

Pricing for profit in container shipping

High performance pricing to maximize revenue and return shipping companies to profit

ADVANCED ANALYTICS

QUINTIQ

Container shipping companies are becoming interested in the use of pricing as a profit lever. Traditional cost-plus pricing approaches, so deeply rooted in the industry, are ineffective in a volatile shipping market that's plagued by a lackluster world economy and severe capacity-demand imbalance.

The market continues to grow, but there is little capitalization on this growth by industry players. Freight rates remain stubbornly stagnant, as fleet capacity growth outstrips demand. Ineffective and inflexible pricing strategies render shipping companies unable to adjust their rates in response to market fluctuations or quickly introduce innovatively priced offers into their portfolio of services.

To cope, many shipping companies are aggressively cutting costs. Unfortunately, the financial gains obtained from cost-cutting are becoming smaller and smaller with every round of cuts. Once they hit the proverbial wall, they will realize that additional cuts will stop consistently benefiting their bottom lines.

Shipping companies need to shift their focus away from cost-cutting towards growth. Growth isn't a topic often broached, particularly in a time of market uncertainty, but it's where the opportunities lie.

There's an increasing urgency to focus on growing the business and generating revenues well in excess of incurred costs. To grow the business, companies need to rethink how they price their services. In an industry with complex pricing strategies and susceptibility to market forces beyond their control, pricing is one of the most powerful profit levers available, but only when it's done right.

Research shows that effective price management can increase margins by 2 to 7% in as little as 12 months, and yield a 200 to 350% return on investment.[1]

Despite the rewards that effective pricing promises, many shipping companies have yet to fully explore its hidden opportunities. There are several reasons for this: They have little visibility into their operations and little insight into the profitability of their channels, assets and customers. Their continued reliance on gut instincts and traditional approaches simply result in more of the same — missed opportunities, unnecessary risks and falling margins.

It's time to rethink pricing processes and technologies to maximize revenue, increase margins and return your company back to profit. In this paper, we look at:

- Why effective pricing is important now more than ever
- The role technology plays and the benefits it brings
- What to look for in a price optimization solution



Why now?

Your pricing consultant is on the phone with a customer. After listing his shipment requirements, the customer requests for a quotation. The consultant's ability to answer this — promptly and optimally — has a direct impact on the overall profitability of your company. The answer given by the consultant is based on static list price, knowledge of what happened in the same period last year, and the judgement call on what the consultant thinks the customer should pay.

This pricing consultant is just one of many in your company. The financial impact of decisions made every day without sufficient data is considerable. The risks of missing opportunities to increase net margin contribution are further compounded by the following factors:

Complexity of rate formulas
Rate structures in shipping are among the most complex. They involve currency fluctuations, customer segmentations, criteria of large tenders, volume incentive programs and numerous other aspects that make it humanly impossible to manage. Costly pricing errors and inconsistencies are commonplace when quotations are made with little data, outdated systems and spreadsheets. To make truly optimal pricing decisions, there's a need to look beyond the profitability of a single transaction and understand its impact on your company's business KPIs.

Complexity of individual contracts
Every customer's requirements are different; so are the specifics of their contract and the size of their contribution to your bottom line. While one consultant's decision to sweeten a deal or give a discount to the customer may not be felt immediately, the collective impact on revenue is large. Visibility of these contracts enables you to manage long-term profitability from each customer — to maximize revenue from high-contributing segments and better leverage low-contributing segments.

The shift from cost to value
Customers appreciate the *value* you provide, customized to their specific shipping needs. This is quickly becoming a competitive differentiator. A traditional cost-plus approach may mean fuss-free transactions, but it doesn't maximize revenue. It allows no room for flexibility or innovation in pricing methods and service offerings. By exploring where you can offer added value and charging accordingly for it, you can maximize revenue without increasing cost.

Poor visibility of ship utilization
The shipping industry's capacity glut is predicted to intensify in the coming years. Added to that is the challenge of managing customers who make a booking but don't show up, leaving you with underutilized ships and wasted opportunities. Poor visibility of a ship's utilization at the point of transaction and inability to predict its utilization at the time it leaves the port mean that consultants are unable to make pricing decisions that maximize the profitability of each vessel.

Inability to respond to market forces
From plummeting fuel prices to seasonality challenges to port congestion, most market movements are beyond your control. Inability to respond quickly and optimally — whether to capitalize on an opportunity or minimize the effects of a disruption — results in under- or over-pricing. This can mean the difference between profit and loss.

Resistance to technology
Many shipping companies struggle with technology limitations — some still plan with spreadsheets while others are hindered by systems that are neither dynamic nor flexible enough to cope with variables in contracts, capacity and networks. Proactive strategies and technologies are essential in maintaining an edge over the competition.



How effective pricing raises profitability — fast

The key enabler of an effective pricing initiative is a price optimization solution that is dynamic, flexible and fully integrated. It gives you end-to-end visibility and therefore, full control over your operations. It uses data and analytics to predict customer behavior and, taking into account all rules, constraints and market factors that affect your business, it prescribes optimal prices benchmarked against business KPIs. In a demand-driven industry such as shipping, a price optimization solution enables you to stop reacting to demand and to start influencing it. Other benefits include:

Significant financial impact
The financial benefits that come with a price optimization solution can be significant. A solution that can be rolled out quickly enables you to realize these benefits fast.

