

USAID MEDICINES, TECHNOLOGIES, AND  
PHARMACEUTICAL SERVICES (MTaPS) PROGRAM

*Improved Access. Improved Services. Better Health Outcomes.*



**USAID**  
FROM THE AMERICAN PEOPLE





## USAID MEDICINES, TECHNOLOGIES, AND PHARMACEUTICAL SERVICES (MTaPS) PROGRAM

*Improved Access. Improved Services. Better Health Outcomes.*

# Leveraging the Private Sector in Enhancing Public Healthcare Systems

## Learning and Advocacy Workshop

*Workshop | Day 1*



**USAID**  
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# Overall project objectives

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- Ensure understanding of best practice 3PL and 4PL techniques and the benefits they can deliver
- Demonstrate the benefits of outsourcing and advocate for their use where appropriate

## Workshop goals and learning objectives

- Ensure understanding of best practice Supply Chain Management (SCM) activities and outsourcing relationships
- Demonstrate the benefits of best practice outsourcing vis-à-vis traditional outsourcing fee for service contracts
- Advocate for the use of best practice relationships
- Present the next steps in operationalizing the best practice techniques and achieving the potential benefits

# Agenda: Day 1

Consider Supply Chains in general

Define the terms third-party logistics service provider (3PL) and fourth party logistics service providers (4PL) and lead logistics service provider (LLP)

Explain Best Practice outsourcing relationships

Present the characteristics of leading Supply Chain practitioners

Discuss the reasons for outsourcing and the associated benefits

Present examples of Best Practice outsourcing relationships





# Supply Chain

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Photo Credit: Ndinda Kusu

It is important that we all have a similar understanding of the term *Supply Chain*

Take five minutes, or so, with the person sitting next to you, and write down the activities that spring to mind at the mention of the term.

# Supply Chain Elements



Quantification  
and forecasting



Procurement



Customs  
clearance and  
importation



PRIMARY  
TRANSPORT



Central storage/  
warehouse mgmt.



Inventory  
management and  
order processing



Integrated IT systems  
(WMS/ order processing/  
vehicle scheduling)



Tactical planning/  
budgeting



Localised storage



Secondary  
transport /last mile  
distribution  
(LMD)/ collection



Reverse logistics



Waste  
management



Performance  
monitoring  
(world prices,  
costs and service  
levels)



Strategic planning



Continuous  
improvement  
program (CIP)

# Supply Chain – Six Rights

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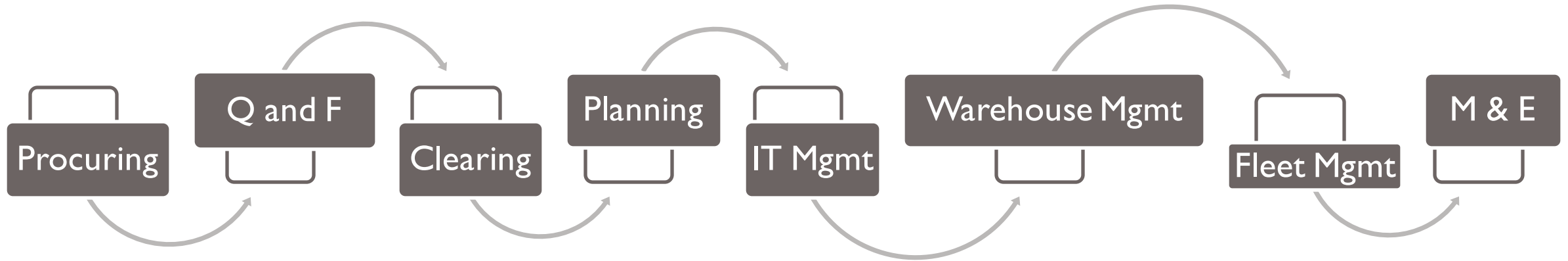
- Historical examples tend to relate to failed/successful military campaigns and early exploration adventures
- But, in high-income countries we have come a long way:
  - Multiple daily deliveries to supermarkets for a range of temperature regimes
  - Automotive Just-in-Time manufacturing techniques producing a vehicle every few minutes
  - Several deliveries per day from pharmaceutical distributors to retail outlets



## The six rights:

1. The right goods in
2. The right place at
3. The right time in
4. The correct quantity in
5. The right condition at
6. The right cost

