

Driving profitability and managing digital change using IT

Glenn Butcher*

INFORMATION technology and the wave of digitalisation has changed the way business is done in countless industries, and the shipping industry is the latest to feel the impact.

This change seems to come with questions, not answers, but given the successful transition to digital by other industries we can take advantage of such knowledge to benefit the shipping industry.

One such successful industry change with many comparable areas to the shipping industry is media and advertising.

Media companies are in the game of trading space, but as opposed to containerised space, it was advertising space.

Historically, advertising space was sold by having meetings and phone calls, and distributing spreadsheets from media companies to advertising agencies.

The agencies, similar to freight forwarders, would aggregate the demand for space from consumers – and publishers, similar to shipping lines, had available space to monetise.

Unfortunately these manual processes were not dynamic enough to drive demand to fill tomorrow's newspaper nor to sell an advertisement on news web pages after the page had loaded.

Furthermore, as sales of advertising space occurred in bulk, similar to contracts in shipping, there was minimal opportunity to differentiate product offerings between media companies which meant that there was also no differentiation on price, leading to price squeeze by agencies.

Similar to the shipping industry today, the media world had to embrace digitisation using information technology in order to turn this situation around and drive profitability.

To successfully accomplish this transition, the media companies had to commit to making a change, work with digital partners that enhanced their capability, become comfortable with experimentation and trialing small scale changes, and to scale out rapidly when they found a profitable combination.

The media industry today uses targeted data and a digital transaction model enabling pricing down to the individual.

The digital marketplace then allowed new products to be created that allowed agencies to offer their customers unique solutions.

Agency and publisher relationships strengthened as conversations moved away from the traditional manual transaction method towards how the two parties could create dynamic product solutions.

This has driven the growth of digital advertising to an estimated US\$268 billion in 2018.

The challenges of the shipping industry today are very similar to those faced by the media industry almost 20 years ago.

Shipping lines have very expensive assets to utilise, being ships, containers and service networks, with an ever growing need to better service a diverse cus-

tomers base with relevant product offerings, as well as to respond quicker to ever changing market conditions.

In order to accomplish this, shipping lines will need to embrace technology in order to change the nature of the relationship with customers from a purely transactional market dictated by price, to better servicing customers with a broader range of products that meet the market need.

Shipping companies that embrace digital will be better prepared to accommodate the increasing needs of the market, and those that don't will risk becoming obsolete.

Given the many similarities between the shipping and media industries, the shipping industry should look to adopt a number of the changes that were successful for media, the most important of which was the refocusing of IT efforts from purely improving internal systems such as computers, to externally driven digital transformation that enables dynamic trading and the provision of a broader range of product offerings including space and equipment guarantee products or relationship building products such as campaign programs.

This journey begins with an honest assessment of their own capabilities, both in IT and the ability to absorb new products for new business.

Key areas to consider are the ability to build internal systems, ability to integrate with external systems, ability to execute on a project and achieve internal buy-in, and most importantly their willingness to fully exploit business opportunities when an advantage has been identified.

This process of digitisation should not be seen as one large commitment, and lines and forwarders shouldn't be discouraged if their capabilities are small or already fully utilised on other projects.

The introduction of digital pilot projects are useful in revealing the underlying business value of new projects without requiring more resources in operational or service teams, and assists in gaining buy-in from internal stakeholders.

Initial products should be created with some or all of today's manual processes and automation should be gradually introduced as products scale out from the initial pilot.

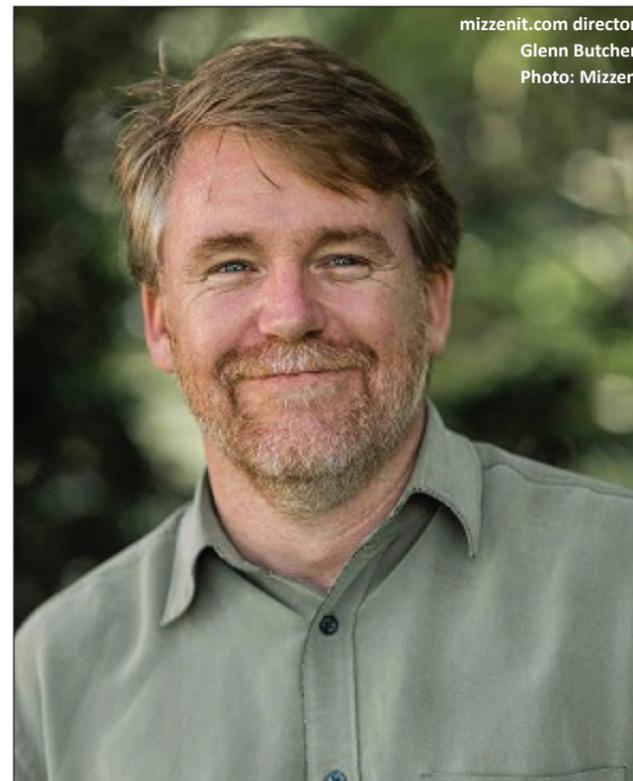
This process can be assisted by using a digital partner that can cover shortfalls in capability, accelerate adoption, and partnering with a well-connected partner gives the ability to use their relationships.

Using partners can also preserve your in-house or outsourced IT capability to focus on the traditional area of automation and improving the efficiency of internal business processes.

In essence, it doesn't matter what the current capability is, the focus should be on continually looking at external opportunities to better service customers and to always start small.

Shipping lines should start the process by removing barriers for external partners and customers to access your product that you are selling.

At a minimum, lines must provide accurate information such as updated schedules, container tracking, and capacity. In addition to this, the right data can improve shipping lines' bottom line.



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For example, signaling space availability via live pricing on the spot container market can give shipping line trade managers fine-grained control over capacity and improve yield management without complex new internal systems.

Adding additional dimensions to the information such as limited-time pricing and guaranteed placement can reduce liner shipping commoditization through unique products and provide opportunities for greater margins.

Early adopters of dynamic pricing have seen profit improve 3 to 5%, and higher margins can be expected from unique products in a market for lines and forwarders.

From the forwarder perspective, efforts should be focused on better utilizing products from shipping lines.

Forwarders who use digital channels as an additional communication method with carriers can improve their business by focusing less on menial tasks such as manual pricing and booking, and through spending more time with their customers building stronger relationships and winning business.

This improves the level of customer service from freight forwarders as customer needs are matched by a broader range of shipping line products.

Moreover, shippers will be attracted to freight forwarders who can provide these better customer service experiences. Given this, freight forwarders should be more demanding of shipping lines and digital partners in providing more shipping options.

In conclusion, there is a need for gradual experimentation and trialing in the small scale or incrementally with trusted digital partners has the greatest chance of finding the right opportunity for shipping companies.

Therefore, coming back to the key learnings from media digitisation; commit to making a change, find digital native partners that enhance your capability, trial small scale changes, and scale out rapidly when you find a profitable combination.

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