

Supply Chain Edge Helps a Laboratory Services Company Boost the Value of Its Supply Chain

The company is a growing provider of pathology and diagnostic laboratory services, serving several thousand physicians across the United States.

The Business Challenge

When a physician suspects one of his patients has a serious illness, time is of the essence. Any unnecessary delay in the diagnostic process not only adds to patient stress, but also keeps treatment from starting as soon as possible.

Fulfilling this need for speed is this company's sole mission, and it therefore operates a state-of-the-art, round-the-clock laboratory geared to deliver fast, accurate test results. However, many of the company's competitors operate multiple labs around the country, which puts the company at a disadvantage in proximity to client locations and, by extension, speed and responsiveness.

To compensate for this disadvantage, the company had developed an extensive outside sales force that was intently focused on delivering market-leading service levels and speed to physicians' offices. These salespeople often worked closely with local courier businesses to facilitate the shipment of samples from doctors' offices to the company's lab via FedEx and UPS. The company also maintained an in-house courier fleet and fleet management staff to service accounts close its New York headquarters.

While these efforts resulted in fast response times and increased competitiveness with larger firms, they were compromising the company's overall financial performance. In fact, logistics costs were as high as 10 percent of the firm's revenue, and were an unsustainable drag on its long-term growth and profitability. Seeking to reduce this level of spending dramatically without compromising its customer relationships or ability to compete, the company approached Supply Chain Edge (SCE) for help.

How Supply Chain Edge Helped

The company initially believed its spending on transport services with companies such as FedEx was the root cause of its high costs. Thus, it asked SCE to conduct a thorough review and benchmarking of its shipping costs, using SCE's proprietary database of transportation spending metrics as the peer group.

SCE's analysis of the company's operations did reveal several ways to cut its shipping costs. For instance, despite having cutting-edge technology to send test reports to doctors in a variety of fast and low-cost electronic formats, many of the company's salespeople requested hard-copy reports be sent to their customers using FedEx's Priority Overnight service—"just to be sure." In some cases, this tactic was used for customer locations close to the company's lab, and for which the U.S. Postal Service would have been much less expensive and just as fast. In total, this misuse of services such as FedEx was costing the company more than \$60,000 each week.

SCE's assessment also revealed the company had not been utilizing courier services as effectively as possible, either. It did business with 26 different courier firms, many of which had overlapping territories and only a rudimentary ability to measure and report their performance, blunting the company's ability to derive maximum value from their services. In fact, SCE found this general lack of metrics and accountability for performance levels permeated the company's logistics function and had allowed many inefficiencies to take hold.

It was common, for instance, for local couriers to transport packages from a doctor's office to a FedEx location, even though the company could have used

FedEx to cover that leg of the journey more cost effectively. And in some instances, the company was paying couriers to visit doctors' offices on a daily basis, even when the office had no samples to send—which the sales staff felt was a good way to maintain a presence with valued customers and prevent a competitor from gaining access to the account. SCE's analysis revealed that approximately 30 percent of courier visits for which the company was billed resulted in no sample pick up (and, therefore, no revenue generated). SCE also found numerous cases of overcharging, undefined miscellaneous charges, and ambiguous pricing structures and surcharges.

Beyond challenges with external delivery providers, SCE further discovered the company experienced significant cost and inefficiency associated with its in-house fleet of courier vehicles and 20-member support staff. Used to carry samples to and from customers near the company's lab facility, the fleet purchased fuel in the metropolitan New York area, one of the most expensive places in the country in which to do so. The impact of these high fuel costs was compounded by a general lack of metrics and oversight, as well as by the high costs and liabilities associated with fleet management. Additionally, the company lacked automated tools for routing optimization or data capture, did not perform any data analysis beyond cost measurement, and was using dispatchers in Florida to generate routes across metropolitan New York. In short, it was not running its in-house fleet as efficiently or effectively as possible, which was adding to its overall costs. Indeed, SCE's analysis revealed the company could save more than \$1 million each year by outsourcing its fleet and fleet management staff and focusing on its core competency: fast and accurate lab operations.

