

Steering the industry from Push to Pull... adopting the 3PL pricing model.

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In 1946 my grandfather was a good carpenter who made furniture. Making a table took him a month and when he had made a group of 6 tables he put them on a truck and started to visit furniture stores for the next 3 to 6 months until he was able to PUSH (sell) his 6 tables into the market.

3PL (Third-Party Logistics) Companies would have been very useful for my grandfather, not only because those companies are able to arrange the transport of his tables but also because 3PL are able to adapt their service capacity to those furniture stores where tables are more requested by customers. My grandfather could have paid more to a 3PL that knew the furniture market and who increased their service capacity to move more tables to more furniture stores in those areas that PULL(demand) his tables, thus increasing the demand for my grandfather's tables, and therefore the value of his business. The migration from the manufacturing-based PUSH logistics system to direct-placement or PULL network has appeared as an emerging trend in physical supply and demand coordination.

The Shipping industry is a long way off from being adapted to this type of service. Fleet capacity that cannot easily be reduced or increased according to market demand presently only delivers the value of transportation.

3PL companies have seen clearly that the decision to be Customer driven has helped them to increase the value of their service and consequently to expand their pricing model. They use the ABC strategy; the PULL strategy. In the PULL strategy we look at customer needs (A); then plan

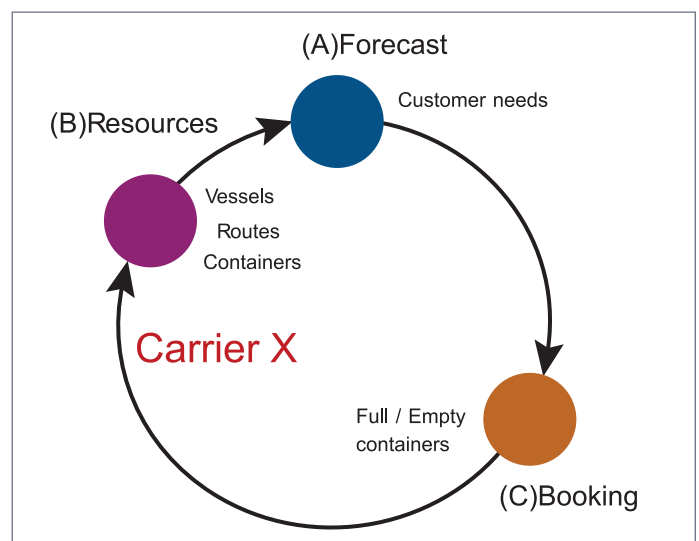
deployment/adjustment of resources (B); and finally deliver a customer driven service. (C).

The current shipping company strategy leads to pricing competition, a lower price is the value being provided. Liner companies are using a BAC strategy or PUSH strategy. Followers of a PUSH strategy look at their available Resources (B); then align customers to these Resources (A); and finally deliver a resource driven service (C).

The PUSH strategy for liner companies (Figure 1 below) follows this event order:

- (B)** Shipping Resources (vessels, containers and routes established according to industry experience),
- (A)** Forecast (a set of customer requirements, trying to get the lowest price to get cargo on an established service),
- (C)** Bookings (full and empty containers going to deliver cargo established by resources).

Figure 1



Only the A => B => C strategy leads to the generation of accurate and promptly delivered information, and gives the opportunity to analyze the different OPTIONS. This provides extra value to the customers. If more carriers participate, more options to adjust valuable offers are generated. When more carriers participate, the opportunity to learn from real-time trends to generate more options and therefore more value, increases exponentially.

The PULL strategy for Liner companies (Figure 2 below) follows this event order:

- (A) Forecast (a group of customer needs),
- (B) Shipping Resources (vessels, containers and routes established according to customer needs),

(C) Bookings (full and empty containers going on vessels to deliver value to needs established by customers).

These options are the result of combining customer needs with available resources (vessels and container fleets and routes). In the framework of an open communication strategy, this can be continuously adjusted to better serve customers by expanding the level of services and thus allowing a customized pricing model. 📦

Figure 2

