures done. Dr. Amer Suleman, owner of The Heartbeat Clinic's three medical offices in North Dallas, recently said that while he doesn't expect to see a decline in device implantations, he has seen "a 20 to 30 percent decline in elective procedures," and expects the decline in these procedures will continue. He says that many colleagues also expect to see similar declines in elective procedures.

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Additionally, while a lack of health insurance might not yet be dramatically impacting medical device makers, continuing healthcare facility layoffs are most certainly expected to have a negative effect.

Carriers today need to hold on to their current volume more than ever. As a result, manufacturers who have the data to back up their requests for lower pricing have the ability to find themselves at the rate negotiation table with more leverage than they had in years past. Of course, the window of opportunity in which to obtain and use this type of leverage is relatively small; it is important for medical and pharmaceutical manufacturers to make the most of it now, while the climate for rate negotiations is still working in their favor.

## **Market intelligence**

Like medical and pharmaceutical manufacturers, supply chain solutions providers know that no one, including health care industry professionals, can afford to rest on their laurels and assume that if they aren't being profoundly affected by the economy today, they won't be affected by it tomorrow.

The best supply chain solutions providers also know how to help medical and pharmaceutical professionals obtain and interpret the market intelligence they need to achieve significant savings when it comes to their overall shipping spend.

This is probably why market intelligence-savvy supply chain solutions providers are finding themselves in greater demand; they have the tools required to help manufacturers achieve savings that will help compensate them as other funds decrease.

For all shippers, employing the benchmarking capabilities of an outside supply chain solutions provider that has built-in, proven methods of comparing their company's shipping characteristics to a vast number of other companies with similar characteristics, means that they will not only be able to see all of the disparities between what their carrier is actually charging and what they should or could be charging, but will be able to determine their relevancy in the marketplace and request price cuts accordingly.

Some of the most common charges that medical and pharmaceutical manufacturers uncover and resolve through market intelligence include:

- Additional handling charges that can be decreased or eliminated by changing from odd-shaped packaging to standard size packaging
- Special handling charges that can be eliminated by boxing items that have traditionally been shipped exposed
- DIM (dimensional weight)-related accessororial charges that can be eliminated by negotiating with carriers to obtain a higher DIM factor
- DIM-related accessororial charges that can be eliminated by switching to LTL or other

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modes when the carrier is unwilling or unable to lower DIM factor

- DIM-related accessorial charges that can be eliminated through a complete evaluation of all SKUs that reveals where special packaging could keep items below DIM factor

Market intelligence may also be able to reveal that you could cut further costs by:

- Avoiding weight adjustments by making sure that carrier manifest systems are calibrated by your carrier for accurate package weight assessment
- Consolidating packages by putting a larger number of items into fewer packages (that would create slightly heavier shipments, but allow you to avoid the minimum charges that occur with a greater number of boxes)
- Using boxes that are durable enough to avoid damaging contents, and making sure you stay within the maximum weight capacity indicated on the box
- Separating items that have liquid and non-liquid contents
- Properly labeling and accurately documenting all hazardous materials in order to eliminate the mishandling of items, fines from the FDA, and shipment delays

Unfortunately, even when a shipper has everything else at their disposal, meaning, they have the logisticians, data analysts, and negotiators that are required to manage their complex supply chains, they often simply aren't able to perform all the tasks required to achieve the lowest possible shipping rates without high-level market intelligence derived from a neutral source. The help of an appropriate third party is required.

Recently, I participated in an initiative to save one of the world's top 10 pharmaceutical manufacturers on their annual shipping expenses. Like most companies, they believed they were getting optimal rates, and initially, were reluctant to look to a third party for additional cost-cutting solutions. However, they ultimately made the decision to moved forward with a third party.

I was told that even with their own expert negotiators, data analysts, and internal processes in place, they would do better at the rate negotiation table with outside market intelligence. By allowing a neutral third party to receive electronic data feeds for all modes of transportation directly from their carrier and then cleanse the data so that it was ripe for benchmarking and further in-depth analysis, they were able to obtain high-level market intelligence that revealed a clear picture of loss and profit centers. This market intelligence was a key factor in the company's ability to achieve \$6 million in savings on their annual small-parcel expense with zero carrier or process changes.

Manufacturers of medical and pharmaceutical products who don't rely on market intelligence obtained through a neutral third party usually find themselves in the position of having to rely solely on their carrier to inform them about their own shipping characteristics. The problem with this is that despite how well-meaning and intelligent the approach carrier and shipper might take during negotiations, if they aren't relying on

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neutral market intelligence for a complete picture of the market, the client isn't going to be able to obtain the maximum amount of savings.

Whenever a shipper relies on their chosen carrier for market information, the results will always be biased. Government regulations stipulate that one carrier can't hold another carrier's information. Because a carrier's perspective is always going to be limited to their own data, they can't know if their client is actually being given the best rates that market has to offer.

How often has your carrier told you that you are already receiving very aggressive rates, leading you to believe that you also have the best discounts?

How do you think the conversation would turn if high-level market intelligence obtained via a qualified neutral third party could quantify these types of claims and arm you with the data that shows whether they are, in fact, true?

You shouldn't expect your carrier to know more about the inner workings and needs of your company than you do. Ultimately, it is your responsibility to find the excess charges, unnecessary fees, and service-related solutions that are going to make the biggest impact on your bottom line.

The good news is that shippers that work with a third-party supply chain solutions provider to obtain and analyze the appropriate market intelligence gained through high-level benchmarking are more successful when it comes to achieving better shipping rates, improving service levels, and optimizing and managing their supply chains than those who don't.

In 2006, *PARCEL Magazine* reported that a 2006 Morgan-Stanley survey showed that consultants can negotiate 49% lower shipping rates than companies who negotiate on their own.

*This article is archived online at:*

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