

A Cost Management Approach:

Sustainable Outsourced Transport Solutions



Introduction

High-performing public health supply chains are the backbone of any health system.¹ However, improving supply chain performance in low- and middle-income countries (LMICs) is challenging, with resource constraints that hinder the ability to get products to people consistently. Finding public health supply chain cost efficiencies is critical to ensuring the accessibility, affordability, and availability of life-saving medicines and vaccines. Transport costs are one area of the supply chain that can directly impact medicine affordability and availability. Getting essential health products to communities typically increases the price by 12 to 25 percent, or sometimes more in post-conflict or resource-constrained countries.² VillageReach has successfully partnered with governments to implement transport solutions and use a cost management approach to ensure health product availability is sustainable. This technical note highlights lessons learned from implementing a cost management approach for outsourced transport solutions.

Transport Cost Management

Applying a cost management approach to a transportation solution means continuously analyzing the solution for opportunities for cost efficiency. This analysis looks at both the cost elements (such as administrative costs, information technology costs, driver salaries, fuel costs and vehicle maintenance) as well as the cost drivers (such as hours per route, vehicle fill rate and loading wait time). On-going cost management is essential as a new transport solution often achieves initial cost efficiencies. However, operational and planning factors, amplified by external factors (such as natural disasters, economic changes or conflicts), can increase transport costs over time. This can undermine initial solution cost efficiencies and threaten solution sustainability. The true value of a cost management approach comes when stakeholders go beyond tracking performance to cost targets and focus on achieving greater cost efficiencies.

OUTSOURCED TRANSPORT SOLUTIONS

Governments considering outsourcing the transportation of health products to private companies must consider a cost management approach. A successful outsourced transportation strategy depends heavily on a collaborative mindset among stakeholders. This mindset should not only be applied to achieving the agreed upon service, quality, and cost targets during the contracting phase but also to [improve cost efficiencies](#) throughout the life of the solution continuously. This requires a regular review of government and private sector workplan activities and a willingness from both sectors to adapt activities and cost targets. This willingness takes time and requires building trusted relationships

¹ Prashant Yadav (2015) Health Product Supply Chains in Developing Countries: Diagnosis of the Root Causes of Underperformance and an Agenda for Reform, Health Systems & Reform, 1:2, 142-154, DOI: 10.4161/23288604.2014.968005

² Policy Brief: Measuring Supply Chain Costs: Collecting Essential Information for Public Health Decision making, May 2012 (usaid.gov)

between government and multiple private sector transport firms.³ Implementing a cost management approach creates better public-private partnerships through increasing: *transparency, accountability* and *efficiency*.

Transparency

Transport cost management fosters transparency because governments and private transporters must share information on costs by activity, location and time period. As a result of this approach, actual costs can be compared more accurately and data quality is improved, enabling budget managers to make better decisions about the frequency, speed, priorities, volumes and best transport routes to eliminate waste and cut costs. This increased transparency also allows government and private transporters to prioritize and implement cost-improvement plans easily.

