BEST PRACTICES FOR SUCCESSFUL OUTSOURCING IN THE PUBLIC HEALTH SUPPLY CHAIN

Date: Thursday, 23 June 2022
Time: 16:00 - 17:30 (UTC +2:00)
What functions are we outsourcing?

J&J is outsourcing supply chain activities from R&D to DELIVER, that it deems third parties are better suited to execute.

Transportation and warehousing the most common activities outsourced within the DELIVER pillar.
How and why do we outsource?

A critical starting point is identifying the need for outsourcing internally, this involves evaluating our business and asking what activities are better left to a specialist third party.

Once we know what activity we want to outsource as a company, we step through the sourcing process outlined in the OSTK to enable us to onboard the partner who is the best fit for our needs.
Vital to performance management is a circumspect contract with the supplier that clearly defines expected performance standards and the KPI’s that will be used to measure the supplier's performance.

Each month the supplier needs to provide their performance data vs the agreed KPI’s for monitoring. Once a quarter a business review allows performance issues to be raised and appropriate corrective actions, if needed, to be put in place.
What are the benefits of outsourcing for J&J?

As a company we can focus resources on our core functions and competencies to grow our business, while shifting the risks associated with capital intensive activities like transportation and warehousing to third parties.

We also enjoy improved service levels as we are leveraging a competitive market where excellent and value-added services become key differentiators between suppliers.

We also get access to current market innovations and new technologies without having to invest our capital.
Lessons we’ve learnt

Two elements will help avoid a loss of management control and a service failure

I. **Starting well**: really understand what the problem is you are expecting outsourcing will solve, an undefined problem or scope will lead to a poor supplier fit

II. **Ending well**: Make sure the contract between yourself and the supplier has appropriate KPI’s and expected service levels that allow you to maintain management control

Over the long-term, outsourcing provides us with more control and better business outcomes through the increased business agility and adaptability it provides
Introduction to the Outsourcing Toolkit

www.ostkonline.com
The OSTK brings together broad expertise

This Outsourcing Toolkit was developed with funding from The Global Fund and USAID. A wide range of Global Public Health and Private Sector Stakeholders contributed. ARC facilitated the collaboration and commissioned production.
Introduction to the Outsourcing Toolkit

www.ostkonline.com
The toolkit is organised into four process steps and four enabler tools.

### Process Steps

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<tr>
<td>Assess</td>
<td>Evaluate</td>
<td>Contract</td>
<td>Implement</td>
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- **Process Step 1 (Assess)**: Supply chain assessment - outsourcing objective & potential
- **Process Step 2 (Evaluate)**: Choice made for outsourcing and potential vendors reviewed
- **Process Step 3 (Contract)**: Approaches for successful partnering with the vendor
- **Process Step 4 (Implement)**: Transferring work to the vendor; performance management set up

### Enabler Tools

<table>
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<th>Enabler Tool A</th>
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<tr>
<td>Policy</td>
<td>Advocacy and Governance</td>
<td>People</td>
<td>Technology</td>
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- **Enabler Tool A (Policy)**: Understanding Government Policy in Relation to Outsourcing
- **Enabler Tool B (Advocacy and Governance)**: Understanding Government Policy in Relation to Outsourcing
- **Enabler Tool C (People)**: Capacity Building and Change Management
- **Enabler Tool D (Technology)**: Capacity Building and Change Management
### The outsourcing questions being answered in respect to the four process steps

<table>
<thead>
<tr>
<th>Process Steps</th>
<th>Steps/Enablers</th>
<th>Guidelines, Tools, Processes and Practices</th>
<th>Key Questions Being Answered</th>
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<tbody>
<tr>
<td>1. Assess</td>
<td>Supply Chain Assessment Processes</td>
<td>Why outsource and what benefits are to be derived? What current performance levels exist?</td>
<td>What assessment tools exist to support identification of opportunities and decision-making for outsourcing?</td>
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<td></td>
<td>Geo-Mapping Tools</td>
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<tr>
<td>2. Evaluate</td>
<td>Decision-Making Framework</td>
<td>What is the Investment Case as to whether to outsource (or not)? Core versus non-core functions?</td>
<td>If a decision is made to outsource, how can 3rd parties be benchmarked and reviewed?</td>
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<tr>
<td></td>
<td>The Investment Case</td>
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<td></td>
<td>Vendor Capability Review</td>
<td></td>
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<tr>
<td>3. Contract</td>
<td>RFP Development</td>
<td>What are the critical process steps required for contracting the right vendor?</td>
<td>What are the in-country lessons learnt for developing win-win contracts with outsourcing partners?</td>
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<td></td>
<td>Contracting Effectiveness</td>
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<tr>
<td>4. Implement</td>
<td>Transition Planning</td>
<td>What tools can assist to effectively manage the transition to outsourced partners?</td>
<td>What procedures exist to accurately and successfully monitor the performance of 3rd parties?</td>
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<tr>
<td></td>
<td>Governance Processes</td>
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<td>Performance Management</td>
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The outsourcing questions being answered in respect to the four enabler tools

