American LAUNDRY NEWS

Current Inflation and Laundry Operations (Part 2)

Laundry operators share strategies to relieve inflationary pressures

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CHICAGO — The effects of the pandemic continue to be felt across the globe, and one result of COVID-19 has been an increase in inflation.

Inflation in the laundry industry is most prominently felt in labor costs, both labor rates and labor availability, says David Potack, president of Unitex, a uniform and linen provider in Elmsford, New York.

"Elevated fuel and textile costs are leading the margin compression significantly though there is some belief that these two areas are cyclical to an extent while the labor rate issue is non-cyclical and viewed as resetting labor cost at a higher rate for the long foreseeable future," he says.

"Every aspect of the healthcare laundry operation has been impacted by the effects of the pandemic and the elevated costs that inflation brings," adds Timothy Lacek, senior director or support services and procurement for Hospital Central Services Cooperative Inc. (HCSC), a provider of healthcare linen services in Allentown, Pennsylvania.

"Double-digit cost increases have been the new norm, from our textiles and supplies to energy, equipment and labor."

Will the current high inflation rate continue? Why has it risen so much—and what can laundry operations do about it?

CURRENT INFLATION DURATION, LONG-TERM EFFECTS

In 2012, the Federal Reserve adopted a target of 2% inflation on average, but, William Luther, Ph.D., an assistant professor of economics at Florida Atlantic University, director of the American Institute for Economic Research's Sound Money Project and an adjunct scholar with the Cato Institute's Center for Monetary and Financial Alternatives, says that the Fed "redefined" this to "clarify" that it's an average inflation target.

"Inflation might be a bit below 2%, but then they're going to let inflation be a bit higher than 2% so that it averages out and vice versa. At least that was the statement in August of 2020," he says. "We currently have in place inflation that's above the feds 2% target, of course."

The Fed looks at the Personal Consumption Expenditures Price Index (PCEPI), and from November 2020 through November 2021, the PCEPI inflation was 5.6%.

"If you go back to the beginning of the pandemic, it's grown at around 3.4% percent per year since January 2020," he says. "So, on a two-year basis, and certainly on an annual basis, inflation is above the Fed's 2% target."

Luther shares that many people expected the Fed to take quick action because of its average inflation targeting rule to bring the inflation rate back down.

But on Dec. 15, the Fed released a summary of economic projections, and Luther says what the Federal Open Market Committee members have said is that inflation will be above target through 2024.

"So you can see that the Fed officials plan to bring inflation back down to 2%," he says. "They don't plan to do so very quickly, and it seems likely to me that inflation will remain elevated through 2024 but not to the same extent that it is now."

So what can a laundry operation do to help relieve inflationary pressures? Potack suggests operations automate their laundry facilities wherever possible when there is a demonstrated return on investment (ROI).

"Refocus efforts around cost management and stay true to fundamental measurements of all operational expenses to mitigate inflation as much as possible," he says.

"Evaluate current team members for performance and evaluate customers by whatever criteria a company may use."

Lacek points out that healthcare linen rental purchasing is a complex model, and it is very challenging to consistently achieve the proper balance between cost and quality.

"An annual request for proposal (RFP) sent to selected textile supply partners is an excellent means to attempt to control costs, as competition between our partners is always beneficial," he says.

"HCSC considers organizations that supply goods and services to the cooperative as vendor partners, and we dual-source all of our high-volume major patient linen items. As we continue to grow, this allows us to draw upon two sources for backup inventory, when required.

"As part of our RFP specifications, we require a 90-day minimum back-up inventory, which is important when trying to maintain consistency in supply. This backup inventory and dual-sourcing have allowed us to navigate the recent supply chain and shipping dilemmas relatively unscathed.

"It has been interesting and nerve-wracking at times, but we have been largely successful in receiving our normally spec'd products when needed."

Lacek says HCSC also uses RFPs to gauge the market.

“Price is obviously important, but quality and service have to account for something when evaluating the RFP responses and your current provider,” he says.

“Additionally, we test products extensively to 1) ensure we are receiving what we have requested and paid for, 2) check that the quality across the vendor-partners is consistent with our specifications, 3) raise questions if there are any variances in quality or quantity, and 4) ensure that a high level of quality is consistently maintained over time.”

Sometimes when things are out of an operation’s control, it must look harder internally for increases in efficiency to assist with offsetting rising costs, Lacek says.

“As an ongoing and integral part of the HCSC strategic plan, we created a series of internal subcommittees for the purpose of seeking to enhance productivity efficiencies, reducing energy and operating costs, improving linen utilization and reducing linen losses through the end users, and improving safety measures throughout the organization,” he shares.

“The intent is to have a mix of management staff working on common goals—important toward obtaining perspectives from various areas of expertise and for continuing to question the status quo.”

Lacek offers two other ideas to help laundry operations during this period of high inflation. First, always attempt to extend payment terms where possible, especially with longer-term vendor partners (perhaps some new vendors will be aggressive as well). Second, don’t be hesitant to ask the vendor partner for something.

“My point is that they can always say no, but then you created the start of a productive negotiation,” Lacek says.