

Shipper Focus:
Medical Equipment

Air Cargo World

Air cargo operators are finding the difficult logistics of high-value, high-tech medical shipments can offer healthy return

Doctor's Orders

by Aaron Karp

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Freight forwarders and third-party logistics providers are increasingly selling comprehensive services, promising shippers that goods will be carefully handled and monitored every step of the way. But even in this era of full-scale, door-to-door coordination, one specialized and growing segment of the cargo business greatly tests the logistics skills of operators. The delivery of medical equipment to hospitals requires a level of planning and discretion not usually associated with shipping freight, but operators say there's a big payoff from moving such high-value cargo.

"It's entirely different than delivering a skid of consumer products," says Vince Gallagher, Menlo Worldwide vice president of sales, Americas. "It's not as if you're going into the back dock of a manufacturing warehouse. It really requires a lot of coordination and pre-planning."

For one thing, say logistics operators, the hospital environment simply cannot be disturbed. That means bulky, high-tech equipment must be delivered to and moved through a hospital without patients and a facility's busy staff really realizing it.

"There's a professional decorum that you have to maintain," says

Gallagher. "It's critical that you're not interrupting the atmosphere in the hospital."

Adds Thomas Berger, vice president of global business development, healthcare, for Kuehne & Nagel: "Hospitals are really sensitive about any irregularities or mistakes. You have to bring really big instruments into the hospital operating theater and find a way to bring them into the right room without causing any disturbance."

Timing is also key; the equipment often must be delivered at the same time a technician from the manufacturer is there to set it up. Complicating matters in a business that has grown accustomed to instant communication is that most hospitals don't allow cellular telephones to be operated in their buildings.

"When you're trying to pinpoint a field agent or sales representative at 10 a.m. in a hospital, and you can't use cell phones, that's where it gets challenging," says Charlie Zidek, assistant vice president of sales and marketing for SEKO Worldwide. "And there are security issues for letting people into hospitals. The hospital needs to be made aware that people are coming in. It involves a lot of coordination with the hospital and the manufacturing representative.

"We're banking on the representative to give us good information regarding the hospital, to let us know who we need to talk to. ... (Medical equipment manufacturers) are looking for value-added service; this is more than picking something up and moving it from A to B."

Although cargo operators move medical equipment that ranges in size from small parts to large machinery, bulky equipment such as X-ray machines provide the toughest challenge. "The very large units could require significant coordination between specialized delivery people and the installers of the equipment into hospitals," says Gallagher.

"It really has to be well-coordinated and you need to have an understanding of how the product will reach the facility. The hospital could require you to navigate up floors and down hallways, all without creating any commotion in the hospital setting."

Ultimately, however, the forwarders involved in the movement of medical equipment say the complicated delivery logistics are well worth it. They decline to cite precise figures or mention the names of manufacturers because of the sensitivity of the equipment being shipped, but all agree that it is a lucrative and expanding sector of the air cargo business.

"The value of these products is significant," says Gallagher. "Considering the value and the global aspect, medical equipment is a growth sector. (Medical equipment manufacturers) are always looking to develop next-generation equipment and a lot of new technology is starting to come to fruition."

Adds SEKO's Zidek: "It's one of the quickest growing areas of our company."

And then, of course, there's

China. Like all sectors of the cargo industry, the Chinese market is seen as having enormous growth potential for medical shipments.

"I really expect more of this type of product to begin to be delivered into China," says Gallagher.

"China is a growing market for healthcare," says Berger. "Hospitals there are behind the rest of the world. Many are still third-world caliber outside the big cities. ... There are 20,000 or so hospitals in China. It's a huge market that needs to be modernized."

Experts project that the annual growth rate of China's healthcare market will exceed 10 percent over the next several years. The Chinese government says it will spend \$240 million to purchase medical equipment this year, a big increase from the \$96 million spent by China on medical equipment in 2003.

Last month, Beijing hosted the China International Medical Equipment and Facilities Exposition, a vast exhibition in which China's Ministry of Health dispatched nine expert teams to evaluate the equipment of more than 400 businesses that came to the conference from around the world to demonstrate their medical equipment.

The Chinese Health Ministry has put out word that it is interested in buying top-line, high-tech equipment this year, including magnetic resonance imaging, computerized tomography and X-ray machines.