# Supply Chain Interconnectedness



Port of Entry

Regional and Local Warehouses

Primary Transport

Secondary Transport

Last Mile Delivery

PERFORMANCE MEASURES

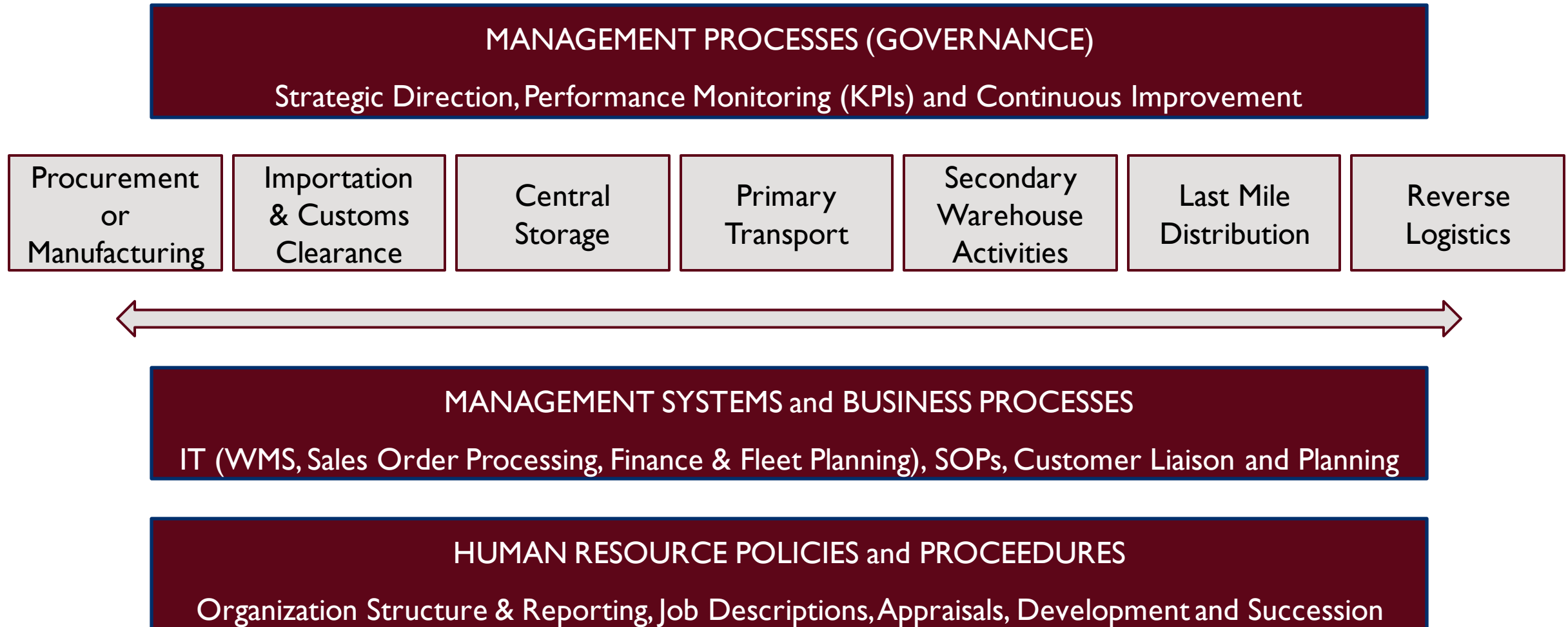
Central Medical Store

Clinic

Hospital



# Supply Chain – Standard Functions



# Supply Chain Cost and Service Balance

*‘Private-sector companies would not adopt the technique unless it benefits their businesses. It is not always related directly to cost reduction. A modest increase in cost may be needed to generate service level improvements such as continuous availability of commodities through effective supply chain management, which subsequently adds more products to satisfy demand and optimize costs through economy of scale while increasing revenue.’*

Distribution Concepts International (DCI)

**In an RDF situation, what are the implications of improved service levels and lower costs ?**



# Supply Chain Service Level Monitoring Dilemma

*It is essential that the terms of any SLA are fully understood by all stakeholders.*

The customer's  
view of the service  
level delivered



The Service Level the customer  
would like to have

The Service Level agreed in the SLA by  
the supplier (FMOH) and the  
customer

The Service Level actually achieved as  
measured and reported by the supplier

The Service Level perceived to have  
been achieved by the customer. (Often  
driven by one recent poor experience)



The supplier's view  
of the service level  
delivered



# Best Practices: Third party logistics service providers (3PLs)

In LMICs, the public sector typically uses the term 3PL regarding an organization:

- Offering a single supply chain element:
  - Warehousing
  - Transport
- Following a fee-for-service model

In high-income countries, the term is usually reserved for organizations offering a complete in-country operation:

- Embracing warehousing and transport
- Deploying a single organization managing both aspects of operation
- Delivering operational coordination benefits.

# Best Practices: Third party logistics service providers (3PLs)

Typically, a 3PL would have an integrated IT system that includes:

- Order processing
- Warehouse management
- Transport planning

and enables:

- Data analysis for planning and decision making purposes
- Automatic production of performance measures in a timely manner.

## Best Practices: Lead logistics service providers (LLPs)

A 3PL with in-depth supply chain expertise, managing both their own and other organizations' assets on behalf of their clients to provide the required levels of geographic and service coverage required

- Primary and secondary transport on a geographic basis (FTL & LMD)
- Central and localized storage (Cross-docking facilities and transit depots)
- Cold chain assets (Storage and transport)

A best practice method of operation as the client only manages a single LLP.



# Best Practices: Fourth party logistics service providers (4PLs)

A 4PL relationship is more advanced than a 3PL relationship in which the 4PL, a professional logistics company:

- Integrates multiple logistics services from procurement to last mile distribution (LMD)
- Provide clients with an end-to-end strategic view of the supply chain
- Utilizes an IT system that enables operational transparency and analysis for:
  - Proactive monitoring
  - Decision making

The organization will manage various 3PLs without deploying any of its own operational assets

In some cases, management consultancies with in-depth supply chain expertise offer 4PL services to clients.