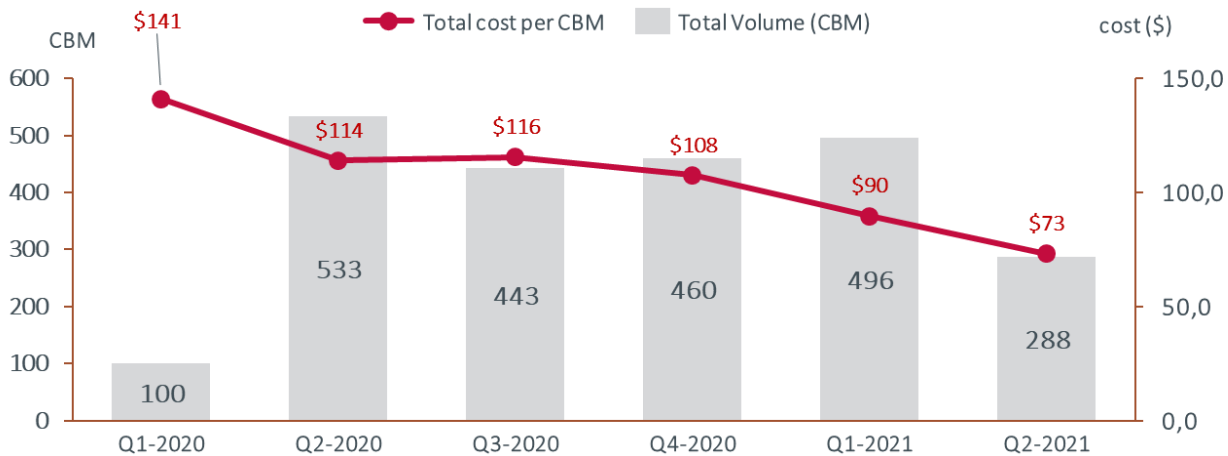
Accountability

Transport cost management strengthens accountability by ensuring that the government and the private sector adjust the cost drivers under their control. While external factors such as weather conditions and economic changes (i.e., fuel price shifts, exchange rate fluctuation) can affect transport costs, specific practices of governments and private sector firms also affect costs significantly. For example, the government schedules the warehouse picking and packing of health products, affecting how long a private sector vehicle waits to make deliveries. Understanding why costs increase or decrease and which stakeholder actions influence those fluctuations makes everyone accountable for improving cost efficiencies.

Efficiency

Applying cost management allows governments and transporters to project future costs using key ratios such as cost per kilometer (km), cost per cubic meter (cbm), and cost per site and apply these ratios to different scenarios. Through periodic cost reviews, stakeholders can adapt cost targets to external environmental changes and explore opportunities to operate more efficiently. Using a single, reliable costing language and ratios, built as a result of this approach, reduces the risk of inadequate resource allocation among stakeholders. This can also reduce the administrative burden of preparing yearly transportation budgets for governments, as stakeholders are already engaged in regular reviews.

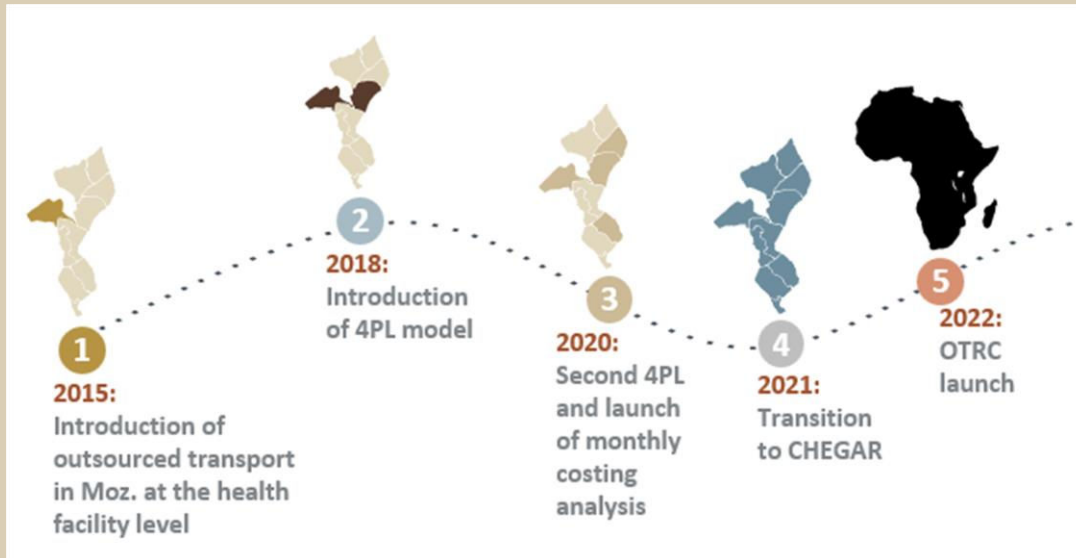
Figure 1: Total cost per cbm decrease over time (using 100 cbm as baseline in Q1- 2020) in a province in Mozambique after the implementation of the transport cost management approach



³ VillageReach recommends [a multi-supplier strategy](#) despite the added complexities of managing collaboration across various stakeholders.

COST MANAGEMENT APPROACH IN MOZAMBIQUE

Figure 2: Timeline for implementation of outsourced transport in Mozambique.



In Mozambique, VillageReach has been working with the government since 2015 to [integrate outsourced transport](#) into the public health supply chain. This work began in a single province and through building partnerships between government and private sector transporters. With funding from USAID, by 2021, outsourced transport scaled to all provinces in Mozambique, reaching over 1,540 health facilities regularly distributing integrated health produce deliveries every month.

One key success factor in scaling this solution was implementing a collaborative cost management approach. By capturing operational cost data each month for a monthly cost variance analysis, stakeholders could continuously examine cost variations. Additionally, a quarterly joint performance review was conducted to analyze overall performance to ensure processes were streamlined to drive on-going cost improvements.

Based on this experience, the [Outsourced Transport Resource Center](#) was launched in 2022 to support additional African countries in their outsourcing journey.

