

DHL - Realising the Benefits of Margin Management and Improved Pricing with ABC

The pioneering spirit which took DHL from its beginnings as the originator of the air express industry to its current industry position of global world leader, proved to be the basis of an ambitious Activity Based Cost Management project that enabled the company to gain a greater understanding of its margins and re-structure its pricing policies.

The Drivers 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. The company went from strength to strength and business was strong.

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

Identifying the Critical Pricing Issues

In fact the company realised that it did not have the visibility of margins it required in order to

maintain profitability in this new, increasingly competitive market place.

An internal review revealed different pricing practices being implemented in different countries, which had led to not only to different price levels between countries but also a lack of consistency of customer pricing within countries.

The introduction of the Euro and the dominance of the Internet as a business tool both served to increase pressure on pricing even more as the company became exposed to ever more public visibility on its pricing structures. The changing economic status as the world moved closer to a globalised marketplace only served to increase the pressure even further.

Breaking with Tradition

DHL recognised that this reduction in margins was being caused by fundamental changes in the company's product, destination and customer mix. In an effort to combat this reduction and tackle the increased competitive pressures they decided to revisit an ABC project initialised in 1988.

The objective was to try and gain a better understanding of the margins within the different sectors of the business in order to then implement a more competitive pricing structure.

The company realised that there would have to be a break with the traditional way of considering pricing structures if they were to maintain their dominance in the logistics sector.



Photograph: Mark James, Head of Global Yield Management

Introduction of a 5-Step Approach

"We adopted a 5-step approach that would ultimately lead us to a position where we could manage our pricing policies using a bedrock of information based on ABC data", says Mark James, Head of Global Yield Management. "The first two steps involved implementing a robust costing system and from there ascertaining profitability throughout the business".

In fact, once this had been

on an on-going basis. Information achieved DHL were able to carry out a review of published pricing. This review allowed management to emphasise the link between pricing and strategy, competitive pressures, service delivery, growth and existing business targets. It would also go on to prove to be the foundation for new pricing structures and an on-going programme for pricing management globally.

Resourcing External Expertise

The nature of the project was so vital that DHL decided to source external expertise to support the work.

"We needed to find specialists not only with unparalleled experience in both ABC and Margin Management but also within the logistics sector.

"Robin Bellis-Jones and his colleagues have worked with DHL people on and off for over ten years now", comments Mark James. "They have provided us with the benefit of their experience having worked at the forefront of this area for many years and that has proved invaluable in achieving results within our projected timescale".

Measuring Success

Has the project been a success? "Absolutely", says Mark James, "The project has been an unequivocal success, fundamentally changing our understanding of profitability and giving us the visibility to create

more competitive discounting structures that benefited our business and the businesses of our customers".

As the new system became embedded into the organisation DHL were able to begin to manage their pricing policies generated by the project became a cornerstone of price list production and discount banding.

"The benefits were immense. We gained true margin visibility in every market segment and once you understand your margins you can start to make real improvements"

In reviewing the work done over the past few years DHL have identified a number of factors that were critical to the success of the overall project. "The support and buy-in from senior management was definitely crucial", says Mark James, "It's difficult to see how we could have achieved so much without that support". There has also been a dedicated investment in tools, systems and new policies to support the project. Above all DHL has communicated a programme of education and

training throughout the organisation to ensure support for the new pricing structures company-wide.

Realisable Benefits

DHL has used the information generated from the ABC analyses as a key part of their global yield management programme since 1998. Its importance has grown with the programme and information is now linked to sophisticated pricing tools, which are deployed world-wide. The ABC output also forms the basic information for the organisation's transfer pricing.

The key deliverable has been a greater understanding of the company's margins in the different business segments in which it operates. This increased appreciation of margins has allowed DHL to develop efficient discounting methodologies, which have enabled the organisation to remain profitable in the face of increasing competition.

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)

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