# Supply Chain Outsourcing Benefits

The benefits of best practice outsourced relationships are well documented and include:

- Experienced staff within the logistics service provider's organization
- A more agile supply chain that is able to respond to increases in demand
- Tried and tested IT systems
- Reduced levels of equipment downtime
- Higher levels of delivery fleet utilization
- An in-depth knowledge of the local logistics service provider market
- Regular contingency planning to mitigate risks to the delivery service

So that FMOHs and States can focus on their core business.

# Supply Chain Outsourcing Features

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These contracts differ from traditional fee-for-service relationships in several ways:

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Longer contract lengths than traditional fee-for-service arrangements

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The referencing of an SLA which contains the operational ways of working

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The collaborative relationship is two-way in nature

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Integration of the IT systems of both parties

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Scheduled reporting at various levels within the organizations

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Defined contacts between the FMOH or State supply chain units and the logistics service provider.

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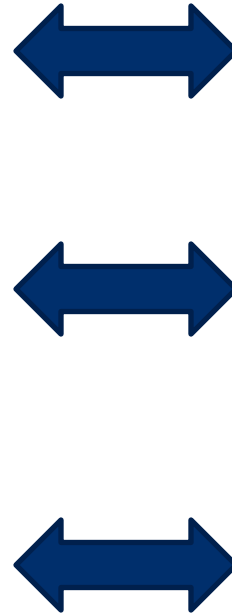
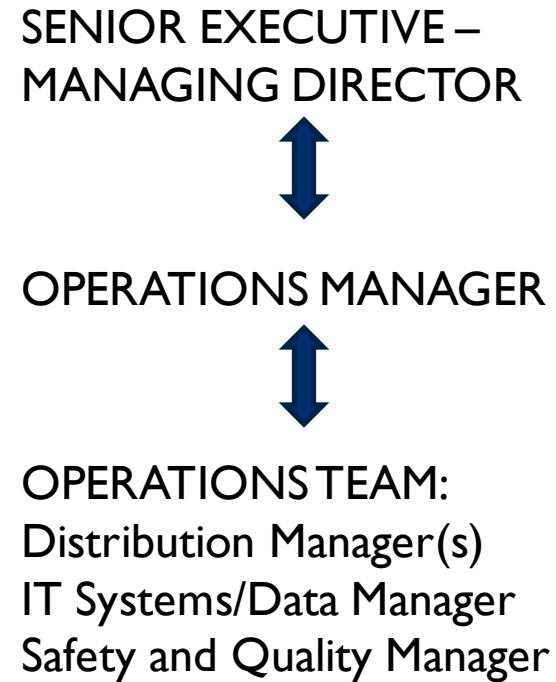


# Supply Chain Outsourcing Organization

## THE CLIENT'S SUPPLY CHAIN ORGANISATION



## THE LOGISTICS SERVICE PROVIDER'S ORGANISATION



# A view from the auto industry: 3PLs

- Minimum contract period: 3 years
- Best format: Open book/ cost plus/ 5-year contract
- Management fee varied to reflect service level delivered

## Consequences of shorter contract periods and different contract types:

- Start up costs written off over shorter period
- No guarantee of best quality management or labor due to short period of tenure
- Employing specialist skills for a short-period is more difficult
- Rate increases tend to be higher than those for long-term contracts
- No joint development of long-term potential or opportunities
- Spot Market usage increases route costs

# Characteristics of leading supply chain practitioner

1. An overriding commitment to customers
2. Achievement of perfect basic performance
3. Using increasingly sophisticated Supply Chain solutions
4. A considerable emphasis on planning
5. Supply Chain organization with a wide span of control
6. A highly formalised Supply Chain process\
7. Places a premium on flexibility
8. Have a commitment to third party relationships
9. Employ state of the art IT
10. Uses comprehensive performance measurement



# Why do organizations outsource some / all supply chain operations?

Once a decision has been taken to outsource some, or all, of the logistics activities, the reasons for doing so need to be fully understood within the organization, as it will influence the selection of an appropriate logistics service provider. Some reasons may include:

- A lack of capital resources to replace existing assets
- An inability, within the organization, to deliver a strategy involving end-to-end supply chain management and the integration of several parallel supply chains
- A management team that is characterized by inadequate supply chain experience
- The operational costs are incurred are perceived as being excessive
- Service levels have been declining as volumes have increased
- Fleet management expertise and systems are rudimentary
- Inadequate IT systems impacting adversely forecasting and procurement, inventory management and warehouse efficiency

# EXAMPLES

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Third Party Logistics Service Providers (3PLs)

Lead Logistics Service Providers (LLPs)

Fourth Party Logistics Service Providers (4PLs)



# EXAMPLE – Shell and the Hoyer Group



## **SHELL and THE HOYER GROUP**

- Not primarily cost, but flexibility and enhanced return on capital elsewhere
- Vehicle specification and logo mandated
- Small 3PL corporate logo often permitted
- Parallel operations for cost comparisons