Overall, the SCE team uncovered numerous concrete opportunities for the company to cut its costs quickly and sustainably, and set several projects in motion to make those savings a reality. One such project focused on eliminating the profit drag from its in-house courier

fleet and staff. Having identified the potential value of divesting this part of the business to a dedicated courier firm, the SCE team screened a number of suitable companies and ultimately found one whose existing capabilities and footprint were a good match for the company's needs. SCE helped orchestrate this transaction, in which the courier assumed ownership of the company's staff as well as responsibility for such things as drug testing, liability insurance, and measuring and reporting on delivery performance—all of which the company was required to provide for as owner and operator of the fleet. While shedding its in-house fleet allowed the company to eliminate some highly compensated jobs that were no longer necessary, it also enabled some staff to be put into roles of greater value to the company.

Accompanying its work to deal with internal challenges were SCE's efforts in addressing the inefficiencies inherent in the company's external service providers. SCE managed a nationwide request-for-proposal (RFP) process to rationalize the company's large pool of couriers into a smaller group of providers that could deliver the service the company required at a much lower cost. One of the key requirements of the RFP was the provider's ability to generate recurring and ad hoc reports on such measures as cost per stop, service failures, and the frequency of courier visits in which no sample was picked up—which would allow the company to optimize the value generated by these vendors on an ongoing basis. The RFP resulted in a major reduction in number of couriers in use—from 26 to six. Once the final pool of providers was selected, SCE assumed full responsibility for managing the company's courier administration and relationship management processes, and for leading annual RFPs to ensure the company always is using the best available partners for this critical aspect of the business.

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rapid turnaround while reducing costs. This meant replacing overnight shipping of hard copies with electronic distribution whenever feasible, as well as helping the company understand the optimal mix of modalities and service levels for different situations. For instance, there are times when an overnight shipment truly is the only option, but many more opportunities when far less-expensive services would suffice. SCE also helped the company minimize unnecessary visits by couriers to doctors' offices by implementing a new system that placed physicians on a "call-in list" when their demand for samples to be picked up dropped below a certain threshold. This system enabled the sales staff to keep an eye on accounts and step in proactively to avert possible defection to a competitor without incurring the expense of no-sample courier stops.

Results and Benefits

While SCE's involvement with this company is ongoing, the collaboration thus far between the two companies has generated significant benefits. For instance, by

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switching from FedEx to the U.S. Postal Service for accounts near the company's headquarters, the lab company already is saving more than \$40,000 each month. In addition, the rationalization of the courier pool from 26 to six, coupled with the new physician "call-in list" that eliminated "no-sample" courier stops, has enabled the company to reduce its average cost for each courier stop by more than 20 percent. These moves, combined with the outsourcing of its in-house fleet, are saving the company approximately \$170,000 each month on transportation and logistics, or more than \$2 million annually—all while continuing to deliver the speed and service levels required for success in this challenging industry.

Most importantly, these are sustainable savings built on a solid framework of more efficient practices, better visibility and measurement, a tighter focus on core competencies, and strong relationships with customers and suppliers. In short, SCE has helped the company rapidly transform its supply chain into a long-term source of value, differentiation and competitive strength.

About Supply Chain Edge

Supply Chain Edge is a team of seasoned supply chain specialists who are highly skilled in identifying, quantifying, and capitalizing on opportunities that drive performance improvements in key areas such as business growth, earnings per share, return on capital, margins, cash-to-cash cycle times, and customer service.

Supply Chain Edge is unique in two important ways: Our extensive experience in numerous supply chain initiatives with dozens of companies enables us to bring best practices used by other enterprises to every project while working collaboratively with a client's existing internal talent. And, we don't simply advise clients what they should do, but instead, help them execute more effectively and efficiently to realize tangible, quantifiable financial gain.



Maximize Your Profits and Increase Your Competitive Edge. Supply Chain Edge is a team of experienced supply chain advisors. SCE delivers improvements to key business metrics such as business growth, earnings per share, margins, return on capital, cash-to-cash cycle times, and expanded margins and profits to those clients we serve.

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