<table>
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<th>Key Questions Being Answered</th>
</tr>
</thead>
</table>
| A. Policy                             | • Policy Alignment Principles  
• Country Examples                                                                                      | • What policies exist that positively (or negatively) impact outsourcing?  
• Practices where outsourced initiatives have enhanced supply chain performance and created collaborative relationships |
| B. Advocacy and Governance            | • Guidelines for Advocacy  
• Communication Platforms                                                                                   | • How is outsourcing viewed within government?  
• What engagement processes can enhance public-private communications and trust?                           |
| C. People                             | • Capacity Building Tools  
• Change Management Tools                                                                               | • How to transition the current workforce and manage the impact of change? What reforms are needed?  
• What skills are needed to be developed internally to manage 3rd parties?                                |
| D. Technology                         | • Logistics Management Information Systems  
• Route Optimisation Tools                                                                                 | • How to make use of systems and technologies for effective outsourcing arrangements?  
• What systems and technology can be outsourced to improve reporting, visibility and strengthen supply chains? |
www.OSTKonline.com includes download links and a video to help you get started.
How the OTRC Gain Experience:

CASE STUDY
Mozambique

2015
With the lead of CMAM/DPS
Tete started Outsourced Transport in Tete Province working directly with 3PLs and integrating medicines with vaccines for the 1st time
Introduction of outsourced transport in DPS supply chains

2018
Start Outsourced Transport to Zambezia. Total provincial coverage by August 2019.
Introduction of 4PL model (October 2018)

2020
Scale up to more 2 provinces Inhambane and Nampula, making a total of 4 provinces.
Introduction of second 4PL (March 2019)

2021
Scale up to more 6 provinces (covering 90% of the country).
Commodity integration in all provinces (April 2021)

2021
OT in all provinces with over 1540 HF being served with medicines, vaccines and chirurgical material regularly every month
Transition to CHEGAR (Sept. 2021)
Outsourced Transport Resource Center (OTRC)
overview

✓ OTRC is funded by a BMGF grant and is staffed with 2-3 VillageReach employees
✓ OTRC will partner with other organizations targeting the development of health private sector transport in Sub-Saharan Africa that can contribute to stronger public health supply chains
✓ OTRC will be a catalyst, increasing the outsourcing skills of TA partners and Governments, to ensure access to high quality TA for outsourcing
✓ OTRC will provide free support in the form of tools, coaching and training to enable the successful implementation of outsourcing.
✓ OTRC support will also be provided for assessment and evaluation activities that enable the government decision to adopt outsourcing.

✗ OTRC will not replace or do work targeted by existing in-country government TA partners
For more information on the OTRC approach, please contact:

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**Article**  
Positioning Private Sector Engagement For Success Through a Multi-Supplier Strategy

**Video**  
Mozambique Transport Outsourcing work

To obtain a copy of the Outsourced Transport Resource Center Service Menu and Support Model, please contact either Alvaro or Esselina.
Offering #1: Acknowledging that there is (un-surprising?) resistance to out-sourcing

- A move to out-sourcing may be met with reluctance from the public sector partners who fear of losing their business, technical expertise and know-how to an outside organization.
- To ensure a positive outcome of advocacy for outsourcing, it is essential to ensure that decision-makers are aware of, in agreement with, and willing to move forward with out-sourcing solutions. Consistent and clear communication with decision-makers can help build trust and confidence in the outsourcing process.
Understanding the cost and performance of the current public-sector supply chain is essential.

- Warehousing and distribution pricing is likely to be based on a percentage of the value of goods and not on the basis of supply chain activities, e.g., receiving, put-away, storage, picking/packing, dispatching, resulting in either gain/loss that is not well understood.

- Supply chain systems may not routinely measure key performance indicators (KPIs) like throughput, warehouse turns, order fill rates, or on-time delivery, including by commodity type, that may impact overall performance.
Activity-based costing (ABC) highlights cost drivers

PHASES OF ABC IMPLEMENTATION

**Phase 1:** Define operational activities, collect initial data on warehousing direct labor and commodities

**Phase 2:** Create and implement the daily planner for warehousing

**Phase 3:** Develop a daily planner summary and direct labor report for warehousing, review results and take necessary action

**Phase 4:** Collect initial data on distribution costs

**Phase 5:** Calculate and allocate indirect costs, determine complete costs (direct + indirect)

**Phase 6:** Apply ABC findings: Consider whether outsourcing is an option, calculate costs by program or donor, determine a service fee

**Phase 7:** Create an executive dashboard, review results and take necessary action
Activity-based costing (ABC) daily planner

- Labor is the biggest cost driver in a warehouse, and “picking” the costliest activity (~70%)
- Use of a daily planner collects performance information
- A daily planner is a management tool