# EXAMPLE – GXO



## ALBERT HEIJN and XPO LOGISTICS now GXO LOGISTICS

- Many years ago Albert Heijn signed a memorandum of understanding with a leading 3PL, Norbert Dentressangle, to establish a long-term partnership to create a Shared Fresh Center (SFC) in Nieuwegein to service more than 900 stores.
- The facility, now operated by GXO Logistics:
  - Delivers around 5 million order lines per week
  - Provides 24/7 up to date stock information, in the cloud
  - Suppliers manage their own stock by reviewing reports
  - GXO Logistics saves cost with an optimal transport planning tool

## EXAMPLES in Nigeria

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- **MDS Logistics:** We are committed to managing all aspects of your supply chain, including providing a control tower and 4PL services. This allows our clients to focus on their core competencies
- **Worldwide Commercial Ventures:** They are committed to the safety and security of the Nigerian pharmaceutical supply chain. They purchase branded pharmaceuticals directly from the product's manufacturer, except in the rare instance that they are required to do otherwise.
- **Bollere Africa Logistics:** (Now MSC headquartered in Switzerland)



## EXAMPLE – Maersk

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- Maersk, the Danish carrier, has a five-year contract to be JCB's lead logistics provider for ocean, air, road and rail cargo services, as well as consolidation and customs services.
- To manage JCB's end-to-end supply chain, Maersk will establish a global control tower in the UK and regional control towers in the US, China and India.

“JCB recognizes the great value of Maersk's integrator strategy for its supply chains. JCB and Maersk are an excellent strategic fit. The partnership will deliver a more agile and sustainable global supply chain for JCB.”



# EXAMPLE – GEFCO

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The automotive sector, which has long been regarded as a leader in the area of SCM, has deployed the 4PL/LLP provider concept over many years. For example, in Europe, Opel, a General Motors company, engages collaboratively with GEFCO a 4PL provider organization focusing upon the automotive sector:

- 220 individual 3PL providers are managed by GEFCO’s 4PL provider division for both inbound and outbound movements. The scope of activities includes purchasing, tendering, contracting, and invoicing
- Unique tools are available to the 4PL provider division to enable data analysis to be undertaken in support of supplier rationalization, network planning, and routing optimization.
- The relationship has existed for many years, and the current four-year contract is expected to continue generating annual savings of 5–7% by achieving further efficiencies in manufacturing, logistics, and purchasing.



# EXAMPLE – NHS UK

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NHS Supply Chain manages the sourcing, delivery and supply of healthcare products, services and food for NHS trusts and healthcare organisations across England and Wales.

NHS Supply Chain:

- Manages more than 7.7 million orders accounting for 35 million lines of picked goods per year
- Serves 129,420 order points and 16,705 locations
- Deploys IT systems to consolidate orders from over 930 suppliers removing the duplication of overlapping contracts.



## EXAMPLE - Distribution Concepts International (DCI)

Hospital groups in the southwest and northeast United States worked with Distribution Concepts International (DCI) in a 4PL provider capacity to reduce costs by 15–20%.

- In the southwest, the group incurred freight costs of USD 3.2 million per year. DCI utilized its in-depth knowledge of the 3PL provider marketplace to find its client a different service provider and generate savings of USD 500,000 per year.
- The group in the northeast had historically managed several 3PL providers in an informal manner, incurring annual costs of USD 2.5 million. After reviewing the current costs and service levels, DCI helped its client achieve savings of US 350,000 per year by introducing a more effective outsourcing strategy.



## EXAMPLE – Accenture Introduction

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*Supply chains can't operate the way they have been.*

*Companies are looking to build agile, digital supply chain networks that can drive growth and profitability in challenging times. Meanwhile, supply chain leaders are operating in a world characterized by ongoing disruption.*

*We help clients reimagine, build and operate supply chain networks that orchestrate change, simplify life and positively impact business, society and the planet.*

*We help companies manage the complexity of transforming their supply chains into future-ready supply chain networks that balance the evolving expectations of customers, employees, investors and others, fuel profitable growth, and do business the right way.*

*The supply chain network of the future is a total reinvention of today's supply chain.*



## EXAMPLE – Accenture

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A leader in food marketing and distribution saw an opportunity to reimagine its supply chain management.

Accenture introduced the idea that by using unified view of demand, the company could develop a supply chain that anticipates and pivots around obstacles.

The goal was to combine internal data with new external data that had emerged during the pandemic to gain greater visibility and flexibility.

From there, the company could scale the new solution across all of its operational sites to better inform inventory position and supply-side dynamics, future-proofing the company's operations and giving it an edge over competitors.

# EXAMPLE – Accenture

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## Supercharging supply and profits

Microchips—the “brains” behind smart technology—are essential to manufacturing countless products, including cars. But when demand for new vehicles first plummeted, and then rebounded, during the pandemic, microchip supply chains struggled to keep up. Like many others in the industry, one global technology company saw that its lack of supply chain resiliency was putting both its profit margin and market valuation at risk. Company leaders were determined to find a solution and brought in Accenture to help.

## The muscle to mitigate risk

The joint team first performed a maturity assessment and saw an opportunity for more advanced, proactive risk management. The team developed a “heat map” to identify high risk suppliers and components and recommend mitigating actions. To perform the analysis and understand revenue impacts, the team created a “supply chain digital twin,” a virtual replica of the company’s global supply chain. Finally, Accenture performed a stress test, which subjects the digital twin to pre-defined, disruptive scenarios and provides an overall resiliency score. Accenture then transferred the knowledge to the company’s internal Supply Chain Resilience team so it could take the wheel.