Another factor that may speed the modernization of the nation's

"This is more than picking something up and moving it from A to B."

hospitals and increase demand for high-value medical equipment is the emergence of private investment in Chinese hospitals. As in other areas of China's rapidly growing economy, Beijing appears ready to ease its grip on healthcare.

Private capital had previously been strictly prohibited from China's public hospital system as the government maintained firm control of medical facilities' operations. Ministry of Health director of science, education, culture and hygiene law Song Ruilin announced recently that the government will maintain at least a 51 percent stake in all public hospitals but will allow Chinese and non-Chinese private investors to take up to a 49 percent stake in state-run medical facilities.

He said the reform is intended to create more flexibility in the Chinese medical system and allow hospitals to upgrade equipment guided by market principles. Song cautioned that the government wasn't giving up control of hospitals, but was implementing the new policy as a way of "optimizing medical resources, as well as setting up a sound structure with hospitals at various levels to meet the different demands of the people."

For cargo operators, the new policy is yet another sign that China's

economy is opening up and gives manufacturers, forwarders and carriers involved in medical product shipping increased incentive to market the high value equipment to the world's most populous

nation.

The Chinese government is encouraging investment in its state run hospitals. "While the government is increasing investment to ensure basic medical services, we also encourage social organizations and individuals to join the medical service sector," China's Executive Vice Health Minister Gao Qiang said in a speech on the new policy at a recent national health conference.

"Investors from the social sector are allowed to make profit and obtain reasonable payoff."

Although there already are numerous private medical facilities in China, most of these are smaller clinics. The vast majority of large hospitals, which provide about 95 percent of the nation's treatment, are state run and had previously eschewed private investment, limiting their ability to invest in new technology. But medical equipment manufacturers believe that will change with the new policy.

Within the specialized business of moving medical equipment is an even more niche segment that some logistics providers say is growing and a potentially lucrative.

"The demonstration business is taking off," says SEKO's Zidek. Hospitals and medical clinics are increasingly interested in testing

Shipper Focus: Medical Equipment

equipment on-site before deciding whether to purchase it.

SEKO has developed logistics systems for these "demonstrations," bringing equipment to hospitals for brief stays, picking it up again, warehousing it and then delivering to a buyer or another facility interested in a demonstration.

"The unit may stay there at the hospital one day or three to five days," says Zidek. "We pick it up and inventory it and keep it in a warehouse. We've got a Web-based inventory so that we're able to manage units and bring the same unit to different hospitals for demonstrations. Our clients have good visibility as to where the products are in the supply chain."

Another component of the medical equipment business is re-selling used equipment.

Large hospitals in Europe and the United States are often in the market for the latest and most expensive equipment, but their old units are welcomed by hospitals in

poorer parts of the world, such as Latin America, Africa and rural Asia.

"Companies refurbish old medical systems in the Western world and ship them to places like China," says Berger.

In all instances, say operators, handling medical equipment is challenging. It must be put into stronger encasing than most other cargo shipments. Loading the bulky and high-tech equipment onto aircraft and trucks can be awkward, and finding space to carry it aboard planes can be difficult; the items often are as unwieldy as they are delicate. And then there are the hurdles associated with final delivery of machines into hospitals.

But logistics providers say medical equipment manufacturers are willing to pay handsomely for operators able to manage the handling and transport of the high value machines.

With technology advancing rapidly in the healthcare field and

more hospitals in various parts of the world in the market for such equipment, growth in the specialized sector is expected to continue.

"We're definitely not just the provider for one part of the (medical equipment) delivery process, but a full service provider that's expected to manage all aspects of transport from door-to-door," says Kuehne & Nagel's Berger. "Time is becoming more and more critical with these types of deliveries and regulations governing the equipment from country to country are becoming more complex. We really have to anticipate and plan ahead."

"But this field is growing. It's growing quite a bit and is not likely to slow down."

Adds Menlo's Gallagher: "It really runs the gambit from ultrasound machines to X-ray devices to MRI-type equipment and diagnostic devices. It's the high value and the special handling that really differentiates it from other types of cargo." ■

The logo for SEKO is displayed in a large, bold, italicized sans-serif font. The letters are black with a white outline. Below the text, there is a stylized grey swoosh that curves under the letters, suggesting motion or speed.