

DHL - Customer Profitability in Action

DHL is the originator of the air express industry and today has the enviable position of global world leader in its sector. As a pioneer in its creation of business so it extended this spirit to its business processes, forging the way ahead in the use of ABC methodologies. Today DHL is driving customer profitability through a sophisticated ABM programme as they remain determined to maintain their market leading position.

Forces of Change

DHL was formed in 1969 based on the ground-breaking idea of sending out documentation ahead of cargo arrival, thereby speeding up the process of importing goods. The first route was San Francisco to Honolulu but less than twenty years later the company had created a network stretching from China across America and throughout Europe with over 50,000 employees and an annual turnover in excess of €2.5 billion.

In the 1990s times began to change as the intensity of the once weak competition began to increase and, although growth rates for the industry were consistently in double figures, DHL found its own margins were falling.

Major competitors already commanding large shares of the US domestic market were attracted to higher margins in the international sector, and looked to expand into Asia and Europe. At the same time the removal of

border controls and increase in free movement of goods across Europe meant that transportation became easier, and gave rise to a number of niche competitors who could move shipments quickly by road between major economic centres.

In the Beginning....

In their true pioneering style DHL had been one of the first companies to implement an Activity Based Costing approach on a global basis, initially adopting the methodology in 1988 and deploying it throughout the organisation on Lotus spreadsheets. This provided primarily product profitability but had given some limited information on customer profitability. The system delivered initial benefits to DHL supporting changes to pricing policies and structures.

However, over time, it had been recognised that this initial methodology suffered from a number of issues.

"The overhead allocation in that early model became inappropriate", says Mark James, Head of Global Yield Management. "The methodology had been designed for a document business. It wasn't suitable for packages but times had moved on and both the business and the organisation itself had developed whilst the ABC model had remained static".

The existing model was penalising certain industries and products leading to mis-leading profitability information.

At the same time the ABC team found that the initial benefits of costs visibility began to reduce as there was no linkage between the costing system and management performance measures.

"To compound the other difficulties, there was no reconciliation to financial results and we began to realise that it was inevitable that the model would fall into disrepute as a result of these issues", continues Mark James.



Photograph: Mark James, Head of Global Yield Management

The Costing Challenge

The model did undergo some development between 1994 and 1997. It was deployed throughout Europe and continued to be used for customer profitability and cost management purposes but it was too complicated and difficult to maintain. The lack of reconciliation to financial results continued to be a major concern. "We knew that we still needed an ABC methodology", says Mark

James, "But the one we had wasn't addressing the issues that the business was facing".

The challenge rested in creating a model which would reflect a business which had to deal with 5 million shipments of varying sizes from shippers to and from 200 countries, on a daily basis.

Reviewing Existing Costing Methodology

It became apparent that the way forward would be to do a thorough review of the existing costing methodology. The work in Europe identified that different customer and industry profiles and specific customer behaviours had a material impact on costs. The problem was that not all of these drivers could be captured on a regular consistent basis. The revised methodology focused on those drivers that could be measured. As the drivers were more easily recognised throughout the business it was easier to integrate these drivers (and associated costs) into the performance measurement process.

This laid the foundation for DHL to move forward again with a number of yield improvement initiatives, as the costs became "real" to management.

Strategic customer review process

One of these initiatives was a review of DHL's largest global

accounts.

"We instinctively knew that customer profile and behaviour have a major impact on costs", explains Mark James. "We just hadn't examined how?"

DHL launched a three-month project, which highlighted the main problematic areas at customer interfaces.

This work enabled them to carry out a detailed analysis of profitability and begin to identify the levers for improvement.

"We held workshops to develop the options for improving profitability and from there progressed to defining actual customer profitability targets", says Mark James. In fact, as a result of the review DHL were able to define a customer negotiation strategy and implement appropriate performance indicators for customer profitability. Six months later a standardised costing model was deployed globally throughout the organisation.

FACTS What Lessons Did DHL Learn?

- For DHL it was important to maintain a link between the costing system and published financial results to increase the system's credibility
- Remember that hard data may compensate if soft measures are not practical
- Keep the ABC model as simple as possible, detail does not always equal accuracy
- Stay focused on the original objectives of the ABC project, even if early productive results suggest further opportunities for other projects

FACTS DHL

DHL is the global market leader in the international express and logistics industry, specialising in providing innovative and customised solutions from a single source. Its International network links 220 countries. Core business is the transportation and delivery of documents and packages but e-commerce fulfilment and Intelligent Logistics now also form part of DHL's offering to customers large and small.

Employees: Over 160,000
Turn over: €22 billion (2003)

Achieving Benefits

DHL has made the results of the customer profitability programme one of the cornerstones of their business. Not only have they created an efficient and reliable costing system based around a standardised cost model, which is deployed globally and used to measure the profitability of their normal customers, but they have also realised a set of tools, which can support the pricing of large, global tenders.

Profit realisations have been achieved through the "Deep Dive" programme in which problematic customers can be identified easily and reviewed in greater depth, and arguably most important of all, DHL now have a basis for beneficial dialogue with their entire customer base.

"ABC methodology has been a part of the DHL business culture for over fifteen years but it has now become one of the key foundations of our continued market leadership"

Bellis-Jones
Hill Group

Headquarters Bellis-Jones Hill & Prodacapo, Kenilworth House, 79-80 Margaret Street, London W1W 8TA
Web www.bellisjoneshill.com **Telephone** +44 (0)20 7323 5033
E-mail info@bellisjoneshill.com