**Healthcare Purchasing News (HPN) – July Edition: Contributor to article: Brandin Parrett, Vice President of Operations, Onsite Management Group (OMG, LLC).**

**Striving for Ship, Ship Hooray Moments - Freight and shipping management can generate easy wins after difficult searches. (pages 50, 51, 52)**

**Question from Editor, Answer from Brandin Parrett**

1. **Prices for fuel, then containerboard and linerboard have declined in the first quarter so why haven't freight and shipping prices followed suit and decreased as well?**
   a. *Freight and shipping prices are not following suit and decreasing in line with fuel, containerboard and linerboard for a few reasons, the largest being ability for shippers to increase revenue in a very competitive market. While this might seem opportunistic, and in some cases might be, the stronger economic growth has increased demand for cargo space while the number of drivers is quickly shrinking. This provides an added element to the competiveness of the shipping companies to provide better benefits to retain valued employees. Salaries and healthcare are one aspect, but you must also take into consideration the new regulations that limit driving hours as well, therefore increasing delivery times and/or the need for more drivers to keep up with the demand. All of these factors combined provide the bulk of the resistance to lowering shipping and freight prices.*

2. **What's the biggest threat to freight/shipping prices in 2016 (besides a savvy, well-informed supply chain leader) and why?**
   a. *The biggest threat to freight/shipping prices in 2016 is pure competiveness in the market. Oversupply, better supply chain management and low fuel costs have made the market so competitive over the last 18 months that "what's in the box" has no foothold in pricing negotiations. There are simply too many boxes chasing too few spaces. Negotiations for pricing has been based on weight or measure and what's in the box. Everything was designed to bring maximum revenue to the carrier without regard for the customer. Smart supply chain leaders are moving more towards short-term contracts, or spot rate hunting. Those that have been utilizing this strategy have been getting much better deals than those with long-term contracts. Even those that are infrequent shippers can use today's internet-based technology to comparison shop among the many excellent regional and national shipping service providers. Understanding that there is no such thing as free delivery is another thing. If delivery is included in the price of the merchandise that you buy, it would be a good idea to have the shipment quoted with and without free delivery. You can then price the shipping cost as a stand-alone transaction to see if you are overpaying for delivery. Suppliers may also be willing to share any in-bound or out-bound shipping discounts that they have negotiated with their shipping/freight companies. Utilizing the technology at your fingertips provides the single most devastating threat to pricing, simply due to the fact that you are an informed customer and know your options.*

3. **Which metric do you believe is most important for savvy, well-informed supply chain leaders to use to benchmark a facility's logistics company for freight and shipping services and why?**
    a. *The most important metric that can be utilized by a well-informed supply chain leader is "accessorials as a percent of total freight". Many freight carriers will charge extra fees to help offset costs. These can be extra fees for trailer detention/demurrage, re-delivery, fuel increases/surcharges and any other expenses or extra services. Often, these are extra costs incurred due to inefficient processes. Many freight carriers will charge extra fees to help offset costs. These can be extra fees for trailer detention/demurrage, re-delivery, fuel increases/surcharges and any other expenses or extra services. Often, these are extra costs incurred due to inefficient processes. The biggest difference between accessorials and surcharges, special service codes, and other fees that the major carriers charge is that, for the most part, they are assessed and applied post-shipment. You can plan and budget for surcharges to a certain degree, but accessorials, which are typically neither applied at the point of manifest nor included in regular invoices, can be extremely difficult to factor into your company's logistics and supply chain budgets. For this reason and others, they can be a major thorn in your side when you have to answer for losses that are nearly impossible to pre-determine, difficult to uncover, and at the same time, very hard to ignore. Accessorials account for a major portion, 20 to 50 percent, of a carrier's total annual revenue. Carriers have almost no incentive to reduce accessorials or provide detailed billing. As you continue to try and manage transportation costs, you'll soon understand that most carriers are using accessorials to make money. By performing thorough analyses of your company's shipping history and characteristics internally or with the assistance of a qualified third party logistics provider, it is possible, to see that your accessorials are discounted or waived entirely. By making it a priority to manage supply chain and logistics by optimizing processes, implementing cost-saving ideas, and creating solutions, you can combat the accessorials that may be causing you to go over your shipping budget or forcing you to cut corners that you don't need or want to cut.*

       *This metric is calculated by dividing accessorial and surcharges by total freight expenditures for the given period.*

