

White Paper



Achieving Price Leadership

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Abstract

Pricing is a key differentiator for an enterprise to establish and maintain its market and competitive advantage. In the logistics industry, pricing becomes an increasingly complex phenomenon given the need to maintain service standards and customer satisfaction coupled with the volatile nature of costs that drive down margins. Additionally, the workforce is often limited by data in spreadsheets and mining tools when determining a competitive price strategy.

This paper examines the challenges related to pricing in the logistics industry and goes on to explore a pricing system that is well integrated with the enterprise solution, responsive, and, most importantly, facilitates the organization's journey toward an optimum price point, profitability, and customer satisfaction.

The Challenges and Complexities of Logistics Pricing

The complex competitive landscape of the logistics industry has constantly challenged service providers to reinvent their proposition. The industry has taken advantage of liberalization and privatization by cutting across international borders and making more destinations accessible than ever before. With global operations, the industry is now exposed to multiple decentralized networks, operations, contracts, regulations, and compliance making pricing strategy more complex than ever before.

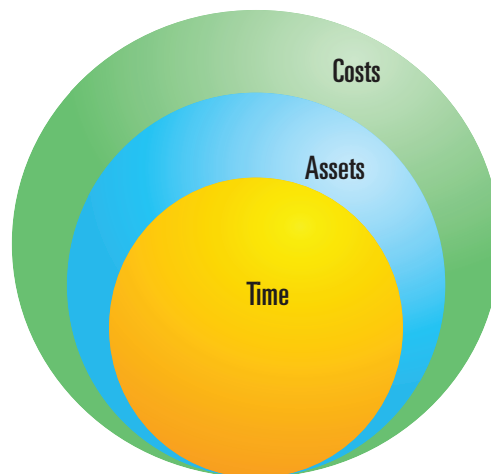
Pricing is a key lever that drives profitability and market share in the logistics space. However, several challenges stand out when it comes to achieving the ideal price point:

- Rising operating costs impacted by fuel, warehouse costs, port fees, and asset costs.
- Delays in delivering pricing based on need, commodity, and consumer demand.
- Increased costs due to network congestion as a result of inadequate infrastructure.
- Revenue or cost risks due to the forces of nature.
- Stringent government regulations to maintain safety, manage infrastructure, and conserve the environment.
- Inadequate intelligence to develop what-if scenarios.
- Complex pricing contracts cut into profits heavily and sometimes impact negatively due to communication failure or a lack of centralized pricing governance structure.
- Disputes that arise due to ambiguity in contracts and agreements with customers and partners.
- Ageing systems that have become more complex with insufficient data captured over a period of time.

The need to price competitively and profitably has become an important differentiator to achieve and maintain price leadership in the industry.

The 3 Levers of Pricing Strategy

The pricing strategy needs to factor all the costs and should have the ability to predict the costs based on the demand, traffic, asset availability, fuel costs, and other operational costs. The strategy for any logistics service provider (LSP) should be strengthened along the three levers of Cost, Assets, and Time.



- **Costs:** Ability to consider all costs including the cost of risk management.
- **Assets:** Predictability and availability of assets.
- **Time:** Speed at which the price can be delivered to the customer.

Each of these levers plays a significant role that impacts an organization's endeavor towards profitability and customer satisfaction. The ability to analyze a price point along these dimensions plays a key role in delivering a customer-centric price point with a healthy margin.

The Need for a Robust Pricing System

There is a pressing need to avoid common pricing mistakes that can impact the profitability of a transaction. Tighter controls over discounts and price increases need to be implemented to avoid expensive errors.

In the logistics industry, a system that has the flexibility to deliver competitive pricing in a shorter time with effective governance to maintain profitability and provide the best customer value at all times is a tremendous asset. However, the pricing system needs to work in conjunction with enterprise planning tools to derive maximum benefit. In this pursuit, pricing becomes a complex system that has interactions with the contract management system, cost system, budgeting system, business intelligence system, customer relationship system, and demand forecasting system. The information from each system is critical to determine an exclusive suitable pricing for a customer.

Limitations of Point-Solutions in Pricing Systems

Pricing systems are often custom-built with limited functionality that addressed certain challenges at the time of implementation, but not all. There is a common trend of challenges that the current ageing systems pose:

- Accurate costing to arrive at a price point that delivers value to all stakeholders.
- Data integrity across systems.
- Flexibility to deliver complex pricing options for higher customer value with sensitivity to the market place.
- Ability to automate pricing analysis to avoid common pricing errors.
- Volatile pricing capability to enhance asset utilization.
- Scalability for growing and volatile market demands.
- The time taken to get the pricing to the market or concept to market time.
- Governance to deliver pricing from decentralized operations.

As the market evolves, it is more important for logistics operators to integrate systems to address the key challenges. This is crucial to develop a robust pricing model.

Limitations of out-of-the-box Pricing Systems

Out-of-the-box pricing solutions provided by enterprise solutions give very little room to cater to the complexity of a logistics pricing solution. The pricing strategy for a logistics offering needs to take variables, such as customer loyalty, transaction volume, peak volume services, blanket services, and various types of complex contracts, into consideration.

Existing systems often need a lot of customization to cater to the growing complexities in logistics pricing. The analytical approach needs to be extended from business intelligence systems where the what-if scenario analysis is frequently disconnected.

To stay competitive, the marketplace is becoming more collaborative to cater to growing customer demands and challenges. This also gives LSPs the opportunity to arrive at a collaborative pricing or combination pricing, which in turn helps the LSP to meet customer needs in cases where there is inadequate network coverage for shipments. Interoperability in pricing to deliver an instant best price point for an end-to-end service becomes a key differentiator to retain customers in the complex logistics landscape.

The Right Price with the Right Pricing System

At Infosys, we believe that an organization's pricing system must enhance its competitive advantage. The typical challenges of the long turnaround time for a "time to market" price for a LSP can be drastically reduced by empowering the sales force with decision tools based on pre-configured rules defined by governance and accurate data.

A robust and effective pricing system should have the features shown below:



For example, in a rule-based pricing system, the pricing governance council can set the predefined rules and boundaries on which the organization's pricing experts operate. This gives them the flexibility to make instant decisions and also the facility to invoke a workflow for exceptions that demand approval from higher authorities.

A superior pricing system will help address the challenges that are related to:

- Leakage risks due to incorrect discounts offered to customers.
- Increased time to get a price contract approved and communicated to the customers.
- Predictability to forecast nature impacts, congestion, and control price fluctuations in fuel.
- Increased costs that adversely impact profitability.

When a tightly integrated pricing management system interfaces with diverse arms of an enterprise package, the result is a profitable price point.

Conclusion

The current technology landscape provides enormous capability to deliver a flexible yet robust system with on-demand analytical tools, customizable rules, and workflows that seamlessly integrate with ERP modules and custom systems.

In the dynamic market landscape and ever changing world of demand, pricing remains an important challenge that needs to be addressed to maximize revenue and increase profitability. With a robust pricing engine and an effective governance model deployed as a system, it will enable the price management teams to work cohesively with the sales forces to deliver a competitive price point and value across multiple dimensions:

- Increase customer satisfaction
- Address market demands
- Maximize revenues
- Decrease disputes
- Reduce time to market
- Increase profitability

About the author

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