More productive use of time
A price optimization solution reduces manual effort, along with all the pricing anomalies and costly errors that come with it. Your consultants can now focus on other value-added activities such as reviewing pricing strategies, managing pricing campaigns and evaluating tender bidding processes.

Increased consistency and accuracy
Because it's supported by historical data, the consistency and accuracy of a price optimization solution is assured. By ensuring pricing integrity, you avoid arbitrary decisions that erode your customers' trust in you and safeguard their faith in your brand.

Faster, more confident decisions
Your consultants can create what-if scenarios to see the consequences of their decisions before making them, and measure the impact of their decisions on the company's overall profitability. This increases the speed and confidence of their decision-making.

Ability to predict and prescribe
Ship utilization greatly influences pricing — the higher the utilization, the higher the price. A price optimization solution not only gives consultants real-time visibility of a ship's utilization as its capacity is consumed, but also predicts and prescribes the prices they can quote to customers. The analytical solution considers last-minute changes (e.g. cancellations) to predict how full the ship will be and how the remaining slots can be priced. These predictions help your consultants to consistently quote prices that maximize profitability of each voyage.

You're convinced. Now what?

A commitment to pricing improvement is easy to make, but challenging to execute. Business change, particularly one that involves technology, is rarely successful with a 'big bang' approach. Instead, a prudent plan that gets you from where you are to where you want to be, at a comfortable yet consistent pace, is more likely to be successful.

The best way to begin is to first enlist an experienced analytics team to evaluate where your company presently stands. The team can then map out the stages of price optimization that are unique to your company's objectives. The plan should allow you and your team to build understanding and competency over time, while realizing incremental business benefits at every stage.



Analytics and optimization on a single platform

Quintiq is the only platform on the market that combines analytics with world-class optimization. The platform has multiple business applications in a wide range of industries. When applied to pricing in container shipping, it assures your company's profitability and puts you in a strong position to compete in the future. Here's how:

Analytics
Quintiq analyzes your company's historical pricing data and takes into account current market fluctuations, ship utilization, customer demand and your business KPIs to predict a range of market-aligned, deal-specific prices that move you closer to your company's revenue goals.

Optimization
The full extent of the advantage Quintiq brings goes beyond predictive analytics. Incorporating world-class optimization technology, Quintiq can bring your company to the next level of analytics. Having broken hundreds of records in the world's most studied combinatorial optimization problems, Quintiq proves that it can offer analytics at the highest, most advanced level for true long-term revenue maximization.

Visibility
The Quintiq solution gives your consultants visibility of all price-influencing factors — ship utilization, origin and destination of cargo, type of cargo, handling requirements, commodity trends — to aid their decision-making.

Real time
The more volatile the industry, the more critical agility and flexibility become. Quintiq helps you to swiftly respond to market fluctuations, rapidly adjust prices in response to competitor pricing, and capitalize on opportunities to increase the profitability of each transaction.

KPI-based
Quintiq benchmarks pricing decisions against business KPIs. Consultants will be able to see not only the profitability of a single transaction, but also the aggregate effects of transactions on overall profitability.

100%-fit
Quintiq is configured to a 100%-fit to your company's unique requirements, rules and constraints. Updates can be configured into the solution as your business grows, thus keeping it accurate at all times.

Integration
Quintiq can be seamlessly integrated into your company's existing IT framework — whether it's with other Quintiq solutions already in place or with systems from other vendors.

Clear user interface
The Quintiq user interface is easy to use and fully customizable. Users have instant access to the data they need to make the best pricing decisions. Real-time KPI dashboards keep users aligned with company goals at all times.



Case study

Container shipping company uses analytics to predict more accurate prices for higher profitability

A leading container shipping company sought a much more flexible, dynamic and accurate pricing system to guide its consultants in quoting prices that would maximize profit, margins and contribution of their products and services portfolio.

Equipped with the company's historical pricing data, the Quintiq team got to work. Within a week, a proof-of-concept was produced to demonstrate price prediction capabilities of a single planning platform. Inclusion of a dynamic component that took current demand into account proved to be one of the immediate benefits that allowed the customer to see the value of the solution. The proof-of-concept showcased scalability, flexibility and the ability to integrate with other Quintiq solutions that were already used by the customer.

The implementation plan, based on the proven Quintiq Project Lifecycle methodology, allowed the solution to go live in just three months.

Today, the benefits of the solution are apparent. For every transaction, Quintiq takes into account nearly 100 shipment attributes to predict three baseline prices the consultants can quote customers, all in a matter of seconds. The accuracy of these prices, when compared against historical data, is high. Using these price predictions as a guide, the consultants then apply their soft knowledge to make a final decision.

Quintiq enables the consultants to offer higher levels of service and better manage customer relationships.

Armed with full visibility of demand and ship utilization, consultants can now make recommendations that increase the value their customers receive, while maximizing revenue and margins for the company. For example, they could recommend to a customer to move his shipment from a fully-utilized ship to a less-utilized one to enjoy cost savings while meeting the delivery schedule.

By adopting innovative pricing approaches today, the company is well-positioned not only to weather current circumstances but to fully seize opportunities in the challenging container shipping market.

Quintiq is a supply chain planning and optimization software company with headquarters in the Netherlands and the USA, and offices around the world. Approximately 12,000 users in over 80 countries rely on Quintiq software to plan and optimize workforce, logistics and production. For more information, visit www.quintiq.com.

(1) Larry Montan, Terry Kuester, and Julie Meehan; Getting pricing right (Deloitte University Press, 2008)



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