Lessons Learned: Five Key Practices Needed for Success

While significant cost improvements can be achieved through transport cost management, the success of this approach requires government and private sector partners to commit and be willing to adopt several key practices. The following practices are based on our lessons learned from implementing a cost management approach for an outsourced transport solution.

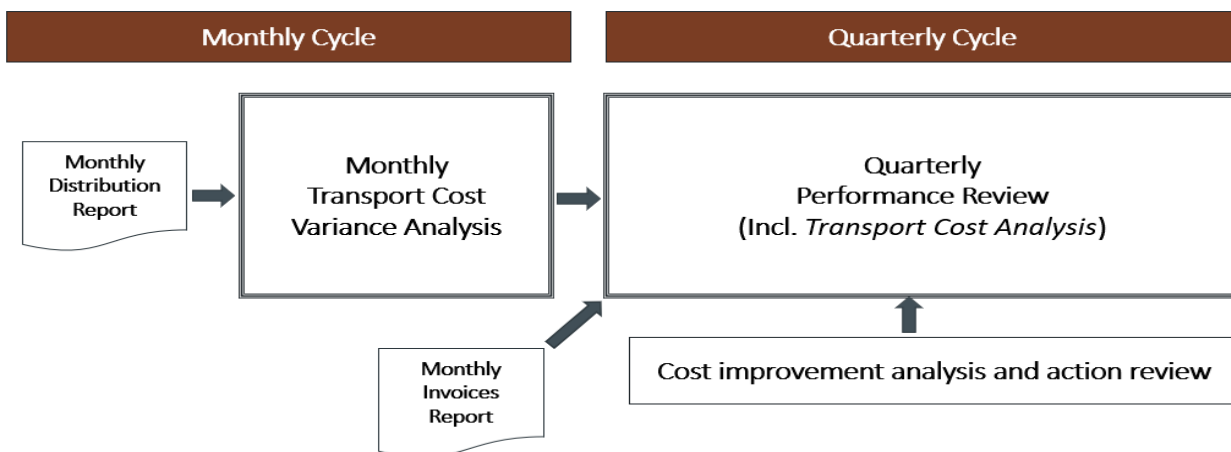
DEFINE YOUR COST MODEL PROCESS

An effective cost management approach begins with defining your cost model and identifying the cost drivers and elements. It is essential that all stakeholders have access to relevant and accurate cost data; therefore, a process must be specified for consolidating and managing that data. In addition to setting up cost databases and reporting tools, stakeholders should agree on rules for measuring performance and calculating costs.

ESTABLISH A CADENCE FOR TRANSPORT COST MANAGEMENT

Managing transport costs requires a regular cadence of meetings to evaluate costs, either monthly or quarterly (Figure 3). The monthly cadence will strengthen stakeholder collaboration and help them better understand which external factors and activities influence costs. After the collaboration has been established, stakeholders can move to a quarterly review cadence (with the option of more frequent check-ins when necessary). These reviews enable stakeholders to understand the root causes of cost variations, regardless of review cadence, to maintain cost efficiencies for a sustainable solution.

Figure 3: Transport Cost Management Review Cadence



ENSURE STAKEHOLDER COMMITMENT

There must be more than a transport cost management approach to create cost efficiencies. The approach requires a commitment by the senior leadership of various stakeholders (government and private sector) to review costs vs. targets, define cost improvement plans and follow up on plan execution. While there are several approaches to contracting with private sector firms, we recommend that cost management activities be clearly defined in any contract.

BE PROACTIVE AND FORWARD-LOOKING

Transport cost management is a forward-looking method that allows stakeholders to anticipate cost increases in volumes, delivery locations, accessibility and fuel prices. By anticipating factors affecting cost variations, stakeholders can mitigate increased costs by improving distribution planning or preparing for rainy season deliveries. This proactive approach can help governments make informed decisions on budgets and the allocation of resources to ensure continued health product delivery performance.

APPLY AN INTEGRATED PERSPECTIVE

Transport cost management requires an integrated perspective that considers the supply chain holistically. Transport cost improvement plans may succeed in the short term but will fail if they do not align with the objectives of other supply chain functions, such as procurement or warehousing.

Applying a cost management approach for outsourced transport solutions can be challenging, but it can benefit all stakeholders. By using this approach, governments can ensure that affordable quality health products are available at all points of health service delivery at a competitive price. For the private sector, this approach allows firms to continuously improve service costs without affecting profits. By using this approach collaboratively, public-private partnerships can be strengthened, and products can be delivered to people when and where they need them.

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