## EXAMPLE – Accenture and Blue Diamond Growers

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Blue Diamond Growers is the world's largest almond supplier and processing company. The co-operative represents more than 3,000 California almond growers, helping them realize the best return on investments while delivering a quality product. It achieves this by innovating to open new markets—a mission that saw it shift from purely supplying raw materials for integration into other products, to packaging products directly for the consumer market. Blue Diamond Growers' supply chain became incredibly complex as a result, with disjointed spreadsheet systems that made it a challenge to forecast supply and demand. The company realized its growth depended on a smarter, customer-focused supply chain management solution and set about creating one with Accenture.

## EXAMPLE – Accenture and Blue Diamond Growers

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Accenture collaborated with Blue Diamond Growers to design, build and launch a globally scalable, customer-centric, flexible supply chain planning solution based on SAP® Integrated Business Planning (IBP).

Accenture's virtual training ensured the entire Blue Diamond Growers team was proficient in the solution well ahead of launch. The solution, integrated with the on-premises SAP system, enabled real-time consolidation, validation and analysis of supply chain data, providing greater transparency for planning purposes.

When the pandemic struck, the company switched to a daily planning cycle with a joint SAP IBP and Accenture solution, Supply Chain Scenario Planning-as-a-Service. Simulation scenarios harnessed Accenture templates to quickly extract data and help in the reallocation of Blue Diamond Growers' nut supply to satisfy shifting demands.

# Justification for 4PL Concept

- Finished vehicle transportation is a “non-core”, but a “high impact” component of the business
- By nature, the large number of carriers involved in vehicle distribution lends itself to inefficiency & sub-optimisation by carriers
- Rapid changes in market conditions affecting vehicle distribution requires robust planning, execution & IT
- 4PL quickly & dramatically increases outbound network support
- Positive financial & customer satisfaction implications of network synergies
- Enables optimised solution for the total network (all brands)
- Collective buying power under a single 4PL
- Single point of contact & accountability
- Independent party to help facilitate change
- Ability to leverage transportation industry trends for continuous improvement

## Current trends

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In the UK, Wincanton, a leading supply chain partner for UK businesses, has recently been awarded a five-year contract with fashion retailer Primark to provide transport services to its 200 UK stores.

The Wincanton and Primark teams will work together to deliver a successful transformation of Primark's transport operations

- Both teams are committed to working together to introduce a number of operational improvements, including a 15% reduction in the distance traveled by the distribution fleet
- While the associated reduction of total supply chain costs is welcomed, the key driver is the need to reduce carbon emissions and support the environmental aspirations of both Wincanton and Primark.





## End of day recap

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Supply chain overview

Best practices

Leading practitioners' characteristics

Outsourcing

3PL, 4PL & LLP examples and benefits

Questions & comments

Day 2 agenda



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# Leveraging the Private Sector in Enhancing Public Healthcare Systems

## Learning and Advocacy Workshop

*Workshop 1 Day 2*





# Yesterday recap...

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- What do we mean by the term 'supply chain'?
- Best practice outsourced supply chain relationships: 3 & 4 PL definitions
- Characteristics of leading supply chain practitioners
- Reasons for outsourcing all or individual elements of the supply chain
- Examples of best practice outsourced supply chain relationships

# Agenda: Day 1

Yesterday Best Practice, today issues/problems/concerns

Today, What goes wrong? Break out and feedback...

KPIs and interview responses ?  
PHASE I 'We used to have a fork truck!'

State inputs, breakout session and feedback



# Reasons for poor performance

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Why do you think it goes wrong?

BREAKOUT SESSION

PROMPTS

Poor management of 3PL

Lack of assets

Poor Q & F

Inexperienced management

Unclear/complex processes

Poor monitoring information

# University of Tennessee

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## Selecting and Managing a Third Party Logistics Provider 2016

- More than 60 executives interviewed for the study said the biggest mistake they made was not doing a thorough **needs assessment** before hiring a 3PL.
- The report also found that many, if not most, bids for third party logistics providers contained **unrealistic data on company operations**. Omitting business leaders from the selection process was another common pitfall, leading to a lack of business-wide strategy for the partnership.
- The study emphasizes **clarity of expectations and a balance between accountability and independence** for best management of 3PLs. The most successful 3PL partnerships employ elements of Vested methodologies, focusing on outcomes instead of processes, and implementing contracts that provide incentives for 3PLs.



# University of Tennessee

## Selecting and Managing a Third Party Logistics Provider 2016

### Gap

‘Companies are still struggling to optimize their use of 3PLs despite growth in every sector of the supply chain over the last quarter century’

### Opportunity

‘The scope of third party logistics has widely increased and expectations of them accelerated, but that does not mean firms are using 3PLs to their full advantage’

### Success

“Communication is key to helping our clients succeed,” said David Caines, chief operating officer at Kenco.

### Best Practice

“The companies that connect us with the right people and have clear strategies in place are the ones we can help the most. This paper reflects that and gives insight into how 3PLs can be better partners as well.”