<table>
<thead>
<tr>
<th>Activity</th>
<th>Staff Members Assigned</th>
<th>Number of Staff Assigned</th>
<th>Number of Commodity Units Handled</th>
<th>Hours Worked</th>
<th>Throughput (Number of Units Handled Divided by 8 Hours Worked)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receiving</td>
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<td></td>
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<tr>
<td>Put-Away</td>
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<td></td>
<td></td>
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<tr>
<td>Picking</td>
<td></td>
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<tr>
<td>Packing</td>
<td></td>
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<tr>
<td>Loading for Dispatch</td>
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</table>
Example:
Use of ABC in Real Life

- USAID began to work with an Africa-based central medical store to store its donations.
- The CMS charges ~9% for its services, based on the value of the commodities.
- GHSC-PSM worked with the warehouse and financial team to capture the actual cost of business, as well as using a daily planner to manage personnel costs.
- Has even led the CMS to improve its financial system (P&L reporting) to better demonstrate its value and a new contracted rate of 7.3%, a 20% reduction, and ~$85k in annual savings to USAID using 2020/2021 data.

### Financial Results - quarterly costs as a % to value

<table>
<thead>
<tr>
<th>Program expenses</th>
<th>2020-2021</th>
<th>2021-2022</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>jul-sep</td>
<td>oct-dec</td>
</tr>
<tr>
<td></td>
<td>qtr 1</td>
<td>qtr 2</td>
</tr>
<tr>
<td>Total Expenses - 4 qtr avg</td>
<td>6.76%</td>
<td>6.44%</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>5.65%</td>
<td>7.30%</td>
</tr>
<tr>
<td>Warehouse</td>
<td>1.79</td>
<td>2.12</td>
</tr>
<tr>
<td>Administrative</td>
<td>1.45</td>
<td>2.19</td>
</tr>
<tr>
<td>IT</td>
<td>0.61</td>
<td>0.64</td>
</tr>
<tr>
<td>Building</td>
<td>0.61</td>
<td>0.53</td>
</tr>
<tr>
<td>Transportation</td>
<td>1.19</td>
<td>1.83</td>
</tr>
</tbody>
</table>
How to find the ABC guideline

Offering #2: Contracting (out-sourcing) transportation

- Contract types (fixed, cost-reimbursable, time and materials)
- Use of incentive fees
- Open and limited competitions
- Contract length—one-time or multiple deliveries
- Framework contracts
- Open book contracting
How to request proposals and evaluate bids

- Discussion of how vendors should bid
- Use of routes
- Discussion of “cost build-up”
- Inclusion of key performance indicators
Example:
Use of multi-award framework contracting by GHSC-PSM

- 2 private-sector vendors were pre-qualified through a bidding process for distribution of commodities in an African country.
- For each distribution, the vendors are given a distribution list with the quantities and locations and submit bids within 48 hours.
- Each distribution is awarded on the basis of best-value.
- Both vendors are “winning” distributions.
- Requires a collaborative relationship in which vendors are willing to share their cost build-up information.
- Saw greater than 30% reduction in cost when moving from one “winner” to more competitive pricing.
How to find the contracting transportation guideline


For support contact

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ARC outsourcing toolkit process steps reviewed through the:

- What is workforce development?
- Why developing the health supply chain workforce matters
- Workforce development for outsourcing
People that Deliver Roadmap: Strengthening outsourcing through HR

Two dimensions:
Maturity level and HR development area

HR maturity level


HR development areas

- **STAFFING**
  Positions filled critical to contracting

- **SKILLS**
  Skills in place needed to outsource

- **WORKING CONDITIONS**
  Social environment, tools and equipment in place

- **MOTIVATION**
  Staff is motivated to use contracting as a tool
Change management examples

Kotter's 8 step model for change management

- Create a sense of urgency
- Build a guiding coalition
- Form a strategic vision
- Enlist a volunteer army
- Enable action by removing barriers
- Generate short term wins
- Sustain acceleration
- Institute change

- Institute change by recruiting contracting manager
- Build guiding coalition within management team and board
- Remove barriers with an additional transformation budget
- Create urgency with all internal stakeholders
- Remove barriers by creating paths for redundant staff
- Define clear responsibilities for contracting and contract administration
- Show short term wins obtained via analysis
- Define clear responsibilities for contracting and contract administration
- Obtain support through broad communication and engagement
- Institute motivation for key staff to remain under change

Change management examples
Three case studies:
Mozambique, Cote d’Ivoire and Sudan

Potential well known gains of outsourcing are **cost savings, flexibility, efficiency and management ability**.

But factors must be in place before implementation:

- Local, technical **knowledge of analysis and strategic planning** must be in place.
- **A guiding coalition** must be built, internally and externally.
- In the short term **investments** need to be made in outsourcing. In the short term there are no savings: outsourcing costs in the short term.
- The most significant barrier is **potentially-obsolete personnel** given outsourcing is carried through both political barriers – management board and MOH and internal barriers from personnel.
- The barrier of potentially-obsolete personnel can be mitigated by investing in **moving people over long periods, training and the acceptance of personnel to find other work locations**.
Contact People That Deliver

For more information,
please contact People that Deliver:
info@peoplethatdeliver.org
BEST PRACTICES FOR SUCCESSFUL OUTSOURCING IN THE PUBLIC HEALTH SUPPLY CHAIN

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