4. **When it comes to managing freight and shipping costs, in which specific area (e.g., metric, process, etc.) do hospitals most often come up short?**
    a. *Hospitals most often come up short in tracking and processes when managing freight and shipping costs. The problem is shipping doesn't typically get separately coded, and it gets buried in a hospitals general ledger. This makes it very difficult to get a good idea of how much you're spending on in and outbound delivery. Instituting a freight management program typically covers prepay and add, or more specifically items you can see in the invoice, and products that are delivered next day or managed. Typically excluded are same-day deliveries, suppliers' own trunk stock and freight costs that are bundled into the cost of the product. Begin your freight management program by looking at how you account for inbound and outbound freight in your general ledger. Many hospital organizations lump mail, same-day deliveries, truck stock deliveries, and inbound and outbound freight costs into one freight G/L account. This practice makes it very difficult to identify where the highest freight costs are and how to manage them.*

*In order to develop an effective freight management process, you must clearly define what you are trying to achieve. For instance, if you just want to reduce freight cost, you may not need to develop a new freight process at all; perhaps you can simply do a better job of negotiating rates with a freight carrier. The disadvantage of this strategy is that you will never be able to track the effectiveness of the process. But if your goal is sustained cost reduction by improving reporting, vendor compliance, appropriate utilization and complete visibility into inbound and outbound product movement, your goal statement will need to be far more detailed and well thought out. The resulting process should be clear, simple and efficient.*

*You should begin by developing some freight accounting guidelines so that you can accurately monitor cost. There are many different types of freight and distribution costs, and each must be separately accounted for.*

*After developing accounting guidelines, you should identify how to go about reducing freight costs. This can be done by standardizing to one freight carrier, optimizing your modes of shipment or increasing the number of suppliers using the freight program.*

*One of the important decisions you'll need to make is whether to go it alone or contract with a third party logistics company to handle your program. The following are some points to consider when making your decision:*

- *Knowledge of the industry*
- *Number of vendors taking part in the program*
- *The process for adding vendors to the participation list*
- *Level of compliance by manufacturers*
- *Startup and ongoing cost of the program*

**5. When it comes to analyzing freight and shipping costs, what are 3 of the most overt areas to watch and what are 3 of the most covert areas to find and why?**

**a.** *The 3 most overt areas to watch are:*

**i.** *Up front shipping rates. It is important to rate shop among all of your available carriers and delivery methods. Ensure your organization is trained to properly rate shop and look for the best savings opportunities for your organization rather than the first one at hand.*

**ii.** *Incorrect usage of delivery speeds. A common mistake is to ship items to get them to you the fastest method. Many times the expense is wasted through uneducated use. To avoid wasted expense, use express delivery for true need or supplies needed in the short term and ship the rest by lower cost ground or truck freight. Likewise, use FedEx or UPS ground or USPS priority mail instead of express delivery for Zone 2 addresses, as the packages will arrive just as quickly.*

**iii.** *Seeking group discounts. Many hospital organizations belong to GPO's which may or may not have lower negotiated rates than are available to an individual hospital.*

**b.** *The 3 most covert areas to watch are:*

**i.** *Watching for billing errors. Often times hospitals accept the invoice and it is submitted for payment without validation. Auditing your carrier invoices for errors. You can assume that 5 to 10 percent of invoices have an error or a reimbursable service failure that is costing you money. You can do your own* *checking or there are a number of third party vendors with the knowledgebase to examine your invoices.*

- **ii.** *Undocumented charges at time of purchase or accessorial charges. It is important to fully understand the FINAL bill received. If you are not properly auditing and asking questions on final invoices, you will often pay for unknown fees and miss out on the opportunity to have the charges reduced or waived.*
- **iii.** *Carrier contracting. In many instances, the utilization of carrier contracts can save a company a significant amount, however it is important to be educated on the subject. Carrier contracts have always been particularly challenging for shippers. They are deliberately confusing. Pricing, and the basis for it, has never been transparent, so it is impossible to verify on on your own that you have fair and competitive rates. Typically these contracts are negotiated every few years, so it is not something that your sourcing team gets to practice much either. It is extremely helpful to engage a member of your team with the correct skillset and knowledge to handle this process or engage a trusted third party vendor to act on your behalf.*

**(Link to full article: http://digital.hpnonline.com/editions/z38o/0A148ky/1607-HPN/html/index.html?page=50)**

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