# Outsourcing Decision

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Understand the supply chain network and gather information



Evaluate the current operational capacity



Consider both entering into a best practice relationship and the political economy



Evaluate the Private Sector providers' capability



Engage with the Private Sector and commence the procurement process

To outsource or not to outsource? Which elements and why?

BREAKOUT SESSION

PROMPTS

# Outsourcing Decision (I)



Understand the supply chain network and gather information

Does the government have a national public health strategy?



Develop a strategic vision for the public health supply chain



Has an analysis been undertaken to assess the gap between the strategic and the current operational performance in terms of cost, service levels and value for money?

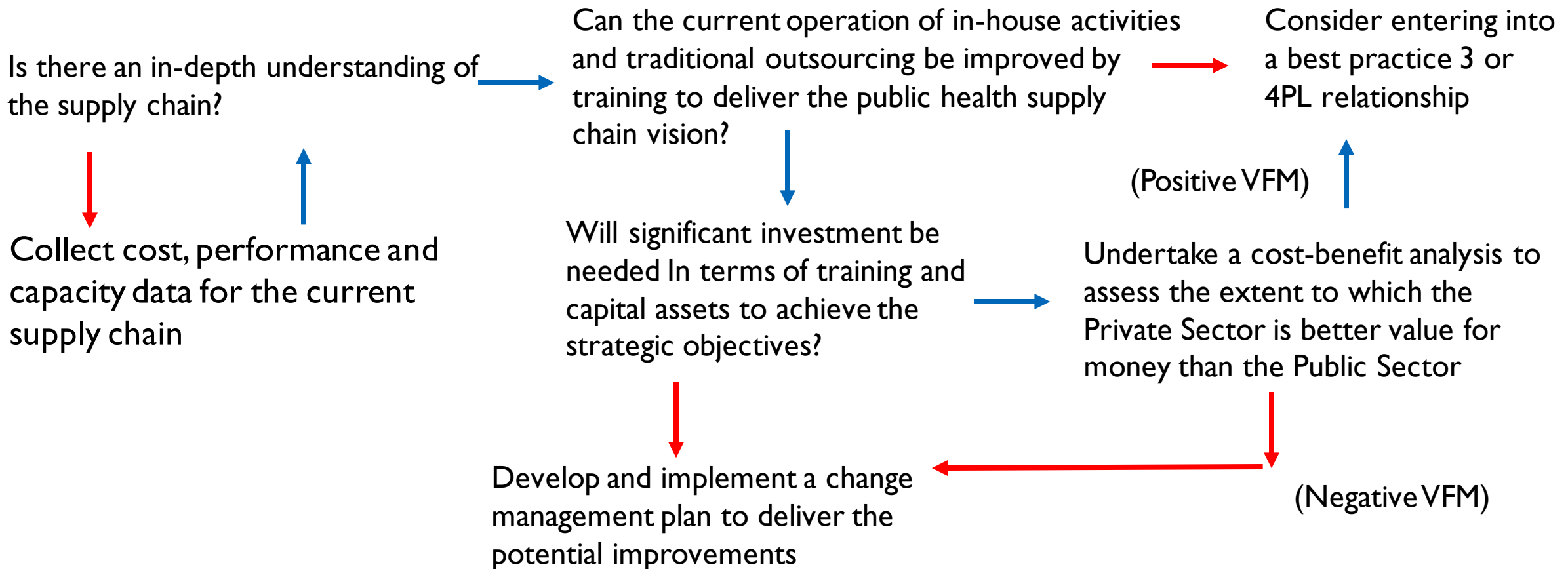


Assess and document the gaps for regions and segments of interest



**EVALUATE THE CURRENT OPERATIONAL CAPACITY**

# Outsourcing Decision (2)



# Outsourcing Decision (3)



Consider both entering into a best practice relationship and the political economy

Has an in-depth understanding of the Private Sector 3 and 4PL market been undertaken?



Undertake an in-depth analysis and continue the strategy implementation process



Is there a willingness within both the Private and Public Sectors to engage in long-term best practice relationships?



Implement a series of advocacy and learning activities with the aim of generating a willingness between the sectors to work together



Commence identifying potential 3 and 4PL partners in the geographic Areas concerned



# Outsourcing Decision (4)



Evaluate the Private Sector providers' capability

Do the potential partners have the required level of capability in all areas of the healthcare supply chain?



Identify possible additional service providers that could be managed by a lead logistics service provider (LLP) to provide the services and geographic reach not available from the LLP



Does the Public Sector team have the capability of managing the potential best practice relationship?



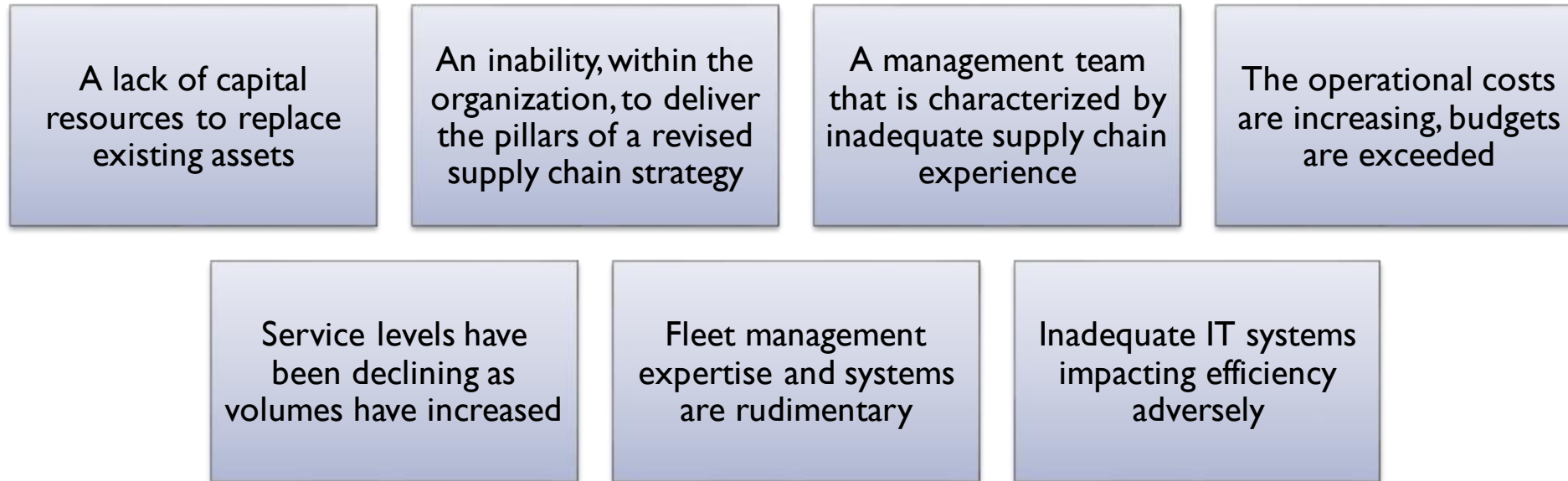
Identify and plan to implement capacity building in the areas of contract management and collaborative working within the Public Sector team



**FORMALLY ENGAGE WITH THE PRIVATE SECTOR AND COMMENCE THE PROCUREMENT PROCESS**

# Outsourcing Decision (5)

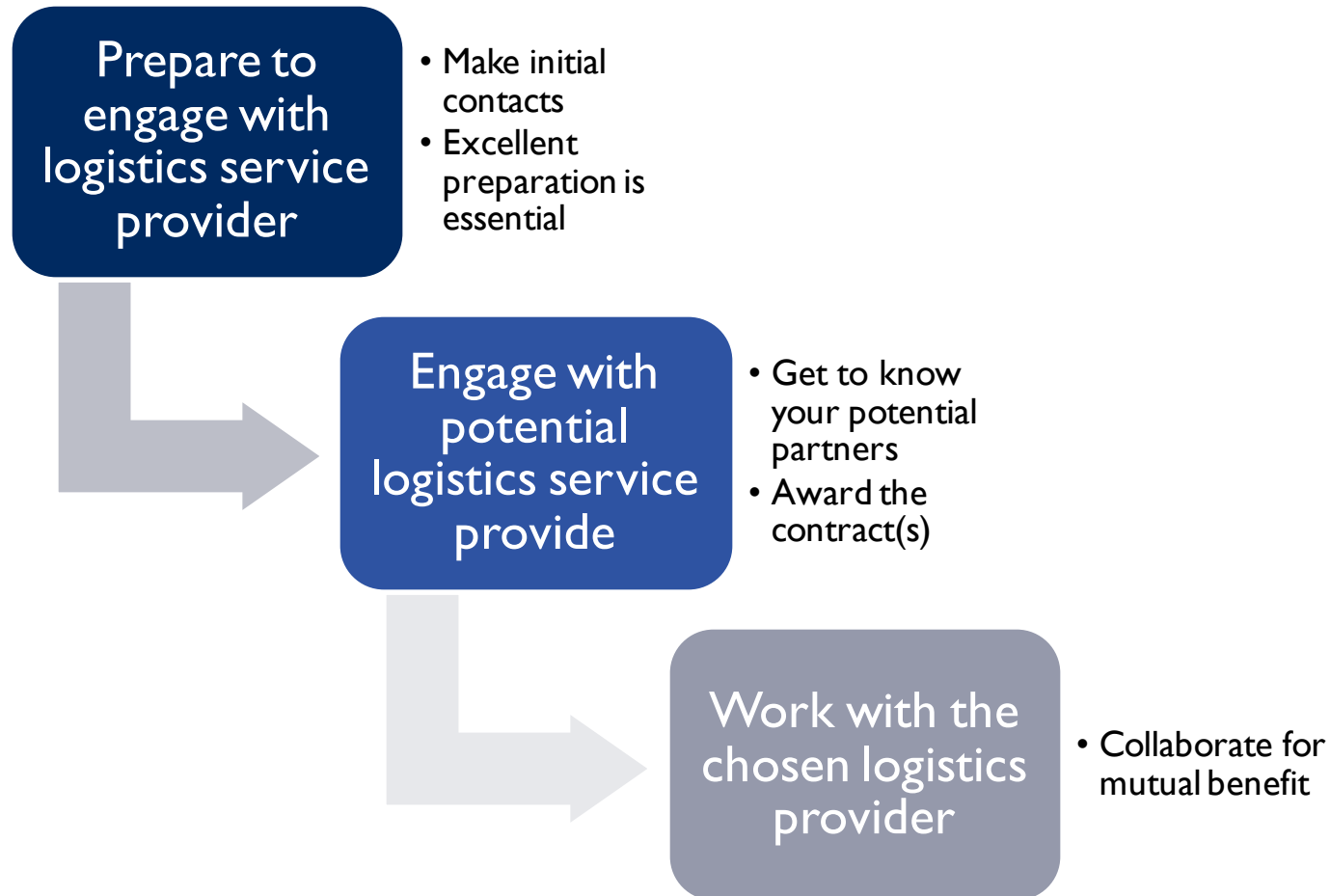
## Reasons to Outsource



Engage with the Private Sector and commence the procurement process

# Operationalizing an Outsourcing Model

## THREE ESSENTIAL STEPS



# Prepare

Understand the reasons for outsourcing

Research the private sector market

Develop the service provider selection criteria

Establish full current costs and service levels

Prepare information packs for bidders

Develop service specification and draft SLA

# Engage

Publish 'Expression of Interest' request in Procurement Journal

Make initial contact/Potential Partners' Conference

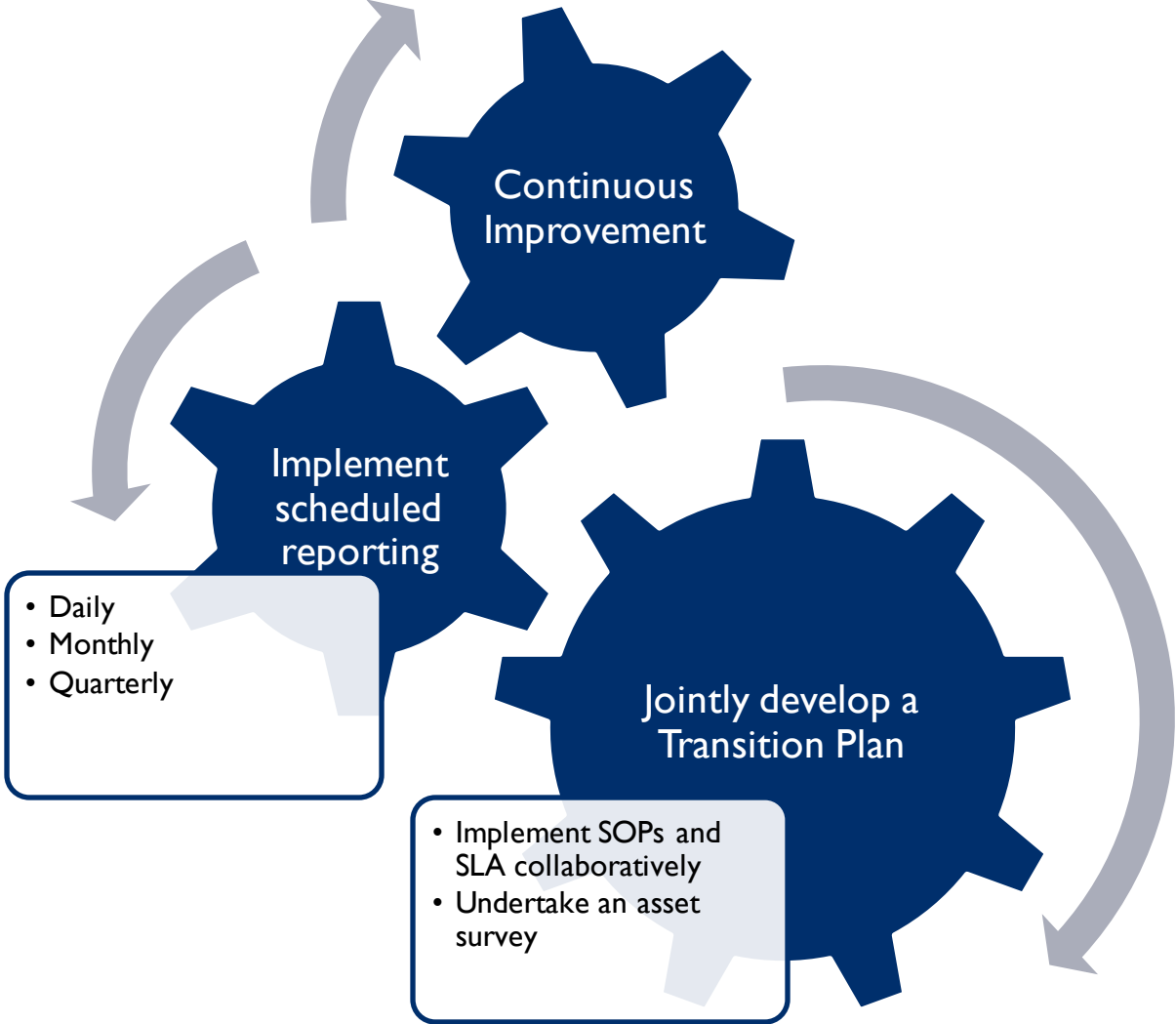
Clarify responses and develop short-list of bidders

Establish full current costs and service levels

Use selection criteria to prepare a long list of bidders

Further interaction, very short-list and BAFO

# Collaborate







## End of day recap

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Questions & comments

Workshop 2